

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately. The approval of the Securities Commission ("SC") shall not be taken to indicate that the SC recommends the Proposed Rights Issue with Warrants (as defined herein). Shareholders of Salcon Berhad ("Salcon") should rely on their own evaluation to assess the merits and risks of the said proposal.

Bursa Malaysia Securities Berhad ("Bursa Securities") has only conducted limited review on the contents of this Circular relating to the Proposed Rights Issue with Warrants prior to the issuance of this Circular.

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SALCON BERHAD

(Company No.: 593796-T)

(Incorporated in Malaysia under the Companies Act, 1965)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE:-

PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 233,249,942 NEW ORDINARY SHARES OF RM0.50 EACH IN SALCON BERHAD ("RIGHTS SHARES") WITH UP TO 116,624,971 FREE DETACHABLE WARRANTS ("WARRANTS"), ON THE BASIS OF TWO (2) RIGHTS SHARES WITH ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.50 EACH IN SALCON BERHAD ("SALCON SHARES" OR "SHARES") HELD ON A DATE TO BE DETERMINED LATER AT AN ISSUE PRICE OF RM0.57 PER RIGHTS SHARE

and

NOTICE OF EXTRAORDINARY GENERAL MEETING

Adviser



MIMB INVESTMENT BANK BERHAD (10209-W)

(formerly known as Malaysian International Merchant Bankers Berhad)

A Participating Organisation of Bursa Malaysia Securities Berhad

The Notice of the Extraordinary General Meeting of Salcon Berhad ("EGM") to be held at Caymans 1, Level 10, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 46150 Petaling Jaya on Friday, 30 March 2007 together with the Form of Proxy, are enclosed herein. The Form of Proxy should be lodged at the Company's Registered Office at 15th Floor Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan, no later than forty-eight (48) hours before the time appointed for holding the EGM. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the meeting should you wish to do so.

Last date and time for lodging the Form of Proxy : Wednesday, 28 March 2007, at 10.30 a.m.
Date and time for the EGM : Friday, 30 March 2007, at 10.30 a.m.

This Circular is dated 15 March 2007

DEFINITIONS

In this Circular, unless otherwise indicated, the following words and abbreviations shall have the following meanings:-

| | |
|---------------------------|--|
| “Act” | : The Companies Act, 1965 |
| “Board” | : Board of Directors of Salcon |
| “Bursa Depository” | : Bursa Malaysia Depository Sdn Bhd |
| “Bursa Securities” | : Bursa Malaysia Securities Berhad |
| “CDS account” | : An account established by Bursa Depository to record the deposits or withdrawals of securities and for dealings in such securities by the holder of the securities account |
| “Deed Poll” | : The deed poll to be executed by the Company constituting the Warrants |
| “EGM” | : Extraordinary general meeting |
| “Entitled Shareholders” | : Shareholder(s) of Salcon whose name(s) appear in the Record of Depositors on the Entitlement Date |
| “Entitlement Date” | : The date as at the close of business on which the shareholders’ names must appear on Salcon’s Record of Depositors in order to participate in the Proposed Rights Issue with Warrants |
| “ESOS” | : Employees’ share option scheme of Salcon |
| “ESOS Options” | : 21,204,540 ESOS options that were previously granted and to be granted (up to 10% of the issued and paid-up share capital of the Company at any point of time) are exercised into new Shares on or prior to the Entitlement Date for the Proposed Rights Issue with Warrants |
| “Haining Salcon” | : Haining Salcon Water Company Limited |
| “Haining Water” | : Haining City Water Investment Ltd Group |
| “Joint Venture Agreement” | : Joint Venture Agreement dated 31 August 2006 entered into between Haining Water and Salcon Zhejiang in relation to the JV |
| “JV” | : The joint venture between Salcon Zhejiang, a wholly-owned subsidiary of Salcon and Haining Water to design, construct, operate, maintain, produce and sell treated water in bulk to Haining City Water Supply Company on a 60:40 joint venture basis |
| “JV Parties” | : Salcon Zhejiang and Haining Water, collectively |
| “MIMB” | : MIMB Investment Bank Berhad (<i>formerly known as Malaysian International Merchant Bankers Berhad</i>) |
| “NA” | : Net assets |

DEFINITIONS (Cont'd)

- “Proposed Rights Issue with Warrants” : The Proposed Rights Issue with Warrants involving the issuance of up to 233,249,942 Rights Shares together with up to 116,624,971 free detachable warrants at an issue price of RM0.57 per Rights Share on a renounceable basis of two (2) Rights Shares with one (1) free detachable warrant for every two (2) existing Salcon Shares held by the Entitled Shareholders on the Entitlement Date
- “Record of Depositors” : A record of securities holders established by Bursa Depository under the rules of Bursa Depository
- “Rights Share(s)” : The new Salcon Shares to be issued pursuant to the Proposed Rights Issue with Warrants
- “RM” and “sen” : Ringgit Malaysia and sen respectively
- “Salcon” or the “Company” : Salcon Berhad
- “Salcon Group” or the “Group” : Salcon and its subsidiary companies
- “Salcon Zhejiang” : Salcon Zhejiang (HK) Limited, a wholly-owned subsidiary of Salcon
- “SC” : Securities Commission
- “SC Guidelines” : Policies and Guidelines on Issue/Offer of Securities issued by the SC
- “Share(s)” or “Salcon Share(s)” : Ordinary share(s) of RM0.50 each in Salcon
- “WAMP” : Weighted average market price
- “Warrant(s)” : Up to 116,624,971 detachable warrants to be issued by Salcon in relation to the Proposed Rights Issue with Warrants

Words denoting the singular number only shall include the plural and also vice versa and words denoting the masculine gender only shall include the feminine gender and vice versa. Reference to persons shall include corporations. Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise stated.

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SALCON BERHAD

(Company No. 593796-T)

(Incorporated in Malaysia under the Companies Act, 1965)

Registered Office:

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

15 March 2007

Board of Directors

Tan Sri Razali Ismail (Chairman, Independent Non-Executive Director)
Dato' Seri Goh Eng Toon (Vice Chairman, Non-Independent Non-Executive Director)
Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas (Independent Non-Executive Director)
Dato' Dr Freezailah bin Che Yeom (Independent Non-Executive Director)
Jaggit Singh a/l Tara Singh (Executive Director)
Ho Tet Shin (Independent Non-Executive Director)

To: The Shareholders of Salcon

Dear Sirs/Madam,

PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 233,249,942 RIGHTS SHARES WITH UP TO 116,624,971 FREE DETACHABLE WARRANTS, ON THE BASIS OF TWO (2) RIGHTS SHARES WITH ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.50 EACH IN SALCON HELD ON A DATE TO BE DETERMINED LATER AT AN ISSUE PRICE OF RM0.57 PER RIGHTS SHARE

1.0 INTRODUCTION

On 15 January 2007, MIMB, on behalf of the Board, announced that the Company proposed to undertake the Proposed Rights Issue with Warrants. In addition, MIMB had on 15 February 2007 announced on behalf of the Board that the Company proposed to revise the utilisation of proceeds.

On 5 March 2007, MIMB, on behalf of the Board, announced that the Company has received the approval of the SC vide its letter dated 2 March 2007 for the following, subject to the condition that MIMB and Salcon fully comply with the relevant requirements of the SC Guidelines pertaining to the implementation of the Proposed Rights Issue with Warrants:-

- (a) Proposed Rights Issue with Warrants;
- (b) issuance of new ordinary shares in Salcon upon exercise of Warrants; and
- (c) listing of and quotation for the Rights Shares, Warrants and new ordinary shares in Salcon upon exercise of such Warrants on the Main Board of Bursa Securities.

MIMB, on behalf of the Board, had on 9 March 2007 announced that the issue price per Rights Share and the exercise price of the Warrants had been fixed at RM0.57 and RM0.75 respectively.

The purpose of this Circular is to provide you with details of the Proposed Rights Issue with Warrants and to seek your approval for the relevant resolutions to be tabled at the forthcoming EGM. The Notice of EGM together with the Form of Proxy are enclosed herewith in this Circular.

SHAREHOLDERS OF SALCON ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED RIGHTS ISSUE WITH WARRANTS AT THE FORTHCOMING EGM.

2.0 PROPOSED RIGHTS ISSUE WITH WARRANTS

2.1 Details of the Proposed Rights Issue with Warrants

The Proposed Rights Issue with Warrants involves the issuance of up to 233,249,942 Rights Shares together with up to 116,624,971 free detachable warrants at an issue price of RM0.57 per Rights Share on a renounceable basis of two (2) Rights Shares with one (1) free detachable warrant for every two (2) existing Salcon Shares held by the Entitled Shareholders on an entitlement date to be determined and announced later by the Board.

The maximum of 233,249,942 Rights Shares and 116,624,971 Warrants have been arrived at based on the issued and paid-up share capital of Salcon as at 31 December 2006 of RM116,624,971 comprising 233,249,942 Salcon Shares assuming that all the options under the ESOS that were previously granted and to be granted (up to 10% of the issued and paid-up share capital of the Company at any point of time) are exercised into new Shares on or prior to the Entitlement Date for the Proposed Rights Issue with Warrants ("Scenario B").

Assuming that none of the ESOS Options are exercised into new Shares on or prior to the Entitlement Date for the Proposed Rights Issue with Warrants, the Proposed Rights Issue with Warrants would entail the issuance of only 212,045,402 Rights Shares with 106,022,701 free Warrants ("Scenario A").

The Warrants will be immediately detached from the Rights Shares upon issuance and separately traded. The Warrants will be issued in registered form and constituted by a Deed Poll to be executed by the Company. The salient terms of the Warrants are set out in Section 2.7 herein.

The renunciation of the Rights Shares by the Entitled Shareholders of Salcon will accordingly entail the renunciation of the free Warrants to be issued together with the Rights Shares. As such, the shareholders of Salcon who wish to receive the free Warrants must subscribe for the Rights Shares in order to be entitled to the Warrants.

Any fractional entitlements under the Proposed Rights Issue with Warrants will be disregarded and shall be dealt with in such manner as the Board shall in their absolute discretion think expedient in the interest of the Company.

2.2 Basis of Determining Issue Price of the Rights Shares and Exercise Price of the Warrants

The issue price of RM0.57 per Rights Share was arrived at based on a discount of RM0.25 (or 30.5%) from the theoretical ex-rights price of Salcon Shares of RM0.82 per Share calculated based on the five (5) days WAMP of the Shares as traded on Bursa Malaysia Securities Berhad from 2 March 2007 to 8 March 2007 of RM1.079 per Share.

The exercise price of RM0.75 per new Salcon Share to which a Warrant holder will be entitled to subscribe upon exercise of the Warrants was at a discount of RM0.07 (or 8.5%) from the theoretical ex-rights price of Salcon Shares of RM0.82 per Share.

2.3 Minimum level of Subscription

There is no minimum subscription amount to be raised from the Proposed Rights Issue with Warrants as all the Rights Shares will either be underwritten by the underwriter(s) or subscribed by the substantial shareholder of the Company pursuant to the written irrevocable undertaking to subscribe for their entitlements under the Proposed Rights Issue with Warrants.

2.4 Ranking of the Rights Shares

The Rights Shares will, upon allotment and issuance, rank *pari passu* in all respects with the then existing ordinary shares of the Company except that they will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is before the allotment date of the Rights Shares.

Any dealing in the Rights Shares and Warrants shall be subject to, *inter-alia*, the provisions of the Securities Industry (Central Depositories) Act 1991 and Securities Industry (Central Depositories) Amendment Act 1998, the rules of Bursa Depository and any other relevant legislation. Accordingly, upon subscription, the Rights Shares and Warrants will be credited directly into the respective CDS accounts of the successful applicants. No physical share certificates will be issued to the successful applicants.

The Company shall allot and issue the Rights Shares and Warrants, despatch notices of allotment to the successful applicants and make an application to Bursa Securities for the quotation for the Rights Shares and Warrants on Bursa Securities within eight (8) market days from the last day and time for acceptance and payment for the Rights Shares (which will be determined and announced later by the Directors of the Company) or such other period as may be prescribed by Bursa Securities.

2.5 Foreign Shareholders and Documents relating to the Proposed Rights Issue with Warrants

An abridged prospectus and the relevant documents to be issued pursuant to the Proposed Rights Issue with Warrants will not be registered under applicable securities legislation of any overseas jurisdiction. Accordingly, the Proposed Rights Issue with Warrants will not be offered for subscription in any country other than Malaysia.

Therefore the abridged prospectus and the relevant documents relating to the Proposed Rights Issue with Warrants will not be sent to foreign shareholders who have not provided an address in Malaysia for the service of documents as at the Entitlement Date. The foreign shareholders may, prior to the Entitlement Date, provide an address in Malaysia for service of documents to their respective stockbrokers as well as the Company's Registrar. Alternatively, such foreign shareholders may collect the abridged prospectus and the relevant documents from the Company's Registrar, in which event, the Registrar shall be entitled to request for such evidence (i.e. identification or authorisation documents) as they may deem necessary to satisfy itself as to the identity and authority of the person collecting the abridged prospectus and the relevant documents.

A shareholder of the Company may only exercise his/her rights in respect of the Proposed Rights Issue with Warrants to the extent that it would be lawful to do so, and the Company would not, in connection with the Proposed Rights Issue with Warrants, be in breach of the laws of any jurisdiction that the shareholders of the Company might be subject to. The shareholders of the Company shall be solely responsible for seeking advice as to the laws of any jurisdiction that they may be subject to, and a participation by a shareholder of the Company in the Proposed Rights Issue with Warrants shall be on the basis of a warranty by the shareholder that he/she may lawfully participate without the Company being in breach of the laws of any jurisdiction.

The foreign shareholders who do not provide an address in Malaysia or who are not entitled to subscribe to the Proposed Rights Issue with Warrants under the laws and jurisdiction to which they are subject to, will have no claim whatsoever against the Company in respect of their rights entitlement or any net proceeds arising from the Proposed Rights Issue with Warrants.

2.6 Utilisation of Proceeds

For purpose of illustration in this Circular, the Proposed Rights Issue with Warrants is expected to raise gross proceeds of up to RM132.952 million, based on the issue price per Rights Share of RM0.57. Accordingly, the Board proposes to utilise such proceeds in the following manner:-

| | Estimated time frame | | Scenario A RM'000 | Scenario B RM'000 |
|--|---------------------------------|--------|------------------------------|------------------------------|
| General working capital for the Salcon Group | 24 months | Note a | 44,866 | 56,952 |
| Working capital for the Sabah sewage system project | 24 months | Note b | 55,000 | 55,000 |
| Repayment of bank borrowings | 3 months | Note c | 19,000 | 19,000 |
| Estimated expenses relating to the Proposed Rights Issue with Warrants | 3 months | Note d | 2,000 | 2,000 |
| Total | | | 120,866 | 132,952 |

Scenario A : Assuming that none of the ESOS Options are exercised on or prior to the Entitlement Date of the Proposed Rights Issue with Warrants

Scenario B : Assuming that all of the ESOS Options are exercised on or prior to the Entitlement Date of the Proposed Rights Issue with Warrants

Notes:-

(a) General working capital for the Salcon Group

The proceeds from the Proposed Rights Issue with Warrants will enable the Salcon Group to raise additional working capital for the day-to-day operational costs of the Group. Such working capital may be utilised for projects within or outside of Malaysia. As at 28 February 2007, the total order books (excluding the Sabah sewage system project as disclosed in item (b) below) of the Group amount to about RM427 million while the Group is also tendering/negotiating for additional projects.

(b) Working capital for the Sabah sewage system project

Rastamas-Salcon Joint Venture, a joint venture between Rastamas Contractor Sdn. Bhd. and Salcon's wholly-owned subsidiary, Salcon Engineering Berhad, on a 51:49 joint venture basis, had on 15 January 2007 received a Letter of Intent from the Pengarah Kerja Raya Negeri Sabah to undertake a project to design, construct and complete a sewage system in Kota Kinabalu, Sabah on turnkey/design and build basis, the value of which is up to RM183.4 million. The project is expected to commence by June 2007 and complete by May 2009.

(c) Repayment of bank borrowings

Salcon proposes to utilise RM19,000,000 from the proceeds of the Proposed Rights Issue with Warrants to repay part of its existing bank borrowings of the Group as follows:

| Lender | Type of facility | Amount outstanding as at 28 February 2007 RM'000 | Proposed repayment of proceeds raised from the rights issue RM'000 | Purpose of borrowing |
|------------------------|------------------|---|---|---|
| EON Bank Berhad | Bridging Loan | 27,000 | 17,000 | To subscribe for the initial registered capital in Haining Salcon Water Company Limited (<i>Note 1</i>) |
| EON Bank Berhad | Revolving Credit | 1,000 | 1,000 | For Working Capital |
| Malayan Banking Berhad | Revolving Credit | 1,000 | 1,000 | For Working Capital |

Note 1:

Salcon Zhejiang, a wholly-owned subsidiary company of Salcon, had on 31 August 2006 entered into a Joint Venture Agreement with Haining Water to set up the joint venture company, Haining Salcon, on a 60:40 basis to design, operate, maintain, produce and sell treated water in bulk to Haining City Water Supply Company which in turn will supply the treated water to the consumers of Haining City, Zhejiang Province, People's Republic of China.

The total estimated investment in the project is USD40 million of which USD11.25 million will be in the form of registered capital on a 60:40 basis contributed by the JV Parties while the remaining USD28.75 million is expected to be raised from project financing (estimated to be USD26 million) as well as internally generated funds of Haining Salcon (estimated to be USD2.75 million).

As at 28 February 2007, the total borrowings of the Group stood at approximately RM90.881 million. The Proposed Rights Issue with Warrants is expected to result in an estimated interest savings of up to RM1.021 million per annum to the Group based on the average interest rate of 5.35% per annum.

(d) Estimated expenses relating to the Proposed Rights Issue with Warrants

The proceeds to be raised from the Proposed Rights Issue with Warrants will also be utilised to defray expenses to be incurred in relation to the Proposed Rights Issue with Warrants which is estimated to be about RM2 million.

Any difference between the final proceeds raised from the Proposed Rights Issue with Warrants (which is dependent on any exercise of ESOS options) as well as the estimated expenses relating to the Proposed Rights Issue with Warrants shall be adjusted to the working capital of the Group. Any proceeds arising from the exercise of the Warrants will be used as additional working capital of the Salcon Group.

2.7 Principal Terms of the Warrants

The free Warrants shall only be issued to the Entitled Shareholders of the Company who subscribe for the Rights Shares pursuant to the Proposed Rights Issue with Warrants. Should the Entitled Shareholders of the Company renounce their entitlements to the Rights Shares, they will not be entitled to the free Warrants. The subscribers of the Rights Shares will be entitled to the free Warrants on the basis of one (1) free Warrant for every two (2) Rights Shares subscribed under the Proposed Rights Issue with Warrants.

- Form and denomination : The Warrants, which are issued with the Rights Shares will be immediately detached upon issue and separately traded. The Warrants will be issued in registered form and constituted by a Deed Poll to be executed by the Company.
- Number of Warrants : Up to 116,624,971 Warrants to be issued in conjunction with the Proposed Rights Issue with Warrants to the Entitled Shareholders of Salcon on the basis of one (1) Warrant attached to two (2) Rights Shares subscribed.
- Exercise Price : The exercise price has been fixed by the Board at RM0.75 per Salon Share, after taking into consideration the theoretical ex-rights price of RM0.82 based on the five (5)-day weighted average market price of Salcon Shares from 2 March 2007 to 8 March 2007 of RM1.079 per Share and the par value of Salcon Shares. The exercise price may be adjusted in accordance with the terms and conditions to be set out in the New Deed Poll
- Exercise Period : The Warrants may be exercised at any time within a period of seven (7) years including and commencing from the issue date of the Warrants. The Warrants not exercised during the exercise period will thereafter lapse and become void.
- Exercise Rights : Each Warrant entitles the registered holder during the Exercise Period to subscribe for one (1) new Share in the share capital of the Company at the Exercise Price (as defined above).
- Deed Poll : The Warrants will be constituted by a Deed Poll to be executed by Salcon.
- Board Lot : For the purpose of trading on the Bursa Securities, a board lot of Warrants will be 100 Warrants carrying the rights to subscribe for 100 new Shares in Salcon or in such other denominations permitted by Bursa Securities from time to time.
- Status of new Salcon Shares to be issued pursuant to the exercise of the Warrants : All the new Shares in Salcon to be issued upon the exercise of the Warrants shall, on allotment and issue, rank pari passu in all respects with the then existing Salcon Shares of the Company except that they shall not be entitled to any dividends, that may be declared prior to the date of exercise of the Warrants, nor shall they be entitled to any distributions or entitlements for which the record date is prior to the date of exercise of the Warrants.
- Listing : Application will be made for the admission to the Official List of Bursa Securities for the listing of and quotation for the Warrants and the new Salcon Shares to be issued arising from the exercise of the Warrants.

Rights of Warrant holders on winding-up, compromise or arrangement of the Company : In a voluntary winding-up or compromise or arrangement in any other case, every Warrant holder is entitled, by exercising the Exercise Rights within six (6) weeks after the passing of such resolution for a members voluntary winding-up of the Company or within six (6) weeks from the last approval being granted for the compromise or arrangement, be treated as if he had immediately prior to the commencement of such winding-up, compromise or arrangement, exercised the Exercise Rights represented by the Warrants and had on such date been the holder of the new Shares arising from the exercise of the Warrants.

Upon the expiry of the above six (6) weeks, all exercise rights of the Warrants shall lapse and cease to be valid for any purpose.

Arrangement for the adjustment to the Exercise Price and number of Warrants in the event of alteration to the share capital of the Company : The Exercise Price and the number of Warrants in issue will from time to time be adjusted, calculated or determined by the directors of the Company in consultation with the approved adviser in accordance with the terms of the Deed Poll to be executed.

Warrants holders' rights to participate in any distribution and/or offer of further securities in the Company : The Warrant holders are not entitled to participate in any distribution and/or offer of further securities in the Company until and unless such holders exercise the Exercise Rights of the Warrants into new Shares.

3.0 RATIONALE FOR THE PROPOSED RIGHTS ISSUE WITH WARRANTS

The rationale for the Proposed Rights Issue with Warrants is as follows:

- (i) To raise funds for the repayment of bank borrowings and working capital purposes;
- (ii) To provide an opportunity to the existing shareholders to further increase their equity participation in the Company; and
- (iii) The free Warrants attached to the Rights Shares is expected to enhance the attractiveness of the Rights Shares to be issued pursuant to the Proposed Rights Issue with Warrants. It would enable the Entitled Shareholders to benefit from the future growth of the Company and any potential capital appreciation arising thereof. The Company would then be able to raise further proceeds as and when the Warrants are exercised.

4.0 EFFECTS OF THE PROPOSED RIGHTS ISSUE WITH WARRANTS

The relevant effects of the Proposed Rights Issue with Warrants are set out below.

Scenario A : Assuming that none of the ESOS Options are exercised on or prior to the Entitlement Date of the Proposed Rights Issue with Warrants

Scenario B : Assuming that all of the ESOS Options are exercised on or prior to the Entitlement Date of the Proposed Rights Issue with Warrants

4.1 On issued and paid-up share capital

The proforma effects of the Proposed Rights Issue with Warrants on the issued and paid-up share capital of the Company are as follows:-

| Scenario A | No. of Shares | RM |
|---|----------------------|--------------------|
| Existing share capital as at 31 December 2006 | 212,045,402 | 106,022,701 |
| To be issued pursuant to: | | |
| - Proposed Rights Issue with Warrants | <u>212,045,402</u> | <u>106,022,701</u> |
| | 424,090,804 | 212,045,402 |
| Assuming all the Warrants are exercised | <u>106,022,701</u> | <u>53,011,351</u> |
| Enlarged issued and paid-up share capital | <u>530,113,505</u> | <u>265,056,753</u> |
| | | |
| Scenario B | No. of Shares | RM |
| Existing share capital as at 31 December 2006 | 212,045,402 | 106,022,701 |
| Assuming full exercise of ESOS Options | <u>21,204,540</u> | <u>10,602,270</u> |
| | 233,249,942 | 116,624,971 |
| To be issued pursuant to: | | |
| - Proposed Rights Issue with Warrants | <u>233,249,942</u> | <u>116,624,971</u> |
| | 466,499,884 | 233,249,942 |
| Assuming all the Warrants are exercised | <u>116,624,971</u> | <u>58,312,486</u> |
| Enlarged issued and paid-up share capital | <u>583,124,855</u> | <u>291,562,428</u> |

4.2 On consolidated NA and gearing

The proforma effects of the Proposed Rights Issue with Warrants on the audited NA of the Salcon Group based on the audited accounts of the Company for the financial year ended 31 December 2005 are set out as follows:-

| Scenario A | I | | | II |
|------------------------|-------------------------------------|---|--|----|
| | Audited as at 31.12.05 RM'000 | Proposed Rights Issue with Warrants RM'000 | After I and assuming full exercise of Warrants RM'000 | |
| Group | | | | |
| Share capital | 106,023 | 212,045 | 265,057 | |
| Share premium | 19,011 | 31,854 ¹ | 58,360 | |
| Translation reserve | 114 | 114 | 114 | |
| Accumulated losses | (17,289) | (17,289) | (17,289) | |
| Shareholders' funds/NA | 107,859 | 226,724 | 306,242 | |
| No. of Shares ('000) | 212,045 | 424,090 | 530,114 | |
| NA per Share (RM) | 0.51 | 0.53 | 0.58 | |
| Borrowings (RM'000) | 60,721 | 41,721 | 41,721 | |
| Gearing (times) | 0.56 | 0.18 | 0.14 | |

Note:-

1. Net of estimated expenses for the Proposed Rights Issue with Warrants amounting to approximately RM2.0 million.

| Scenario B | I | | | II | III |
|------------------------|-------------------------------------|---|--|--|-----|
| | Audited as at 31.12.05 RM'000 | Assuming full exercise of 21,204,540 ESOS Options ¹ RM'000 | After I and Proposed Rights Issue with Warrants RM'000 | After II and assuming full exercise of Warrants RM'000 | |
| Group | | | | | |
| Share capital | 106,023 | 116,625 | 233,250 | 291,562 | |
| Share premium | 19,011 | 36,187 | 50,514 ² | 79,670 | |
| Translation reserve | 114 | 114 | 114 | 114 | |
| Accumulated losses | (17,289) | (17,289) | (17,289) | (17,289) | |
| Shareholders' funds/NA | 107,859 | 135,637 | 266,589 | 354,057 | |
| No. of Shares ('000) | 212,045 | 233,250 | 466,500 | 583,124 | |
| NA per Share (RM) | 0.51 | 0.58 | 0.57 | 0.61 | |
| Borrowings (RM'000) | 60,721 | 60,721 | 41,721 | 41,721 | |
| Gearing (times) | 0.56 | 0.45 | 0.16 | 0.12 | |

Notes:

1. Assuming the exercise price of the ESOS Options is RM1.31 per Share, being the 5-day WAMP of Salcon Shares prior to the announcement of the Proposed Rights Issue with Warrants.
2. Net of estimated expenses for the Proposed Rights Issue with Warrants amounting to approximately RM2 million.

4.3 **On earnings**

The Proposed Rights Issue with Warrants are not expected to have any material effect on the earnings of the Salcon Group for the financial year ending 31 December 2007 as it is expected to be completed by the end of second (2nd) quarter of the financial year ending 31 December 2007. Nevertheless, the Proposed Rights Issue with Warrants is expected to result in interest savings arising from the repayment of bank borrowings.

Whilst, the earnings per Share of the Company is expected to be diluted as a result of the increase in the number of Salcon Shares in issue after the Proposed Rights Issue with Warrants and as and when the Warrants are being exercised into new Shares, the Directors are of the view that the enlarged paid-up capital is reflective of the future earnings prospects of the Group.

4.4 **On substantial shareholders' shareholdings**

The Proposed Rights Issue with Warrants should not have any effects on the substantial shareholders' shareholdings in the Company on the assumption that all the shareholders of the Company subscribe for their respective entitlements to the Rights Shares.

4.5 **On dividend**

The Board does not expect the Proposed Rights Issue with Warrants to have any material effect on the future dividend policy of the Company as it would be dependent on the profitability and cash flow of the Salcon Group and available tax credits to frank dividends in the future.

4.6 **On outstanding ESOS Options**

In accordance with the terms of the by-laws governing the ESOS Options, the Proposed Rights Issue with Warrants will give rise to certain adjustments to the subscription price and number of new ESOS Options. Any necessary adjustments arising from the Proposed Rights Issue with Warrants, where applicable, will only be finalised on the respective entitlement date and will be effective on the market day immediately following the said dates. Notification to the holders of ESOS Options setting out, amongst others, the adjustments to the subscription price and number of new ESOS Options will be issued by the Company after finalisation of the relevant adjustments on the said entitlement date.

5.0 **APPROVALS REQUIRED**

The Proposed Rights Issue with Warrants are conditional upon approvals being obtained from the following:-

- (i) the SC (obtained on 2 March 2007);
- (ii) Bursa Securities for the listing of and quotation for the Rights Shares to be issued pursuant to the Proposed Rights Issue with Warrants, the admission of the Warrants to the Official List of Bursa Securities and the listing of and quotation for the Warrants and the new Shares to be issued pursuant to the exercise of the Warrants;
- (iii) the shareholders of Salcon at the forthcoming EGM; and
- (iv) any other relevant authorities (if applicable).

The Proposed Rights Issue with Warrants is expected to be completed by the end of second (2nd) quarter of the financial year ending 31 December 2007.

6.0 HISTORICAL SHARE PRICES

The monthly highest and lowest prices of Salcon shares as traded on Bursa Securities for the past 12 months are as follows:-

| | | Highest (RM) | Lowest (RM) | |
|--------------------|--------------------|-------------------------|------------------------|------|
| Year 2006 - | March | 0.62 | 0.43 | |
| | April | 0.60 | 0.52 | |
| | May | 0.65 | 0.49 | |
| | June | 0.63 | 0.48 | |
| | July | 0.54 | 0.50 | |
| | August | 0.62 | 0.50 | |
| | September | 0.96 | 0.61 | |
| | October | 1.26 | 0.95 | |
| | November | 1.59 | 1.22 | |
| | December | 1.47 | 1.29 | |
| | Year 2007 - | January | 1.60 | 1.30 |
| | | February | 1.67 | 1.14 |

The last transacted price of Salcon shares on 12 January 2007, being the date immediately before the announcement of the Proposed Rights Issue with Warrants was RM1.33 per share.

The last transacted price of Salcon shares on 13 March 2007, being the latest practicable date prior to the printing of this Circular was RM1.30 per share.

(Source: Bloomberg).

7.0 OUTSTANDING CORPORATE EXERCISES

The Board confirms that, as at the date of this Circular, there are no other corporate proposals which have been announced by the Company but is pending implementation, save and except for the Proposed Rights Issue with Warrants, which is the subject matter of this Circular. The Proposed Rights Issue with Warrants is not conditional upon any other corporate proposals.

8.0 DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors or major shareholders of Salcon or any persons connected to the Directors and/or major shareholders of Salcon (as defined under the Listing Requirements of Bursa Securities) has any interest, direct or indirect, in the Proposed Rights Issue with Warrants, apart from their respective entitlements to the Proposed Rights Issue with Warrants as shareholders of the Company and the rights to apply for the excess or additional Rights Shares pursuant to the Proposed Rights Issue with Warrants, the rights of which are also available to all shareholders of the Company.

9.0 SHAREHOLDER'S UNDERTAKINGS AND UNDERWRITING ARRANGEMENTS

9.1 Shareholder's undertakings for the Proposed Rights Issue with Warrants

The following shareholder of Salcon has given its written irrevocable undertaking to subscribe and/or procure subscription for its entitlement to the Rights Shares in respect of its direct shareholdings in Salcon and additional Rights Shares in the event there are unsubscribed Rights Shares with Warrants that are not taken up by other entitled shareholders pursuant to the Proposed Rights Issue with Warrants:-

| Shareholders | Shareholdings as at | | Entitlements under the | | Additional Rights | | Total financial commitment ² |
|------------------------|---------------------|-------|------------------------|-----------------------|-------------------|---------------|---|
| | 2 March 2007 | | Proposed Rights Issue | | Shares under the | | |
| | No. of shares | % | with Warrants | Proposed Rights Issue | with Warrants | with Warrants | |
| | No. | | Rights Shares | 1% | Rights Shares | 1% | RM |
| Naga Muhibah Sdn. Bhd. | 33,300,000 | 15.70 | 33,300,000 | 14.28 | 72,722,701 | 31.18 | 60,432,940 |

Notes:-

1. Computed based on the maximum of 233,249,942 Rights Shares under the Proposed Rights Issue with Warrants.
2. Computed based on the issue price of RM0.57 per Rights Share.

9.2 Underwriting arrangements for the Proposed Rights Issue with Warrants

Underwriting arrangements will be made to underwrite the remaining up to 127,227,241 Rights Shares not covered by the abovementioned written irrevocable undertaking, representing approximately 54.55% of the maximum 233,249,942 Rights Shares, prior to the announcement of the Entitlement Date.

The underwriting commission and all associated costs in relation to the underwriting arrangement will be fully borne by the Company.

10.0 DIRECTORS' RECOMMENDATION

10.1 The Board, after having considered all aspects of the Proposed Rights Issue with Warrants as contained in this Circular, is of the opinion that the Proposed Rights Issue with Warrants is in the best interest of the Company and the Group.

10.2 Accordingly, the Board recommends that you vote in favour of the resolution to be tabled at the forthcoming EGM in relation to the Proposed Rights Issue with Warrants.

11.0 EGM

11.1 The EGM, notice of which is enclosed in this Circular, will be held at Caymans 1, Level 10, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 46150 Petaling Jaya on Friday, 30 March 2007, at 10.30 a.m., for the purpose of considering and if thought fit, passing the relevant resolution pertaining to the Proposed Rights Issue with Warrants.

11.2 If you are unable to attend and vote in person at the EGM, you should complete, sign and return the Form of Proxy enclosed with this Circular in accordance with the instructions printed therein as soon as possible so as to arrive at the registered office of the Company at 15th Floor Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan, no later than 48 hours before the time appointed for holding of the EGM. The lodgement of the Form of Proxy will not preclude you from attending and voting in person should you wish to do so.

12.0 **FURTHER INFORMATION**

Shareholders are advised to refer to the attached Appendix for further information.

Yours faithfully
For and on behalf of the Board
SALCON BERHAD

Jaggit Singh a/l Tara Singh
Executive Director

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ADDITIONAL INFORMATION**1. Responsibility Statement**

This Circular has been seen and approved by the Directors of Salcon and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other material facts the omission of which would make any statement herein misleading.

2. Consents and Declaration by Advisers

The written consent of MIMB for the inclusion in this Circular of their names and all references thereto, where relevant, in the form and context in which they appear have been given and have not been subsequently withdrawn.

Save as disclosed below and to the best of MIMB's knowledge and belief, MIMB is not aware of any other potential conflict of interest in respect of its role as the Adviser to the Company and as the Underwriter for the Proposed Rights Issue with Warrants:-

| Banking facilities granted to the Salcon Group by EON Bank Berhad, the parent company of MIMB | Approved limit (RM'000) | Outstanding as at 28 February 2007 (RM'000) |
|--|--------------------------------|--|
| Overdrafts | 500 | 326 |
| Revolving credit | 4,000 | 1,000* |
| Letter of credit/Trust receipt/Bankers acceptance/Bank guarantee/Shipping guarantee | 5,000 | - |
| Foreign exchange contract line | 500 | - |
| Bridging loan | 27,000 | 27,000* |

Note:

- * Part of the proceeds from the Proposed Rights Issue with Warrants will be utilised to repay these facilities as further described in Section 2.6(c) herein.

Messrs. Jal & Lim had via its letters dated 12 March 2007 confirmed that there are no conflict of interest in its capacities as the due diligence solicitors for the Proposed Rights Issue with Warrants.

3. Material Contracts

There are no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the Salcon Group within two (2) years immediately preceding the date of this Circular.

4. Material Litigation

Save as disclosed below, neither Salcon nor its subsidiaries are engaged in any material litigation, claims and arbitration either as plaintiff or defendant, and the Directors of Salcon are not aware of any proceedings pending or threatened against Salcon and/or its subsidiaries or of any facts likely to give rise to any proceedings which may materially or adversely affect the position or business or title to or possession of any of the properties of the Company and/or its subsidiaries:

- (a) Salcon Engineering Berhad (“SEB”) had on 29 September 1999 commenced legal action in the Kuala Lumpur High Court against Citramuda Sdn Bhd (“Citramuda”) and Readybuilt (M) Sdn Bhd (“Readybuilt”), being parties to an unincorporated consortium (“the Consortium”), for the sum of RM2,171,488.57 due to works carried out by SEB pursuant to a subcontract agreement dated 5 November 1996.

SEB obtained judgement in default against Citramuda on 15 December 1999. Citramuda was wound up by order of the Kuantan High Court on 20 June 2000. SEB attempted to enforce the judgement by way of garnishee proceedings against Kuala Lumpur International Airport Berhad, the employer of the Consortium but was not successful.

Readybuilt had since been wound-up on 6 February 2004. Subsequently, SEB had filed its Proof of Debts to the Official Receiver on 28 June 2004 and had proceeded with the filing of its Supporting Affidavit on 1 March 2005 in accordance with Section 226(3) of the Companies Act, 1965 in order to obtain judgement. SEB had filed the Forms of Summons (General) dated 24 May 2005 with the Kuala Lumpur High Court on 25 May 2005 for leave to continue with SEB’s civil suit against Readybuilt.

On 9 January 2006, the Kuala Lumpur High Court Judge was notified that the Winding-Up Court has allowed SEB’s application for leave to proceed the suit against Readybuilt on 8 December 2005. On 6 March 2006, the Court was notified that the Order granting leave to proceed against Readybuilt is being obtained from the Court Registry. The official receiver attended the mention date on 3 October 2006 and the full trial date was on 7 December 2006. Matter has been fixed for decision on 8 January 2007.

No decision was given on 8 January 2007 by the High Court Judge as she required time to read the Written Submission and Authorities. Accordingly, the Court has fixed the matter for decision on 6 March 2007.

On 6 March 2007, the Court has awarded judgment in favour of SEB against Readybuilt for the sum of RM2,171,508.89 together with the interest at 8% per annum on the judgment sum commencing from 28 October 1999 until the date of full settlement with costs to SEB.

- (b) SEB had on 20 February 2006 filed a Writ of Summons in Kuala Lumpur High Court (“KLHC”) against Zamani bin Shamsuddin (“Zamani”), the sole proprietor of Fatih Enterprise Sdn. Bhd., for the sum of RM254,726.65 being the excess money mistakenly paid to Zamani by SEB.

As the Writ of Summons was not able to be served by way of ordinary service, SEB has thenceforth applied to KLHC for substituted service and extension of time for the Writ of Summons. Both applications have been granted by KLHC on 17 October 2006. The Writ of Summons has been served by way of substituted service on Zamani on 23 January 2007, 27 January 2007 and 29 January 2007 respectively. Zamani has failed to enter appearance. On 8 March 2007, SEB’s solicitors has filed affidavit of service and judgment in default of appearance has been entered against Zamani.

- (c) Advance Power Trade Sdn. Bhd. (“APT”) had on 20 September 2005 commenced legal action in the Shah Alam High Court (“SAHC”) against SEB for the sum of RM178,398.00 for loss and damage due to the defective pumps and motors (“the Goods”) supplied by SEB. In addition to that, APT has also applied to SAHC for an injunction against SEB from enforcing a bank guarantee given by APT to SEB and also a declaration that SEB has breached the warranty of the Goods and therefore the said bank guarantee should be cancelled. SEB denied and defended the claim and further counterclaims against APT that the defects were caused by APT in breach of the terms in the Purchase Order and also being negligent themselves. APT’s action in this matter has allegedly caused SEB to suffer monetary loss, reputation and goodwill. SEB counterclaims a sum of RM1,222.86 against APT.

Exchange of pleadings has been ongoing and SAHC has on 3 May 2006 set 27 March 2007 as the hearing date for Pre-Trial Case Management.

- (d) Envitech Sdn. Bhd. (“Envitech”) had commenced a legal suit in Shah Alam Session Court against Kulim Techno-City Sdn. Bhd. (“Kulim”) for the sum of RM226,410.00 being the outstanding fee failed to be paid by Kulim to Envitech for the completed work of design and construction of two (2) intermediate sewage pumping stations inclusive of the ancillary pipe works for the proposed development on Lot 1001, Mukim Padang Cina, Kulim, Kedah.

Kulim has applied to transfer the matter to the Court in Kedah due to problem of the location. A hearing for the aforesaid application has been fixed on 13 December 2006. The decision of the hearing was fixed on 2 February 2007. However, due to the absence of the judge on 2 February 2007, the date for the decision has been postponed to 3 April 2007.

5. Documents available for inspection

Copies of the following documents are available for inspection at the registered office of the Company at 15th Floor Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan, following the publication of this Circular from Monday to Friday (except Public Holidays) during business hours up to and including the date of the EGM:-

- (a) the Memorandum and Articles of Association of the Company;
- (b) the audited financial reports of Salcon Group for the financial year ended 31 July 2004 and seventeen (17) months period ended 31 December 2005 and the unaudited financial report for the financial year ended 31 December 2006;
- (c) the letters of consent as referred to in paragraph 2 above; and
- (d) the relevant cause papers in respect of the material litigation referred to in paragraph 4 above.



SALCON BERHAD

(Company No. 593796-T)

(Incorporated in Malaysia under the Companies Act, 1965)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting of Salcon Berhad ("Salcon" or "the Company") will be held at Caymans 1, Level 10, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 46150 Petaling Jaya on Friday, 30 March 2007 at 10.30 a.m., for the purpose of considering and if thought fit, passing the following resolution, with or without modification:-

ORDINARY RESOLUTION

PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 233,249,942 NEW ORDINARY SHARES OF RM0.50 EACH IN SALCON BERHAD ("RIGHTS SHARES") WITH UP TO 116,624,971 FREE DETACHABLE WARRANTS ("WARRANTS") AT AN ISSUE PRICE OF RM0.57 PER RIGHTS SHARE, ON THE BASIS OF TWO (2) RIGHTS SHARES WITH ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.50 EACH IN SALCON ("SALCON SHARES" OR "SHARES") HELD ON A DATE TO BE DETERMINED LATER ("PROPOSED RIGHTS ISSUE WITH WARRANTS")

"THAT, subject to the approval being obtained from all relevant authorities and the approval of Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing of and quotation for up to 233,249,942 Rights Shares and 116,624,971 Warrants pursuant to the Proposed Rights Issue with Warrants, the Directors of the Company be and are hereby approved and authorised to:-

- (i) issue and allot up to 233,249,942 Rights Shares, by way of renounceable provisional allotment to the registered shareholders of the Company whose name appear on the Record of Depositors at the close of business on an entitlement date to be determined later by the Directors of the Company, on the basis of two (2) Rights Shares with one (1) Warrant for every two (2) existing ordinary shares held, at an issue price of RM0.57 per Rights Share, the proceeds of which shall be utilised in the manner as set out in Section 2.6 of the Circular to Shareholders of Salcon dated 15 March 2007 relating to the Proposed Rights Issue with Warrants, and on such other terms and conditions as the Directors may determine and that the Rights Shares so issued and allotted to the Proposed Rights Issue with Warrants to Shareholders will rank *pari passu* in all respects with the then existing ordinary shares of the Company except that they will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is before the allotment date of the Rights Shares;
- (ii) allot and issue up to 116,624,971 Warrants in Salcon free of charge, in registered form and constituted by a deed poll to be executed by the Company constituting the Warrants ("Deed Poll"), together with the Rights Shares on the basis of one (1) Warrant for every two (2) Rights Shares issued, where each Warrant entitles the holder thereof, subject to any adjustments in accordance with the provisions of the Deed Poll, at any time during the exercise period commencing on and including the date of issue of the Warrants and expiring seven (7) years from the date of issue of the Warrants ("Exercise Period"), to subscribe for one (1) new ordinary share of RM0.50 each in the Company at an exercise price of RM0.75 per Share;

- (iii) allot and issue new ordinary shares of RM0.50 each in the Company pursuant to the exercise of any Warrant, (subject to any adjustments to the subscription rights attached to and the number of the Warrants made in accordance with the Deed Poll) and the new ordinary shares of RM0.50 each in Salcon so issued and allotted pursuant to the exercise of the Warrants which will rank *pari passu* in all respects with the then existing ordinary shares of the Company except that they will not be entitled to any dividends, that may be declared prior to the date of exercise of the Warrants, nor shall they be entitled to any distributions or entitlements for which the record date is prior to the date of exercise of the Warrants;
- (iv) allot and issue any further Warrants pursuant to the adjustments in accordance with the terms of the Deed Poll ("Further Warrants") as may be required or permitted to be issued as a consequence of the adjustment pursuant to the provisions of the Deed Poll and which shall be treated as equal in all respects and form part of the same series of the Warrants, and such number of new ordinary shares of RM0.50 each in the Company credited as fully paid-up arising from the exercise of the subscription rights represented by such Further Warrants (subject to any further adjustments to the subscription rights attached to and the number of the Further Warrants made in accordance with the Deed Poll), and that such new ordinary shares of RM0.50 each so issued and allotted shall, upon allotment and issue, rank *pari passu* in all respects with the then existing ordinary shares of the Company except that they shall not be entitled to any dividends, that may be declared prior to the date of exercise of the Further Warrants, nor shall they be entitled to any distributions or entitlements for which the record date is prior to the date of exercise of the Further Warrants; and
- (v) give effect to the aforesaid with full power to assent to any modification, variation and/or amendment, as may be required/approved by the relevant authorities, to deal with fractional shares and/or warrants arising from the Proposed Rights Issue with Warrants to Shareholders in their absolute discretion deem fit and expedient, and to take up all steps and to enter into all such agreements, arrangements, undertakings, indemnities, transfers, assignments and guarantees with any party or parties as may be required in order to implement, finalise and give full effect to the said Proposed Rights Issue with Warrants."

BY ORDER OF THE BOARD

NG YEN HOONG (LS 008016)
LIM POH YEN (MAICSA 7009475)
Company Secretaries

Petaling Jaya
15 March 2007

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 in his/her stead. A proxy need not be a member of the Company and Section 149(1) of the Companies Act, 1965 shall not apply.
2. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.
3. In the case of a corporate body, the proxy appointed must be in accordance with the Memorandum and Articles of Association, and the instrument appointing a proxy shall be given under the Company's Common Seal or under the hand of an officer or attorney duly authorised.
4. The Form of Proxy must be deposited at the Company's 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.

PROXY FORM



SALCON BERHAD
(Company No. 593796-T)
(Incorporated in Malaysia under the Companies Act, 1965)

I/We.....
(FULL NAME IN BLOCK LETTERS)

of.....
(FULL ADDRESS)

being a member(s) of SALCON BERHAD hereby appoint

.....
(FULL NAME IN BLOCK LETTERS)

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 Extraordinary General Meeting of the Company to be held at Caymans 1, Level 10, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 46150 Petaling Jaya on Friday, 30 March 2007 at 10.30 a.m. or any adjournment thereof.

| RESOLUTIONS | *FOR | *AGAINST |
|---|------|----------|
| ORDINARY RESOLUTION – PROPOSED RIGHTS ISSUE WITH WARRANTS | | |

*Please indicate with (X) how you wish your vote to be cast. If no specific direction as to voting is given the proxy will vote or abstain at his discretion.

Dated this day of 2007

| |
|-----------------------|
| Number of shares held |
| |

.....
Signature of Shareholder(s)

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 in his/her stead. A proxy need not be a member of the Company and Section 149(1) of the Companies Act, 1965 shall not apply.
2. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.
3. In the case of a corporate body, the proxy appointed must be in accordance with the Memorandum and Articles of Association, and the instrument appointing a proxy shall be given under the Company's Common Seal or under the hand of an officer or attorney duly authorised.
4. The Form of Proxy must be deposited at the Company's 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.

