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. Shareholders of Salcon Berhad should rely on their own evaluation to assess the merits and risks of the Proposed Acquisition and Proposed Mandatory General Offer.

salcon

SALCON BERHAD

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

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE:-

(A) PROPOSED ACQUISITION OF 74,174,592 ORDINARY SHARES OF RM1.00 EACH REPRESENTING APPROXIMATELY 74.165% OF THE ISSUED AND PAID-UP SHARE CAPITAL OF ORIENTAL CAPITAL ASSURANCE BERHAD ("ORIENTAL") BY SALCON BERHAD ("SALCON") FROM MAIKA HOLDINGS BERHAD FOR RM1.75 PER SHARE OR A TOTAL CASH CONSIDERATION OF RM129,805,536 ("PROPOSED ACQUISITION"); AND

(B) PROPOSED MANDATORY GENERAL OFFER BY SALCON FOR THE REMAINING ORDINARY SHARES OF RM1.00 EACH IN ORIENTAL WHICH ARE NOT ALREADY OWNED BY IT FOR A CASH CONSIDERATION OF RM1.75 FOR EACH SHARE, UPON THE CONDITIONAL SHARE SALE AGREEMENT DATED 28 AUGUST 2007 IN RELATION TO THE PROPOSED ACQUISITION BECOMING UNCONDITIONAL

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Adviser

MIMB
INVESTMENT BANK
A MEMBER OF EON BANK GROUP

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 ("EGM") to be held at Bahamas 1, Level 12, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 46150 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 24 October 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 subsequently wish to do so.

Last date and time for lodging the Form of Proxy	:	Monday, 22 October 2007, at 10.30 a.m.
Date and time for the EGM	:	Wednesday, 24 October 2007, at 10.30 a.m.

This Circular is dated 5 October 2007

DEFINITIONS

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

"Act"	:	The Companies Act, 1965
"BNM"	:	Bank Negara Malaysia
"Board"	:	Board of Directors of Salcon
"Bursa Depository"	:	Bursa Malaysia Depository Sdn Bhd
"Bursa Securities"	:	Bursa Malaysia Securities Berhad
"Capital OCA"	:	Capital OCA Berhad, a wholly-owned subsidiary of Oriental
"CCI"	:	Cross Continental Investment
"Closing Date"	:	The last day, being the 21st day after the date of despatch of the Offer Document, in which the Offer is opened to the Holders and subject to further extension of time
"CNY"	:	Chinese Yuan
"Code"	:	Malaysian Code on Take-Overs and Mergers, 1998
"ECB"	:	EON Capital Berhad
"EGM"	:	Extraordinary general meeting
"EPS"	:	Earnings per share
"FIC"	:	Foreign Investment Committee
"FIC Guidelines"	:	The guidelines on the acquisition of interest, mergers and take-overs by local and foreign interests issued by the FIC
"FY"	:	Financial year ended/ending
"GDP"	:	Gross domestic product
"GNP"	:	Gross national product
"Holders"	:	The holders of the Offer Shares
"INR"	:	Indian Rupee
"LAT"	:	Loss after taxation
"LBT"	:	Loss before taxation
"Listing Requirements"	:	Listing Requirements of Bursa Securities
"LPS"	:	Loss per share
"Maika"	:	Maika Holdings Berhad, the vendor of Oriental pursuant to the Proposed Acquisition
"MIMB"	:	MIMB Investment Bank Berhad *(formerly known as Malaysian International Merchant Bankers Berhad)*

DEFINITIONS (Cont'd)

"NA"	:	Net assets
"NTA"	:	Net tangible assets
"Offer Document"	:	The document, which sets out the terms and conditions of the Offer, together with the Form of Acceptance and Transfer
"Offer Shares"	:	Up to 25,838,626 ordinary shares of RM1.00 each in Oriental which are not already owned by the Offeror prior to the Closing Date of the Offer
"Oriental Capital"	:	Oriental Capital Holdings Berhad
"Oriental" or "the Offeree"	:	Oriental Capital Assurance Berhad
"Oriental Shares(s)" or "Shares"	:	Ordinary share(s) of RM1.00 each in Oriental
"Palm Tech"	:	Palm Tech India Limited
"PAT"	:	Profit after taxation
"PBT"	:	Profit before taxation
"PPP"	:	Purchasing Power Parity
"Proposals"	:	The Proposed Acquisition and Proposed Mandatory General Offer, collectively
"Proposed Acquisition"	:	Proposed acquisition of the Sale Shares from Maika for RM1.75 per share or a total cash consideration of RM129,805,536
"Proposed Mandatory General Offer" or "Offer"	:	Proposed mandatory general offer by Salcon for the Offer Shares for a cash consideration of RM1.75 for each Offer Share, upon the conditional SSA in relation to the Proposed Acquisition becoming unconditional
"Record of Depositors"	:	A record of securities holders established by Bursa Depository under the rules of Bursa Depository
"Rights Issue with Warrants"	:	Rights Issue with Warrants involving the issuance of 212,045,402 rights shares together with 106,022,701 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 ordinary shares of RM0.50 each in Salcon held by the entitled shareholders on the entitlement date, which was completed on 23 May 2007
"RM" and "sen"	:	Ringgit Malaysia and sen respectively
"Salcon" or "the Offeror" or "the Company"	:	Salcon Berhad
"Salcon Group"		Salcon and its subsidiary company
"Sale Shares"	:	The 74,174,592 ordinary shares of RM1.00 each in Oriental (representing approximately 74.165% of the issued and paid-up share capital of Oriental) to be acquired by Salcon pursuant to the Proposed Acquisition
"SC"	:	Securities Commission
"SC Guidelines"	:	Policies and Guidelines on Issue/Offer of Securities issued by the SC

DEFINITIONS (Cont'd)

"SEB"	:	Salcon Engineering Berhad, a wholly-owned subsidiary of Salcon
"Share Offer Price"	:	Cash offer price of RM1.75 for each Oriental Share pursuant to the Proposed Mandatory General Offer
"SSA"	:	The conditional Share Sale Agreement dated 28 August 2007 entered into between Salcon and Maika in relation to the Proposed Acquisition
"USD"	:	United States Dollar

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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LETTER TO SHAREHOLDERS OF SALCON:

APPENDICES

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

5 October 2007

Board of Directors

Tan Sri Razali bin 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)
Ho Tet Shin (Independent Non-Executive Director)
Jaggit Singh a/l Tara Singh (Executive Director)

To: The Shareholders of Salcon

Dear Sirs/Madam,

(A) PROPOSED ACQUISITION OF 74,174,592 ORDINARY SHARES OF RM1.00 EACH REPRESENTING APPROXIMATELY 74.165% OF THE ISSUED AND PAID-UP SHARE CAPITAL OF ORIENTAL BY SALCON FROM MAIKA FOR RM1.75 PER SHARE OR A TOTAL CASH CONSIDERATION OF RM129,805,536; AND

(B) PROPOSED MANDATORY GENERAL OFFER BY SALCON FOR THE REMAINING ORDINARY SHARES OF RM1.00 EACH IN ORIENTAL WHICH ARE NOT ALREADY OWNED BY IT FOR A CASH CONSIDERATION OF RM1.75 FOR EACH SHARE, UPON THE CONDITIONAL SSA IN RELATION TO THE PROPOSED ACQUISITION BECOMING UNCONDITIONAL

1.0 INTRODUCTION

On 28 August 2007, MIMB, on behalf of the Board, announced that the Company proposes to acquire 74,174,592 ordinary shares of RM1.00 each representing approximately 74.165% of the issued and paid-up share capital of Oriental from Maika for RM1.75 per share or a total cash consideration of RM129,805,536.

In relation to the Proposed Acquisition, the Company had on 28 August 2007 entered into a conditional SSA with Maika, being the vendor of Oriental, the salient terms of which are set out in Section 2.10 below.

In addition, in the same announcement, Salcon announced that it intends to serve a notice of general offer to the Board of Directors of Oriental to acquire the remaining ordinary shares of RM1.00 each in Oriental which are not already owned by it for a cash consideration of RM1.75 for each Offer Share upon the SSA (in relation to the Proposed Acquisition) becoming unconditional.

On 2 October 2007, MIMB, on behalf of the Board, announced that the Company has received the approval of the SC (pursuant to the FIC Guidelines) vide its letter dated 1 October 2007 for the Proposed Acquisition and Proposed Mandatory General Offer. The SC's approval of the Proposals is subject to the following conditions:-

(a) MIMB to fully comply with any conditions to be imposed by the Minister of Finance via BNM pertaining to the Proposed Mandatory General Offer;

(b) MIMB to inform the FIC on the status of the equity condition which was imposed on Capital OCA (formerly known as Capital Insurance Berhad), a wholly-owned subsidiary of Oriental and to forward the said letter to the SC; and

(c) MIMB to inform SC upon completion of the Proposed Acquisition and Proposed Mandatory General Offer.

The purpose of this Circular is to provide you with details of the Proposals and to seek your approval on the resolution pertaining to the Proposals to be tabled at the forthcoming EGM. The notice of EGM together with the Form of Proxy is enclosed herewith in this Circular.

SHAREHOLDERS OF SALCON ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR BEFORE VOTING ON THE ORDINARY RESOLUTION PERTAINING TO THE PROPOSALS AT THE FORTHCOMING EGM.

2.0 DETAILS OF THE PROPOSED ACQUISITION

2.1 Details of the Proposed Acquisition

The Proposed Acquisition involves the acquisition by Salcon of the Sale Shares representing approximately 74.165% of the issued and paid-up share capital of Oriental from Maika for RM1.75 per share or a total cash consideration of RM129,805,536.

The Proposed Acquisition was approved by the Minister of Finance (which was obtained via BNM's letter dated 23 August 2007) as announced by the Company on 27 August 2007.

2.2 Information on Oriental

Oriental was incorporated in Malaysia on 27 December 1976 under the Act as a private limited company under the name of United Oriental Assurance Sdn Bhd. It was converted into a public limited company on 1 August 1997 under the name of United Oriental Assurance Berhad and eventually assumed its present name on 31 January 2003 when Oriental merged with Capital Insurance Berhad on 1 November 2002.

Oriental is engaged principally in the underwriting of all classes of general insurance business such as fire, motor and marine, aviation, offshore and transit. It has an authorised share capital of RM200,000,000, divided into 200,000,000 ordinary shares of RM1.00 each, of which 100,013,218 ordinary shares of RM1.00 each have been issued and fully paid-up. Oriental has two (2) wholly-owned subsidiaries, namely Capital OCA and Oriental Capital, the information of which is detailed in Section 2.3 and 2.4 below respectively.

The present directors of Oriental, none of whom hold any direct and indirect shares in Oriental, as at 15 September 2007 are as follows:

(a) Tan Sri Datuk Dr. K. Ampikaipakan

(b) Vell Paari a/l Samy Vellu

(c) Dato' C. Vijaya Kumar s/o T. Chornalingam

(d) Albert Saychuan Cheok

(e) Mohd Yusof bin Idris

(f) Kirupalani a/l Chelliah

(g) Yoshiyuki Ishida

The substantial shareholder of Oriental and its shareholdings in Oriental is as follows:-

	As at 15 September 2007			
	Direct		Indirect	
	No. of Shares	%	No. of Shares	%
Maika	74,174,592	74.165	-	-

Further details on Oriental are set out in Appendix I.

2.3 Brief information on Capital OCA, a wholly-owned subsidiary of Oriental

Capital OCA was incorporated in Malaysia on 10 February 1971 under the Act as a public limited company under the name of Asia Insurance Berhad. It changed its name to Capital Insurance Berhad on 12 January 1973. Capital OCA assumed its present name on 21 March 2003.

Capital OCA was acquired by Oriental on 1 November 2002 and transferred its general business to Oriental. Capital OCA is currently dormant and has an authorised share capital of RM50,000,000, divided into 50,000,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up.

The directors of Capital OCA are Mohd Yusof bin Idris and Vell Paari a/l Samy Vellu.

2.4 Brief information on Oriental Capital, a wholly-owned subsidiary of Oriental

Oriental Capital was incorporated in Malaysia on 18 July 2005 under the Act as a public limited company.

Oriental Capital is currently dormant and has an authorised share capital of RM100,000, divided into 100,000 ordinary shares of RM1.00 each, of which RM2 comprising 2 ordinary shares of RM1.00 each have been issued and fully paid-up.

The directors of Oriental Capital are Mohd Yusof bin Idris and Sugumaran a/l Nagappan.

2.5 Brief information on Maika

Maika was incorporated in Malaysia on 13 September 1982 under the Act as a private limited company. It has an authorised share capital of RM500,000,000, divided into 500,000,000 ordinary shares of RM1.00 each, of which 125,000,010 ordinary shares of RM1.00 each have been issued and fully paid-up. Maika is an investment holding and property management company.

The directors of Maika and their shareholdings in Maika are as follows:

	As at 7 September 2007			
	Direct		Indirect	
	No. of shares	%	No. of shares	%
Dr. Thambirajah a/l Muniandy	1,250	- (1)	-	-
Dato' Vijaya Kumar s/o T. Chornalingam	1,250	- (1)	-	-
Vell Paari a/l Samy Vellu	358,500	0.29	-	-
Tan Sri Abdul Rashid bin Abdul Manaf	51,250	0.04	15,281,125 (2)	12.22

Notes:

(1) Negligible.

(2) Deemed interest by virtue of Section 6A of the Act through shareholdings in Intercontinental Nominees Sdn Bhd

The substantial shareholders of Maika and their respective shareholdings in Maika are as follows:

	As at 7 September 2007			
	Direct		Indirect	
	No. of shares	%	No. of shares	%
Tan Sri Abdul Rashid bin Abdul Manaf	51,250	0.04	15,281,125 (1)	12.22
Intercontinental Nominees Sdn Bhd	15,281,125	12.22	-	-

Note:

(1) Deemed interest by virtue of Section 6A of the Act through shareholdings in Intercontinental Nominees Sdn. Bhd.

The date and the original cost of investment of Maika in Oriental are as follows:

Date of investment /(disposal)	No. of Shares	Cost of investment/(disposal) RM
1987	3,304,500	4,745,974
1994	27,152,850	27,152,850
1995	3,000,000	3,000,000
2000	6,691,470	- (1)
2001	27,614,236	27,614,236
2002	9,411,536	- (1)
2005	(3,000,000)	(2,450,000)
Total	**74,174,592**	**60,063,060**

Note:

(1) No cost of investment as these were issued to Maika pursuant to a bonus issue.

2.6 **Salient financial information of Oriental for the two (2) financial years ended 31 December 2006**

Audited for the financial year ended 31 December	**2005 RM'000**	**2006 RM'000**
Revenue	335,489	362,128
PAT/LAT	8,496	(9,327)
NA	139,237	128,110

Further financial information on Oriental is provided in Appendix I herein.

2.7 **Basis of arriving at the purchase consideration pursuant to the Proposed Acquisition**

The purchase consideration for the Proposed Acquisition amounting to RM129,805,536 was arrived at on a "willing-buyer willing-seller" basis negotiated between Salcon and Maika after taking into consideration the following:

(i) the future profitability potential of Oriental; and

(ii) the proportionate audited net tangible assets of Oriental attributable to Maika's equity interest in Oriental as at 31 December 2006 (i.e. 74.165% of RM102.687 million).

2.8 **Status of the Sale Shares**

The Sale Shares shall be acquired free from all claims, charges, liens, encumbrances and equities together with all rights attached thereto and all dividends and distributions declared, paid or made in respect thereof as from the date of the SSA.

2.9 **Assumption of liabilities**

There are no liabilities, including contingent liabilities and guarantees, to be assumed by the Company arising from the Proposed Acquisition.

2.10 **Source of funding for the Proposed Acquisition**

The Proposed Acquisition will be partially funded by bank borrowings amounting up to RM95 million while the remaining will be financed by the proceeds from the Rights Issue with Warrants which was completed on 23 May 2007 and/or internally generated funds. On 28 August 2007, MIMB, on behalf of the Board, announced the change in utilisation of proceeds from the Rights Issue with Warrants to include the utilisation for funding of the Proposed Acquisition.

2.11 **Salient terms of the SSA**

The salient terms of the Proposed Acquisition as extracted from the SSA are set out below. All definitions in this section shall have the same meanings as per the SSA.

Section 3.01 ***Agreement to sell and to purchase***

Subject to the terms and conditions of this Agreement, the Vendor hereby agrees to sell to the Purchaser and the Purchaser hereby agrees to purchase from the Vendor the Sale Shares free from all claims, charges, liens, encumbrances and equities together with all rights attached thereto and all dividends and distributions declared paid or made in respect thereof as at the Completion Date, for the consideration stated in Section 3.02(a) hereof.

Section 3.02 ***Consideration***

(a) The total purchase consideration for the purchase of the Sale Shares (hereinafter referred to as "the Purchase Price") shall be the sum of Ringgit Malaysia One Hundred And Twenty Nine Million Eight Hundred And Five Thousand Five Hundred And Thirty Six (RM129,805,536.00) only.

(b) The Purchase Price shall be paid by the Purchaser to the Vendor's Solicitors to hold as stakeholders in the following manner:-

(i) a sum of Ringgit Malaysia Twelve Million Nine Hundred And Eighty Thousand Five Hundred And Fifty Three And Sen Sixty (RM12,980,553.60) only being a sum equivalent to Ten percent (10%) of the Purchase Price (hereinafter referred to as "the Deposit") shall be paid by way of cheque on the date of this Agreement as deposit and part payment towards the account of the Purchase Price to the Vendor's Solicitors to hold as stakeholders in an interest bearing account; and

(ii) subject to the relevant provisions of Section 3B.01 hereof, the remaining sum of Ringgit Malaysia One Hundred And Sixteen Million Eight Hundred And Twenty Four Thousand Nine Hundred And Eighty Two And Sen Forty (RM116,824,982.40) only being a sum equivalent to Ninety percent (90%) of the Purchase Price (hereinafter referred to as "the Balance Purchase Price") shall be paid by way of cheque (subject to clearance) or Bank Draft within Six (6) months after the BNM Approval Date provided that all the Approvals (as hereinafter defined) are obtained (hereinafter referred to as "the Payment Period") or within such extended period as the Parties hereto may mutually agree in writing, as the case may be.

Section 4.01 ***Conditions Precedent***

This sale and purchase of the Sale Shares is conditional upon:-

(a) the approval of BNM for such number of persons as shall be nominated by the Purchaser to be the directors and the chief executive officer of the Company upon Completion is obtained;

(b) the approval of the Foreign Investment Committee (hereinafter called "FIC") for the sale and purchase of the Sale Shares is obtained;

(c) the approvals of the Vendor's and the Purchaser's shareholders in general meeting for the sale of the Sale Shares (if required) is/are obtained;

(d) the approval of the Securities Commission for the sale and purchase of the Sale Shares (if required) is obtained; and

the approval(s) of such other authorities and bodies as is/are necessary.

(hereinafter collectively referred to as "the Approvals" and individually referred to as "the Approval").

Section 6.01 ***Financial Due Diligence***

Subject always to the terms and conditions of the Confidentiality Agreement, the Vendor has, delivered the Audited Accounts and the Management Accounts to the Purchaser. The Purchaser has conducted and completed a financial due diligence exercise on the Company's financial position and affairs including but not limited to the Audited Accounts and the Management Accounts (hereinafter referred to as "the Financial Due Diligence"). For the purpose hereof, the auditors so appointed by the Purchaser to conduct the Financial Due Diligence shall be referred to as "the Auditors" and the Auditors' fees, costs and charges shall be borne by the Purchaser solely. The Vendor has on a best endeavour basis caused the Company, its servants and agents to fully co-operate with the Auditors, their servants or agents and to provide the latter with full access to all buildings and books of the Company to enable the Purchaser and/or its Consultants to prepare the Financial Due Diligence report (hereinafter referred to as "the Financial Due Diligence Report") to the Purchaser.

Section 6.02 ***Legal Due Diligence***

Subject always to the terms of the Confidentiality Agreement, it is hereby agreed that the Purchaser has conducted and completed a due diligence exercise on the Company's legal affairs including but not limited to (a) all contracts and agreements entered into by the Company, (b) all options, guarantees, indemnities and undertakings granted or issued by the Company and (c) all claims and legal proceedings whether pending or contingent in which the Company is or is likely to be involved (hereinafter referred to as "the Legal Due Diligence"). For the purpose hereof, the Purchaser's Solicitors have been appointed by the Purchaser to conduct the Legal Due Diligence and the Purchaser's Solicitors' fees, costs and charges in connection with the Legal Due Diligence shall be borne by the Purchaser solely. The Vendor has on a best endeavour basis caused the Company, its servants and agents to fully co-operate with the Solicitors, their servants or agents and to provide the latter with full access to all legal documents and information of the Company to enable the Purchaser and/or its Consultants to prepare the Legal Due Diligence report (hereinafter referred to as "the Legal Due Diligence Report") to the Purchaser.

Section 6.03 ***Business Operation Due Diligence***

Subject always to the terms of the Confidentiality Agreement, it is hereby agreed that the Purchaser has conducted and completed a due diligence exercise on the Company's business operations including but not limited to (a) the way in which the Company carries out its day to day operations and (b) the Company's claim systems and procedures (hereinafter referred to as "the Business Operation Due Diligence"). For the purpose hereof, the consultants so appointed by the Purchaser to conduct the Business Operation Due Diligence shall be referred to as "the Consultants" and the Consultants' fees, costs and charges shall be borne by the Purchaser solely. The Vendor has on a best endeavour basis caused the Company its servants and agents to fully co-operate with the Consultants, their servants or agents and to provide the latter with full access to all operational information, documents and materials of the Company to enable the Purchaser and/or its Consultants to prepare the Business Operation Due Diligence report (hereinafter referred to as "the Business Operation Due Diligence Report") to the Purchaser.

3.0 PROPOSED MANDATORY GENERAL OFFER

Currently, Salcon does not hold any ordinary shares in Oriental. Upon completion of the Proposed Acquisition, Salcon will hold 74,174,592 ordinary shares of RM1.00 each representing approximately 74.165% of the issued and paid-up share capital of Oriental. The direct shareholdings of the Offeror in Oriental after the Proposed Acquisition are as follows:

Name	Existing		After the Proposed Acquisition	
	No. of Oriental Shares	**%**	**No. of Oriental Shares**	**%**
Salcon	-	-	74,174,592	74.165

Henceforth, Salcon would be obliged to extend a mandatory take-over offer to the remaining shareholders of Oriental to acquire the Offer Shares not already held by it upon the completion of the Proposed Acquisition pursuant to Section 6, Part II of the Code. Accordingly, Salcon will serve a notice of general offer to the Board of Directors of Oriental to acquire the remaining ordinary shares of RM1.00 each in Oriental which are not already owned by it for a cash consideration of RM1.75 for each Offer Share upon the SSA (in relation to the Proposed Acquisition) becoming unconditional.

Upon the completion of the Proposed Acquisition, Salcon will hold more than 50% of the enlarged issued and paid-up share capital of Oriental. Accordingly, the Proposed Mandatory General Offer will be unconditional as to acceptances.

The offer price of RM1.75 for each Offer Share was arrived at based on the similar purchase price of the 74,174,592 shares in Oriental in relation to the Proposed Acquisition. The Proposed Mandatory General Offer is expected to be funded by bank borrowings.

Tan Sri Abdul Rashid Bin Abdul Manaf who holds 3,000,000 Oriental Shares, representing 2.999% of the issued and paid-up share capital of Oriental, has given his letter of undertaking dated 12 September 2007 not to accept the Offer and will continue to do so during the offer period after the despatch of the Offer Document. In addition, apart from Tan Sri Abdul Rashid Bin Abdul Manaf, other remaining shareholders of Oriental may provide such letters of undertaking prior to the despatch of the notice of general offer.

4.0 RATIONALE FOR THE PROPOSALS

4.1 Proposed Acquisition

Salcon's core business is in the turnkey design and construction, operation and maintenance of water and wastewater treatment plants and related facilities. Salcon continues to remain focused as a total solutions provider, positioning itself as a developer, investor, engineering, procurement and construction contractor and operation and management operator in the regional water and wastewater sectors.

The investment in Oriental is in line with Salcon's objective to diversify its revenue base to include long-term and stable recurring incomes vis-à-vis the relatively cyclical construction industry. This will also enable the Salcon Group to capitalise on its shareholders' expertise and experience in the insurance industry.

The Proposed Acquisition will enable Salcon to enhance its earnings whilst providing the stability and sustainability of long-term recurring income and revenue stream.

4.2 Proposed Mandatory General Offer

The Proposed Mandatory General Offer by Salcon is to comply with the requirements of the Code as a consequent of the Proposed Acquisition.

5.0 EFFECTS OF THE PROPOSALS

5.1 On issued and paid-up share capital

The Proposals will not have any effect on the share capital of the Company as it will be fully satisfied by cash.

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5.2 **On consolidated NA and gearing**

The proforma effects of the Proposals on the consolidated NA and gearing of the Salcon Group based on the audited financial statements for the financial year ended 31 December 2006 (assuming that the Proposed Acquisition is implemented on 31 December 2006) are as follows:

		I	II	III
	Audited as at 31 December 2006	**After the completion of the rights issue #**	**After I and Proposed Acquisition^**	**After II and Proposed Mandatory General Offer***
	RM'000	**RM'000**	**RM'000**	**RM'000**
Share capital	106,023	212,045	212,045	212,045
Reserves	19,005	31,960	31,960	31,960
Accumulated Losses	(12,281)	(12,281)	(12,281)	(12,281)
Shareholders' funds/NA	112,747	231,724	231,724	231,724
No. of ordinary shares ('000)	212,046	424,090	424,090	424,090
NA per share (RM)	0.53	0.55	0.55	0.55
Bank borrowings (RM'000)	106,431	87,431	182,431@	213,431**
Gearing ratio (times)	0.94	0.38	0.79	0.92

Notes:

\# *Taking into consideration the rights issue with warrants of Salcon which was completed on 23 May 2007.*

^ *The estimated expenses relating to the Proposed Acquisition and Proposed Mandatory General Offer of RM1,500,000 has been reflected in the "Assets" category in the Proforma Balance Sheet in calculating the goodwill arising on consolidation of Oriental.*

* *Assuming that Oriental will be a 97.001%-owned subsidiary of Salcon upon the completion of the Proposed Acquisition and Proposed Mandatory General Offer.*

@ *Assuming approximately RM95 million for the Proposed Acquisition is funded by bank borrowings.*

** *Assuming approximately RM31 million for the Proposed Mandatory General Offer is funded by bank borrowings.*

5.3 **On earnings**

The Proposals are not expected to have any material effects on the earnings of the Salcon Group for the financial year ending 31 December 2007 as the Proposed Acquisition and Proposed Mandatory General Offer are expected to be completed by the fourth (4^{th}) quarter of 2007 and first (1^{st}) quarter of 2008 respectively.

Nevertheless, the Proposals are expected to improve the profitability of the Salcon Group in the future. The earnings per share of the Company is expected to improve due to the expected profit to be generated from the insurance business after the Proposals.

5.4 **On substantial shareholders' shareholdings**

The Proposals will not have any effect on the substantial shareholders' shareholdings of the Company as the Proposals will be fully satisfied by cash.

6.0 INDUSTRY OVERVIEW AND PROSPECTS

6.1 Outlook of the Malaysian Economy

Today, Malaysia is a broad-based and diversified economy. It is the 19th largest trading nation in the world, with trade in excess of RM1 trillion. Malaysia continues to enjoy political stability with a diverse yet united population. At the same time, per capita income has increased 26 times to RM20,841 and the incidence of poverty has also been reduced to less than 6.0%.

The Malaysian economy is expected to expand strongly by 6.0% in 2007. The services sector, with an anticipated growth of 9.0%, will continue to be the major contributor to real GDP on the back of robust activities in intermediate services comprising finance and insurance, real estate and business services, transport and storage as well as the communications industry. The manufacturing sector is expected to pick up gradually and expand by 3.1% following the anticipated recovery in global electronics demand in the second half. On the demand side, growth will be driven by resilient public and private sector expenditure, following stronger consumer sentiment, business confidence and higher Government spending. Nominal GNP is estimated to increase by 9.4% to RM607,212 million, with per capita income increasing by 7.2% to RM22,345 (2006: 9.9%; RM20,841). In terms of PPP, per capita income is expected to increase by 13.9% to reach USD13,289 in 2007 (2006: 13.0%; USD11,663).

The Malaysian economy is expected to register robust growth in 2008, with real GDP expanding between 6.0% and 6.5%. This translates to 6.8% growth in nominal per capita income, rising from RM22,345 in 2007 to RM23,864 in 2008 or in PPP terms from USD13,289 to USD14,206. With an unemployment rate of 3.3%, the Malaysian economy will continue to operate under full employment. In tandem with the Government's efforts to ensure fiscal sustainability, the fiscal deficit will continue to decline to 3.1% of GDP. Malaysia's balance of payments position is expected to remain strong with the current account recording a surplus for the eleventh consecutive year. The current account surplus amounting to 13.0% of GDP will emanate from the goods and travel account. These developments augur well for all Malaysians and keep the nation on track towards realising Vision 2020.

(Source: Economic Report 2007/2008)

6.2 Outlook of the Insurance Industry

The insurance industry further expanded in tandem with the favourable economic performance. Combined premium income for the insurance industry increased by 9.8% to RM13 billion in the first half of 2007 (January-June 2006: 2.4%; RM11.8 billion). Combined assets grew by 14.2% to RM116.3 billion in the first half 2007 in line with the growth of new business. Asset allocation remained concentrated on corporate and debt securities as well as Government securities, accounting for 64.6% of total assets.

(Source: Economic Report 2007/2008)

The insurance industry sustained its growth momentum during the Plan period. Total premium income increased at a rate of 11.1% per annum between 2001 and 2005 to reach RM23.6 billion, mainly due to strong demand for investment-linked and endowment insurance products and the successful penetration by domestic insurers of bancassurance as an alternative distribution channel. Total assets of the insurance industry grew at an average annual rate of 13.8% over the same period to RM96.7 billion. The allocation of insurance fund assets to corporate and debt securities increased from 41.2% to 49.9% between 2001 and 2005, thereby promoting a more diversified institutional investor base for the capital market. The financial position of insurers strengthened following the increase in minimum statutory capital requirement in 2001 from RM50 million to RM100 million. The higher capital requirement also spurred the consolidation of the insurance industry, which saw the completion of a total 16 mergers, involving 29 insurers.

Significant opportunities for growth in the insurance industry are expected to result primarily from changing demographics in terms of an expanding ageing population with increasing wealth levels and rising awareness of the need for, and benefits of, insurance. The industry will, therefore, need to position itself, both financially and in terms of its reputation to meet the increasing demand for insurance. Efforts will continue to be undertaken to enhance capacity building. This will include monitoring and where appropriate, driving initiatives by the industry in the area of developing human resource capability to ensure that industry standards are continuously raised in tandem with the expectations of increasingly sophisticated consumers and financial markets. Greater focus will be given to strengthening the role of market discipline to foster an environment of improved customer service as well as high standards of integrity and professionalism. This will be achieved by increasing education and awareness among the consumers, promoting greater transparency in the conduct of insurance business and continuously raising the level of professionalism.

Continued focus will be given to strengthening the financial risk management capabilities of insurers to support the implementation of a risk-based capital framework. This will be complemented by the on-going development of the capital market, which will expand investment avenues for insurers to improve their asset-liability management.

Further deregulatory and liberalization measurers will be introduced. This will include greater flexibility accorded to foreign insurers to establish branch offices, the progressive deregulation of pricing for tariff-rated insurance products, greater investment management flexibility, and removal of limits on management expenses. It will also ensure continuing improvements in disclosure standards to promote greater market discipline in the more deregulated environment. Consistent with the deregulatory measures, the prudential framework will continue to be adjusted to establish principles of sound financial and business practices. In addition, to promote international integration, new licences will be issued and greater opportunities will be provided to internationally-reputed insurers to acquire equity interests in, or forge strategic alliances with domestic players, both in the direct insurance as well as re-insurance sectors.

(Source: Ninth Malaysian Plan 2006-2010)

6.3 Prospects of Oriental

Based on the above, the insurance sector has experienced high growth since 2001. In particular, the total premium income increased at the rate of 11.1% per annum between 2001 and 2005 to RM23.6 billion. In addition, the total assets of the insurance industry also grew at an average annual rate of 13.8% over the same period. Such growth in the insurance industry, together with the profit track record of Oriental for the past few years (with the exception of FY2006) and Oriental's years of experience in the insurance industry is expected to augur well for the future prospects of Oriental.

6.4 Prospects of the Enlarged Salcon Group

With the Proposals, the Board believes that the new insurance business will propel the enlarged Salcon Group into better profitability. The insurance business, once established, usually tend to be stable in nature especially in terms of income generation. The Board is of the opinion that this will help smoothen out the cyclical nature of its existing water related construction business. Accordingly, the Proposals is expected to diversify the Group into a new business area that is growing and is expected to generate future income to the enlarged Group.

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7.0 RISK FACTORS

There are various risk factors associated with and arising from the Proposals, this includes but is not limited to the following:

7.1 Political, Economic and Regulatory Considerations

Upon completion of the Proposed Acquisition, Salcon will be exposed to the insurance industry, which is closely linked to the economic performance of Malaysia in which Oriental is operating.

As the insurance industry is governed by the Insurance Act, 1996, the Insurance Regulations, 1996, the Offshore Insurance Act, 1990 and the Takaful Act, 1984, insurance companies operate their businesses pursuant to the licences granted by the Minister of Finance. They are consequently required to comply with various provisions as provided under the aforesaid laws including directives and guidelines prescribed by BNM from time to time.

Any changes in the political, economic and regulations in Malaysia may materially affect the insurance industry of Malaysia and consequently the financial performance of Oriental and, upon the completion of the Proposals, the Salcon Group.

7.2 Business Risks

The principal activities of Oriental are subject to various business and commercial risk factors inherent in the insurance business which Salcon will be exposed to upon the completion of the Proposals. These include but are not limited to factors such as the state of the economy, the stage of development of the industry, interest rates, business and credit conditions, supply of labour, increase in labour costs, natural disasters, labour disputes, changes in government legislation and priorities including regulatory and licensing environment.

Although Oriental may undertake the necessary efforts to mitigate the various business risks and strengthen its competitiveness, no assurance can be given that any or all of the above risk factors will not have a material adverse effect on its business performance or prospects, which would in turn affect its financial position.

An adverse development on the state of the financial services industry of Malaysia may also affect the Oriental's business and, upon completion of the Proposals, Salcon Group's business.

7.3 Underwriting Risks

The activities of Oriental are subject to underwriting risks which Salcon will be exposed to upon the completion of the Proposed Acquisition. Underwriting risks include the risk of incurring higher claims costs than expected owing to the random nature of claims, their frequency and severity as well as the risk of change in legal or economic conditions of insurance or reinsurance cover. This may result in Oriental having either received insufficient premium cover for the risks it has agreed to underwrite and hence insufficient funds to invest and pay claims, or that claims are in excess of those expected. However, Salcon will seek to minimise underwriting risks with an approximate mix and spread of business between classes of business based on its overall strategy. This is complemented by observing formalised underwriting guidelines and limits as well as Oriental's historically manageable underwriting experience, reinsurance guidelines and tight controls.

7.4 Competition Risks

Oriental faces competition from other insurers, some of which are listed companies, as well as from foreign-owned insurers. In view of the competitive market environment and conditions, Oriental is expected to continuously develop measures to counter competition which include product differentiation, innovation in products and services offered and customer-focused marketing strategies. Despite the above measures taken and being taken to keep its competitive position in the market, the ability to maintain or increase its market share in the future is not guaranteed.

7.5 Experienced Key Personnel

The Salcon Group's future success in general insurance will depend upon its ability to attract and retain skilled personnel. As such, steps have to be taken to ensure that the employees are given recognition for their contribution to the success of Oriental and continuous incentives are given to the employees to help Oriental in fulfilling its objectives.

Any significant or sudden loss of services of key management personnel in Oriental may have a temporary adverse effect on the business and financial performance of Oriental and until such time the appropriate replacements are found.

8.0 APPROVALS REQUIRED

8.1 The Proposed Acquisition is subject to the approvals being obtained from the following authorities/parties:-

(a) SC (pursuant to the FIC Guidelines) which was obtained via SC's letter dated 1 October 2007;

(b) Minister of Finance via BNM (which was obtained via BNM's letter dated 23 August 2007);

(c) Shareholders of Salcon at an EGM to be convened;

(d) Shareholders of Maika which was obtained at an EGM convened on 30 August 2007*; and

(e) any other relevant authorities/parties (if required).

* *Salcon's solicitors had on 24 September 2007 received a letter from the solicitors for Maika informing that Maika was served with an ex-parte Order of the Kuala Lumpur High Court dated 21 September 2007. Pursuant to the Order, Maika has been restrained, among others, from acting upon any of the resolutions including the resolution approving the disposal of its shares in Oriental, which was passed at the 24th Annual General Meeting of Maika held on 30 August 2007, pending the inter-parte court hearing which is fixed on 8 October 2007. Salcon is not named as a party in the proceedings.*

8.2 The Proposed Mandatory General Offer is subject to the approvals being obtained from the following authorities/parties:-

(a) SC (pursuant to the FIC Guidelines) which was obtained via SC's letter dated 1 October 2007;

(b) BNM; and

(c) any other relevant authorities/parties (if required).

The Proposed Mandatory General Offer is conditional upon the Proposed Acquisition but not vice versa.

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9.0 OUTSTANDING PROPOSALS ANNOUNCED BUT NOT COMPLETED

Save as disclosed below and the Proposals, 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 not completed:

Sale and Purchase Agreement dated 3 July 2007, Master Agreement dated 3 July 2007 and two Supplementary Agreements both dated 14 July 2007 all entered into between SEB as vendor and Blair's Finance Group Ltd as purchaser for the disposal of the following in favour of Blair's Finance Group Ltd or nominees:-

(a) disposal of SEB's 1,225 ordinary shares of USD1.00 each in CCI, representing 49% of the entire issued and paid-up capital of CCI;

(b) waiver of all SEB's rights and interest in the 813,502 preference shares of INR100 each in Palm Tech;

(c) assignment of all SEB's advances to CCI amounting to USD1,013,647; and

(d) waiver of all SEB's advances to Palm Tech;

for a total cash consideration of RM24,000,000 ("Proposed Disposal").

The Proposals are not conditional upon the Proposed Disposal or any other corporate proposals.

10.0 ESTIMATED TIMEFRAME FOR COMPLETION

Subject to the legal suit as detailed in Section 8.1 above, the Proposed Acquisition and Proposed Mandatory General Offer are expected to be completed during the fourth (4^{th}) quarter of 2007 and the first (1^{st}) quarter of 2008 respectively.

11.0 DIRECTORS' AND MAJOR SHAREHOLDERS' AND/OR PERSONS CONNECTED WITH DIRECTORS' OR MAJOR SHAREHOLDERS' INTERESTS

None of the Directors or major shareholders of Salcon and/or persons connected to them have any interest, direct or indirect, in the Proposals.

12.0 DIRECTORS' RECOMMENDATION

12.1 The Board, after having considered all aspects of the Proposals as contained in this Circular, is of the opinion that the Proposals are in the best interest of the Company and the Salcon Group.

12.2 Accordingly, the Board recommends that you vote in favour of the resolutions to be tabled at the forthcoming EGM in relation to the Proposals.

13.0 EGM

13.1 The EGM, notice of which is enclosed in this Circular, will be held at Bahamas 1, Level 12, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 46150 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 24 October 2007, at 10.30 a.m., for the purpose of considering and if thought fit, passing the relevant resolution pertaining to the Proposals.

13.2 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 subsequently wish to do so.

14.0 FURTHER INFORMATION

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

Yours faithfully
For and on behalf of the Board
SALCON BERHAD

Jaggit Singh a/l Tara Singh
Executive Director

INFORMATION ON ORIENTAL

1. HISTORY AND BUSINESS

Oriental was incorporated in Malaysia on 27 December 1976 under the Act as a private limited company under the name of United Oriental Assurance Sdn. Bhd.. It was converted into a public limited company on 1 August 1997 under the name of United Oriental Assurance Berhad and eventually assumed its present name on 31 January 2003 when Oriental merged with Capital Insurance Berhad on 1 November 2002. Its authorised and issued and paid-up share capital is as disclosed in Section 2 below.

Oriental is engaged principally in the underwriting of all classes of general insurance business since its incorporation. Oriental has two (2) wholly-owned subsidiaries, Capital OCA and Oriental Capital, which are currently dormant.

Oriental had been in the business since the pre-war period where several leading insurers in the orient established their businesses in Malaysia. In heeding to the nation's development policy in the nineties, these overseas insurers merged their operations to one entity known as United Oriental Assurance Sdn. Bhd. in 1996 with Malaysians having majority control in the company. Thereafter in 2002, the company underwent another transformation through its merger with Capital Insurance Berhad. Oriental repositioned the portfolio of businesses, customers and products to create a mix with a higher potential for growth after the merger in 2002. Since 1998, the ISO 9001:2000 certification is a hallmark to the essence of quality of Oriental's operational processes. Currently, Oriental has 16 branches in Malaysia.

2. SHARE CAPITAL

(a) Authorised share capital as at 15 September 2007

	Number of ordinary shares	Par value RM	Total RM
Authorised	200,000,000	1.00	200,000,000
Issued and fully paid-up	100,013,218	1.00	100,013,218

(b) Issued and paid-up share capital as at 15 September 2007

The present issued and paid-up share capital of the Company is RM100,013,218 comprising 100,013,218 ordinary shares of RM1.00 each. Details of the changes in the issued and paid-up share capital of Oriental since incorporation are as follows:-

Date of allotment	No. of ordinary shares allotted/ (cancelled)	Par value RM	Consideration RM	Cumulative issued and paid-up share capital RM
27.12.1976	5	1.00	5	5
Not available [(1)]	13,022,745	1.00	13,022,745	13,022,750
09.01.1987	1,200,000	1.00	1,200,000	14,222,750
21.03.1994	4,497,750	1.00	4,497,750	18,720,500
30.03.1994	9,725,000	1.00	9,725,000	28,445,500
07.11.1994	1,189,400	1.00	1,189,400	29,634,900
30.11.1994	13,033,350	1.00	13,033,350	42,668,250
17.11.2000	8,533,650	1.00	8,533,650	51,201,900
06.02.2001	30,721,140	1.00	30,721,140	81,923,040

Date of allotment	No. of ordinary shares allotted/ (cancelled)	Par value RM	Consideration RM	Cumulative issued and paid-up share capital RM
17.09.2001	4,325,500	1.00	4,325,500	86,248,540
03.12.2001	1,567,944	1.00	1,567,944	87,816,484
29.04.2002	12,196,734	1.00	12,196,734	100,013,218

Note:

(1) Information not available from the secretarial records.

3. SUBSTANTIAL SHAREHOLDER

The substantial shareholder of Oriental and its equity interests in Oriental as at 15 September 2007 are as follows:-

Substantial shareholder	Nationality/ Country of incorporation	No. of Shares held			
		Direct	%	Indirect	%
Maika	Malaysia	74,174,592	74.165	-	-

4. DIRECTORS AND THEIR SHAREHOLDINGS

The particulars of the Directors of Oriental, none of whom hold any direct and indirect shares, as at 15 September 2007 are as follows:

(a) Tan Sri Datuk Dr. K. Ampikaipakan

(b) Vell Paari a/l Samy Vellu

(c) Dato' C. Vijaya Kumar s/o T. Chornalingam

(d) Albert Saychuan Cheok

(e) Mohd Yusof bin Idris

(f) Kirupalani a/l Chelliah

(g) Yoshiyuki Ishida

5. SUBSIDIARY AND ASSOCIATED COMPANIES AS AT 15 SEPTEMBER 2007

As at 15 September 2007, the subsidiary companies of Oriental are as follows:

Name	Date and place of incorporation	Issued and paid-up capital	Effective equity interest %	Principal activities
Capital OCA	10 February 1971/ Malaysia	RM50,000,000	100	Dormant
Oriental Capital	18 July 2005/ Malaysia	RM2	100	Dormant

As at 15 September 2007, Oriental does not have any associated companies.

6. FINANCIAL INFORMATION OF ORIENTAL

Details of the audited financial information of Oriental for the past five (5) financial years ended 31 December 2006 and the unaudited financial information for the six (6) months period ended 30 June 2007 are as follows:

	← Audited →					Unaudited
	← Financial year ended 31 December →					6 months period ended 30 June 2007
	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	RM'000
Revenue	281,928	335,234	313,815	335,489	362,128	177,318
(LBT)/PBT and exceptional items	25,326	12,450	16,643	19,440	(10,305)	1,017
Exceptional items	-	-	-	-	-	-
(LBT)/PBT	25,326	12,450	16,643	19,440	(10,305)	1,017
Taxation	(9,996)	(5,238)	(7,367)	(10,944)	978	(1,667)
(LAT)/PAT before extraordinary items	15,330	7,212	9,276	8,496	(9,327)	(650)
Extraordinary items	-	-	-	-	-	-
(LAT)/PAT and extraordinary items	15,330	7,212	9,276	8,496	(9,327)	(650)
(LPS)/EPS (sen)	15.3	7.2	9.3	8.5	(9.3)	(0.7)
Gross dividend rate (%)	-	10.0	10.0	7.5	-	-

Commentary on the past performances:

Revenue, PBT/LBT and PAT & MI

The revenue for the FY2003 increased by approximately 18.9% as a result of the merger between Oriental and Capital Insurance Berhad ("CIB") on 1 November 2002. However, the PAT & MI of Oriental decreased by approximately 53.0%. This was attributed to the change in business composition towards marine that in the material year attracted larger claims.

The revenue was stable for the FY2004, FY2005 and FY2006 with a slight drop in the FY2004 by approximately 6.4% as compared to the FY2003 due mainly to a decline in business volume which had been too competitive to underwrite profitably. The increase or decrease in the PAT & MI for the FY2004 and FY2005 as compared to the FY2003 and FY2004 respectively was mainly due to the claims made in the respective financial year.

The losses incurred in FY2006 was mainly due to the following:

(i) special reconciliation exercise of the Excess of Loss treaty account which had resulted in a net provision of approximately RM14 million;

(ii) adopted an accounting policy to recognise provisional reinstatement premium of approximately RM3 million; and

(iii) larger allocation for the claims to be made by claimants which have yet to be finalised for the marine and motor insurance categories based on trend and experience.

The revenue of Oriental for the FY2007 is RM354.636 million on an annualised basis based on RM177.318 million achieved for the 6 months period ended 30 June 2007 which is slightly lower as compared to FY2006 due mainly to the drop in the net premium earned. The company showed a loss before tax of RM0.65 million for the 6 months period ended 30 June 2007 due to the higher claims from the motor and marine classes.

7. AUDITED FINANCIAL STATEMENTS OF ORIENTAL FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

Please refer to Appendix IV attached.

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DIRECTORS' REPORT ON ORIENTAL

OrientalCapital
ASSURANCE BERHAD (30686 K)

Bangunan Oriental Capital
36 Jalan Ampang
50450 Kuala Lumpur
Malaysia

Tel : 603 2070 2828/2070 8033
Fax: 603 2072 4150/2070 3657
E-mail: oricap@oricap.com.my
Website: www.oricap.com.my

3 October 2007

The Shareholders of Salcon Berhad

Dear Sir/ Madam

Directors' Report on Oriental

On behalf of the Board of Directors ("Board") of Oriental Capital Assurance Berhad ("Oriental"), I wish to report that after making due enquiries from 31 December 2006, being the date to which the last audited financial statements of Oriental and its subsidiary company have been made up to the date hereof, being a date not earlier than fourteen (14) days before the issue of this Circular:-

(a) the business of Oriental and its subsidiary company have, in opinion of the Board of Oriental, been satisfactorily maintained;

(b) in the opinion of the Board of Oriental, no circumstances have arisen since the last audited financial statements of Oriental and its subsidiary company which have adversely affected the trading or the value of the assets of Oriental and its subsidiary company;

(c) the current assets of Oriental and its subsidiary company appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) no material contingent liabilities have arisen by reason of any guarantees or indemnities given by Oriental and its subsidiary company;

(e) there has been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which the Board of Oriental are aware of; and

(f) there has been no adverse changes in the published reserves or any unusual factors affecting the profits of Oriental and its subsidiary company since the last audited financial statements of Oriental and its subsidiary company.

Yours faithfully
For and on behalf of the Board of
ORIENTAL CAPITAL ASSURANCE BERHAD

MOHD YUSOF IDRIS
Chief Executive Officer/Executive Director

PROFORMA CONSOLIDATED BALANCE SHEETS OF SALCON AS AT 31 DECEMBER 2006 TOGETHER WITH THE NOTES AND ASSUMPTIONS AND THE REPORTING ACCOUNTANTS' LETTER THEREON

KPMG (Firm No. AF 0758)
Chartered Accountants
Wisma KPMG
Jalan Dungun, Damansara Heights
50490 Kuala Lumpur, Malaysia

Telephone +60 (3) 2095 3388
Fax +60 (3) 2095 0971
Internet www.kpmg.com.my

The Board of Directors
Salcon Berhad
15th Floor, Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan

1 October 2007

Dear Sirs

Salcon Berhad
Reporting accountants' letter on the proforma consolidated balance sheets as at 31 December 2006

We have reviewed the presentation of the proforma consolidated balance sheets of Salcon Berhad and its subsidiary companies ("Salcon Group") as at 31 December 2006 which have been prepared for illustrative purposes only, for which the Directors are solely responsible, as set out in the attachment, for inclusion in the Circular to Shareholders to be dated 5 October 2007 in connection with:

(a) the rights issue with detachable warrants on the basis of two (2) rights shares at RM0.57 per share with one (1) free warrant for every two (2) existing ordinary shares of RM0.50 each, which was completed on 23 May 2007,

(b) proposed acquisition of 74.165% of Oriental Capital Assurance Berhad ("Oriental"), and

(c) proposed mandatory general offer on the remaining shares of RM1 each in Oriental not already owned by Salcon

and should not be relied on for any other purposes.

Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the proforma consolidated balance sheets to the audited consolidated balance sheet of Salcon and its subsidiaries as at 31 December 2006 and considering the evidence supporting the adjustments, and discussing the proforma consolidated balance sheets with the Directors of Salcon. We have not acted as auditors of Oriental and we have not examined the financial statements of Oriental.

In our opinion,

i) the proforma consolidated balance sheets have been properly prepared based on the audited consolidated balance sheet of Salcon and its subsidiaries, as at 31 December 2006 and which were prepared in accordance with applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board;

ii) such basis is consistent with the accounting policies adopted by Salcon Group;

iii) other than the effects of not measuring fair values as set out in Notes 1.5 and 1.6, the adjustments are appropriate for the purposes of the preparation of the proforma consolidated balance sheets; and

iv) the proforma consolidated balance sheets have been properly prepared on the basis of assumptions stated in the attachment.

Yours faithfully,

KPMG
Firm No. AF 0758
Chartered Accountants

KPMG

SALCON BERHAD ("Salcon")
AND ITS SUBSIDIARIES ("Salcon Group")

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS
FOR THE YEAR ENDED 31 DECEMBER 2006

1. Basis of preparation of proforma consolidated balance sheets

1.1 The proforma consolidated balance sheets have been prepared based on the audited consolidated financial statements of Salcon Group and Oriental Capital Assurance Berhad as at 31 December 2006 and using the bases and the accounting principles consistent with those adopted in the audited consolidated balance sheets of Salcon Group, after giving effect to the proforma adjustments considered appropriate.

1.2 The proforma consolidated balance sheets have been prepared for illustrative purposes only and, because of their nature, may not give a true picture of the actual financial positions of the Salcon Group.

1.3 The statutory audited financial statements of Salcon Group for the financial year ended 31 December 2006 were prepared in accordance with applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board.

1.4 Proforma I – Rights issue with warrants

Proforma I incorporates the effects of the following transactions:

The rights issue with warrants involves the issuance of 212,045,402 rights shares together with 106,022,701 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 ordinary shares of Salcon.

The rights issue with warrants raised a gross proceeds of RM120,865,879 based on the issue price of RM0.57 per rights share and it is utilised as follows:

	RM'000
Repayment of bank borrowings	19,000
Working capital for sewage system project	20,000
To part finance the proposed acquisition of 74.165% of the share capital of Oriental Capital Assurance Berhad	35,000
General working capital for the Salcon Group	44,978
Estimated expenses relating to the rights issue with warrants	1,888
	120,866

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1.5 Proforma II – Proposed acquisition of Oriental

Proforma II incorporates the effects of Proforma I and the following transaction:

Proposed acquisition of 74,174,592 ordinary shares of RM1.00 each representing approximately 74.165% of the issued and paid-up share capital of Oriental from Maika for a purchase consideration of RM129,805,536. The proposed acquisition is financed through a bank loan up to RM95 million and the balance of RM35 million is to be satisfied by cash from part of the rights issue proceeds. The estimated expenses relating to the proposed acquisition is RM1,500,000.

In arriving at Proforma II, adjustments were made to reflect the consolidation of the assets and liabilities of Oriental and expenses to be incurred in connection with the proposed acquisition.

Goodwill arising from the proposed acquisition is calculated as the excess of the cost of acquisition over the fair value of the net identifiable assets, liabilities, contingent assets and liabilities of Oriental acquired. Goodwill acquired is calculated as follows:

	RM'000
Purchase consideration	129,806
Estimated expenses	1,500
Total	131,306
Total fair value of net identifiable assets of Oriental at 74.165%	95,013
Goodwill arising on consolidation of Oriental	36,293

The goodwill is calculated based on the book values of the assets and liabilities in the audited balance sheet of Oriental as at 31 December 2006.

For the purpose of this proforma, the assets and liabilities of Oriental have not been measured at their respective fair values as this will only be determined at the effective acquisition date. Any fair value adjustments to the amount of the assets and liabilities of Oriental above will have a corresponding effect on the goodwill amount and accordingly the net assets per share calculated.

1.6 Proforma III – Proposed mandatory general offer

Proposed mandatory general offer by Salcon on the remaining ordinary shares of RM1.00 each in Oriental which are not already owned by them for a cash consideration of RM1.75 for each Offer Share upon the conditional Share Sale Agreement dated 28 August 2007 in relation to the Proposed Acquisition becoming unconditional. The purchase consideration relating to the remaining ordinary shares of up to 22,838,626 ordinary shares at RM1.75 each amounting up to RM39,967,596 is financed through bank loan and cash. The remaining ordinary shares of up to 22,838,626 ordinary shares is arrived at after taking into consideration the undertaking by the existing shareholder of Oriental who owned 3,000,000 Oriental Shares (representing 2.999% of the issued and paid up share capital of Oriental) via their letter of undertaking not to accept the Offer and will continue to do so during the offer period after the dispatch of the offer Documents.

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In arriving at Proforma III, adjustments were made to reflect the consolidation of the assets and liabilities of Oriental.

Goodwill arising from the proposed acquisition is calculated as the excess of the cost of acquisition over the fair value of the net identifiable assets, liabilities, contingent assets and liabilities of Oriental acquired. Goodwill acquired is calculated as follows:

	RM'000
Total purchase consideration	39,968
Total fair value of net identifiable assets of Oriental at 22.836%	29,255
Goodwill arising on consolidation of Oriental	10,713

The goodwill is calculated based on the book values of the assets and liabilities in the audited balance sheet of Oriental as at 31 December 2006.

For the purpose of this proforma, the assets and liabilities of Oriental have not been measured at their respective fair values as this will only be determined at the effective acquisition date. Any fair value adjustments to the amount of the assets and liabilities of Oriental above will have a corresponding effect on the goodwill amount and accordingly the net assets per share calculated.

The Proforma Consolidated Balance Sheets of the Group have been prepared based on the accounting principles and bases consistent with those normally adopted by the Group in the preparation of the consolidated financial statements for the financial year ended 31 December 2006.

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SALCON BERHAD

PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2006

	Audited as at 31 December 2006 RM'000	Proforma I RM'000	Proforma II RM'000	Proforma III RM'000
Assets				
Property, plant and equipment	120,492	120,492	135,327	135,327
Goodwill	11,239	11,239	72,778	83,491
Prepaid lease payments	15,423	15,423	15,423	15,423
Investment property	2,318	2,318	2,318	2,318
Investments in associates	55,440	55,440	55,440	55,440
Other investments	11,079	11,079	318,236	318,236
Deferred tax assets	6,421	6,421	10,171	10,171
Receivables, deposits and prepayments	-	-	1,371	1,371
Total non-current assets	222,412	222,412	611,064	621,777
Prepaid lease payments	527	527	527	527
Receivables, deposits and prepayments	87,208	87,208	138,642	138,642
Inventories	1,457	1,457	1,457	1,457
Current tax assets	2,089	2,089	2,089	2,089
Cash and cash equivalents	22,196	122,173	89,584	80,616
Total current assets	113,477	213,454	232,299	223,331
Total assets	335,889	435,866	843,363	845,108
Equity				
Share capital	106,023	212,045	212,045	212,045
Reserves	19,005	31,960	31,960	31,960
Accumulated losses	(12,281)	(12,281)	(12,281)	(12,281)
Total equity attributable to shareholders of the Company	112,747	231,724	231,724	231,724
Minority interest	37,735	37,735	70,832	41,577
Total equity	150,482	269,459	302,556	273,301
Liabilities				
Loans and borrowings	79,625	79,625	174,625	174,625
Employee benefits	-	-	2,336	2,336
Unearned premium reserves	-	-	52,384	52,384
Provisions	-	-	168,759	168,759
Total non-current liabilities	79,625	79,625	398,104	398,104
Payables and accruals	78,311	78,311	133,941	133,941
Employee benefits	-	-	291	291
Loans and borrowings	26,806	7,806	7,806	38,806
Taxation	461	461	461	461
Dividend payable	204	204	204	204
Total current liabilities	105,782	86,782	142,703	173,703
Total liabilities	185,407	166,407	540,807	571,807
Total equity and liabilities	335,889	435,866	843,363	845,108
NA	**112,747**	**231,724**	**231,724**	**231,724**
NA per share (sen)	**53.17**	**54.64**	**54.64**	**54.64**

The accompanying notes form an integral part of the Proforma Consolidated Balance Sheets

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