

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.

Bursa Malaysia Securities Berhad takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.



SALCON BERHAD

(Company No.: 593796-T)

(Incorporated in Malaysia under the Companies Act, 1965)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

**PROPOSED DIVERSIFICATION OF THE PRINCIPAL ACTIVITIES OF SALCON AND ITS
SUBSIDIARIES TO INCLUDE PROPERTY DEVELOPMENT**

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Adviser

AFFIN INVESTMENT BANK

AFFIN Investment Bank Berhad (9999-V)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

The Notice of Extraordinary General Meeting ("**EGM**") of Salcon Berhad ("**Company**"), which has been scheduled to be held at Classics Ballroom 2, Level 3, Holiday Villa Hotel & Suites Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Tuesday, 19 March 2013 at 10:30 a.m. or at any adjournment thereof, together with the Form of Proxy are enclosed herein.

A member entitled to attend and vote at the EGM is entitled to appoint a proxy to vote for and on his/her behalf. In such event, the Form of Proxy should be completed and lodged at the Registered Office of the Company at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less 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 EGM should you subsequently wish to do so.

Last date and time for lodging the Form of Proxy : Sunday, 17 March 2013 at 10.30 a.m.

Date and time of EGM : Tuesday, 19 March 2013 at 10.30 a.m.

This Circular is dated 4 March 2013

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:

“Act”	: Companies Act, 1965
“AFFIN Investment”	: AFFIN Investment Bank Berhad (Company No.: 9999-V), a participating organisation of Bursa Securities
“AVSB”	: Azitin Venture Sdn Bhd (Company No.: 500677-T), a 50% plus one (1) share subsidiary company of Salcon whereby the remaining shares are held by Mepro and Wong Yoon Kim who hold 35% less one (1) share and 15% respectively of the issued and paid-up share capital of Azitin Venture Sdn Bhd
“Board”	: Board of Directors of Salcon
“Bursa Securities”	: Bursa Malaysia Securities Berhad (Company No.: 635998-W)
“Circular”	: This Circular to the shareholders of Salcon in relation to the Proposed Diversification
“EGM”	: Extraordinary general meeting
“EPS”	: Earnings per share
“FYE”	: Financial year ended/ending
“GDV”	: Gross development value
“Johor Land”	: Two (2) parcels of leasehold land totalling approximately 51,476 square meters held under HS(D) 482930, No. P.T.B. 22841 and HS(D) 482931, No. P.T.B. 22842 all located in Bandar Johor Bahru, Daerah Johor Bahru, Negeri Johor Darul Ta'zim, collectively
“Kembar Makmur”	: Kembar Makmur Sdn Bhd (Company No.: 1016561-D), a remaining shareholder who holds 49.99% of the issued and paid-up share capital of Nusantara Megajuta
“LPD”	: 28 February 2013, being the latest practicable date prior to the printing of this Circular
“Main Market Listing Requirements”	: Main Market Listing Requirements of Bursa Securities
“Market Day”	: Any day on which the stock market of Bursa Securities is open for trading in securities
“Mepro”	: Mepro Holdings Berhad (Company No.: 68367-W)
“NA”	: Net assets

DEFINITIONS (CONT'D)

- “Nusantara Megajuta” or “Purchaser” : Nusantara Megajuta Sdn Bhd (Company No.: 980648-A), a 50.01% owned subsidiary company of Salcon Development Sdn Bhd. The directors of Nusantara Megajuta Sdn Bhd are Tan Sri Dato’ Tee Tiam Lee, Dato’ Leong Kok Wah, Law Woo Hock, Ong Aun Kung and Lee Thiam Lai. None of the directors hold any shares (direct and/or indirect) in Nusantara Megajuta Sdn Bhd as at the LPD
- “Proposed Development in Johor” : The proposed development of the Johor Land into a mixed residential and commercial project and is expected to comprise a shopping mall with an indicative net lettable area of approximately 700,000 square feet, thirty seven (37) units of five (5) storey strata shop offices and 1,100 units of service apartments
- “Proposed Development in Selayang” : Proposed development of a twenty-one (21) storey commercial building comprising twelve (12) units of two (2) storey shop office and two hundred and eighty (280) units of small office home office with one (1) level of basement carpark together with full recreational facilities and amenities to be developed on the Selayang Land
- “Proposed Diversification” : Proposed diversification of the principal activities of the Salcon Group to include property development
- “Salcon” or “Company” : Salcon Berhad (Company No.: 593796-T)
- “Salcon Group” or “Group” : Salcon Berhad and its subsidiaries, collectively
- “Salcon Share(s)” or “Share(s)” : Ordinary share(s) of RM0.50 each in Salcon
- “Selayang Land” : Two (2) parcels of leasehold land held totalling approximately 3,988 square meters held under PM 316, Lot 57274, Mukim Batu, Daerah Gombak, Negeri Selangor Darul Ehsan and PN 93034, Lot 72341, (formerly held under H.S.(D) 48151, P.T 1440), Bandar Selayang, Daerah Gombak, Negeri Selangor Darul Ehsan
- “Sq. ft.” : Square foot (feet)
- “Total Merit” or “Vendor” : Total Merit Sdn Bhd (Company No.: 663580-V)

All references to “the Company” and/or “Salcon” in this Circular are to Salcon. References to “Salcon Group” and/or “the Group” are to Salcon and its subsidiaries and references to “we”, “us”, “our” and “ourselves” are to Salcon and where the context does require, shall include its subsidiaries.

All references to “you” in this Circular are to the shareholders of the Company.

Words referring to the singular shall, where applicable, include the plural and vice versa and words referring to the masculine gender shall, where applicable, include the feminine and neutral genders and *vice versa*. Reference to persons shall include corporations.

Any reference in the Circular to any enactment is a reference to that enactment and as may be amended from time to time and any re-enactment thereof. Any discrepancy in the tables between the amounts listed and the totals in the Circular are due to rounding. Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise stated.

TABLE OF CONTENTS

LETTER TO THE SHAREHOLDERS OF SALCON IN RELATION TO THE PROPOSED DIVERSIFICATION

	Page
1. INTRODUCTION	1
2. DETAILS OF THE PROPOSED DIVERSIFICATION	2
3. RATIONALE FOR THE PROPOSED DIVERSIFICATION	18
4. FINANCIAL EFFECTS OF THE PROPOSED DIVERSIFICATION	19
5. INDUSTRY OVERVIEW AND PROSPECTS	20
6. RISK FACTORS RELATING TO THE PROPOSED DIVERSIFICATION	25
7. APPROVALS REQUIRED	29
8. DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST	29
9. DIRECTORS' STATEMENT AND RECOMMENDATION	29
10. DETAILS OF OTHER INTENDED CORPORATE EXERCISES WHICH HAVE BEEN ANNOUNCED BUT PENDING COMPLETION	30
11. EGM	30
12. FURTHER INFORMATION	30
APPENDIX I – FURTHER INFORMATION	31
NOTICE OF EGM	Enclosed
FORM OF PROXY	Enclosed



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

Registered Office:

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

4 March 2013

Board of Directors:

Dato' Seri (Dr.) Goh Eng Toon (*Chairman, Non-Independent Non-Executive Director*)
Tan Sri Dato' Tee Tiam Lee (*Executive Deputy Chairman*)
Dato' Leong Kok Wah (*Executive Director*)
Dato' Dr. Freezailah bin Che Yeom (*Independent Non-Executive Director*)
Dato' Choong Moh Kheng (*Independent Non-Executive Director*)
Ho Tet Shin (*Independent Non-Executive Director*)

To: The shareholders of Salcon

Dear Sir/Madam

PROPOSED DIVERSIFICATION OF THE PRINCIPAL ACTIVITIES OF THE SALCON GROUP TO INCLUDE PROPERTY DEVELOPMENT

1. INTRODUCTION

On 7 January 2013, AFFIN Investment, on behalf of the Board, announced that the Salcon Group will diversify its principal activities to include property development premised on the conditional sale and purchase agreement ("**SPA**") entered into by Nusantara Megajuta with Total Merit on even date to acquire the Johor Land for a cash consideration of RM99,699,104.16. Upon completion of the acquisition of the Johor Land, which is expected to be in the first (1st) quarter of 2014, the Group will undertake the Proposed Development in Johor.

Earlier on 28 March 2012, Salcon had announced that its wholly-owned subsidiary company, Salcon Development Sdn Bhd, had entered into a share sale agreement (which was completed on 23 April 2012) to acquire 500,001 ordinary shares of RM1.00 each in AVSB (representing 50% plus one (1) share of the issued and paid-up share capital of AVSB) for a total cash consideration of RM7,200,000 ("**AVSB SSA**"). AVSB is a property development company and is the legal and registered owner of the Selayang Land. AVSB had on 2 February 2012 obtained a development order for the said land which was issued by Majlis Perbandaran Selayang for the Proposed Development in Selayang.

Pursuant to Paragraph 10.13 of the Main Market Listing Requirements, a listed issuer must obtain its shareholders' approval in a general meeting for any transaction or business arrangement which might reasonably be expected to result in either:

- (i) The diversion of 25% or more of the net assets of the listed issuer to an operation which differs widely from those operations previously carried on by the listed issuer; or
- (ii) The contribution from such operation of 25% or more of the net profits of the listed issuer.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE THE SHAREHOLDERS OF SALCON WITH THE RELEVANT INFORMATION ON THE PROPOSED DIVERSIFICATION OF THE PRINCIPAL ACTIVITIES OF THE SALCON GROUP TO INCLUDE PROPERTY DEVELOPMENT AND TO SEEK THE APPROVAL OF THE SHAREHOLDERS OF SALCON FOR THE ORDINARY RESOLUTION ON THE PROPOSED DIVERSIFICATION TO BE TABLED AT THE FORTHCOMING EGM.

SHAREHOLDERS OF SALCON ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDIX CONTAINED HEREIN BEFORE VOTING ON THE ORDINARY RESOLUTION FOR THE PROPOSED DIVERSIFICATION TO BE TABLED AT THE FORTHCOMING EGM.

2. DETAILS OF THE PROPOSED DIVERSIFICATION

Salcon is primarily a water and wastewater engineering company offering value-added services in the investment, design, construction and commissioning, operation and maintenance of water and wastewater treatment plants and ancillary facilities ("**Core Business**"). For the FYE 31 December 2011 (being the latest audited results available), the Group had three reportable segments which are as follows:

Operating segment		Revenue (RM'000)	Percentage segment contribution to the Salcon Group's total revenue (%)	Segment profit ⁽¹⁾ (RM'000)	Percentage segment contribution to the Salcon Group's total segment profit ⁽¹⁾ (%)
(a)	Construction ⁽²⁾	265,627	56.22	22,863	40.89
(b)	Concessions ⁽³⁾	193,408	40.94	31,542	56.42
(c)	Trading ⁽⁴⁾	13,427	2.84	1,502	2.69
Total		472,462	100.00	55,907	100.00

Notes:

⁽¹⁾ Segment profit comprises revenue from external customers and share of profit in associates and it excludes depreciation and amortisation, finance costs, finance income and income tax expenses.

⁽²⁾ Comprises design and construction of water treatment plant, non-revenue water works, waste water and sewerage treatment plants.

⁽³⁾ Comprises design, construction, operation and maintenance of water treatment, waste water and sewerage treatment plants and water transfer projects.

⁽⁴⁾ Comprises provision of transportation and tour services by Eco-Coach & Tour (M) Sdn Bhd, a 51.3% owned subsidiary of Salcon Capital Sdn Bhd which in turn is a wholly-owned subsidiary of Salcon. Eco-Coach & Tour (M) Sdn Bhd has been awarded a contract to provide transport services to Intel Corporation's staff in Penang and Kulim that will be expiring on 31 December 2014 and provision of engineering works and marketing, sales and servicing of equipment for water and palm oil industries.

(Source: Salcon's Annual Reports)

Salcon has built a commendable track record in the past as a water and wastewater solutions provider not just in Malaysia but in the international market where the Group has successfully secured contracts in Sri Lanka, Thailand, India, China and Vietnam. Notwithstanding the Proposed Diversification, the Board intends to continue the Group's operations in the Core Business which the Board expects will continue to contribute significantly to the revenue and profits of the Group in the next three (3) to seven (7) years.

Although the Board does not expect the property development activities to contribute 25% or more of the net profits of the Group in the next twelve (12) months, the Board anticipates that the Salcon Group's new business activities in property development may contribute 25% or more of the net profits of the Salcon Group in the future. Furthermore, the Board anticipates that the property development activities will be a major contributor to the Salcon Group's earnings in the future as it will continue to seek and secure more property development projects in the long-term. As at the LPD, the Group has only secured two (2) property development projects which are the Proposed Development in Selayang and the Proposed Development in Johor (subject to the completion of the SPA entered into by Nusantara Megajuta with Total Merit on 7 January 2013 to acquire the Johor Land) which is expected to be completed by the first (1st) quarter of 2014. These two (2) projects are the Group's first attempt at undertaking property development projects and the projects are expected to be completed in the next three (3) to seven (7) years. As stated in Section 4(c) of this Circular, the Group does not expect these projects to contribute significantly to the revenue and profits of the Group during the FYE 31 December 2013 thus, barring unforeseen circumstances such as delays in obtaining the necessary regulatory approvals and delays in construction, the property development segment is only expected to be one of the main contributors to the revenue of the Group from the FYE 31 December 2014, subject to the successful sale of units and the applicable accounting standards.

The Salcon Group may be relatively new to the property development business and, diversifying into the property development business will expose the Group to new challenges and risks associated with the property development business. The Group however is confident that it has the required skills and expertise to run the property development business as certain Directors of the Company, namely Dato' Leong Kok Wah and Dato' Choong Moh Kheng have experience in property development activities. Further details on Dato' Leong Kok Wah and Dato' Choong Moh Kheng are set out in Section 2.2 of this Circular. The vast experience of these Directors and coupled with the relevant skills, expertise and past track record of its business partners in property development namely, Kembar Makmur (business partner for the Proposed Development in Johor by virtue of Kembar Makmur holding 49.99% of the issued and paid-up share capital of Nusantara Megajuta) and Mepro (business partner for the Proposed Development in Selayang by virtue of Mepro holding 35% less one (1) share of the issued and paid-up share capital of AVSB), the Group is confident that it has the required skills and expertise to run the property development business. Further details of the Group's business partners in property development are set out in Section 2.2 of this Circular.

2.1. Details of the properties

To date, the Group has acquired / proposed to acquire the following properties for its property development activities:

2.1.1 Selayang Land

On 28 March 2012, Salcon had announced that its wholly-owned subsidiary company, Salcon Development Sdn Bhd, had entered into the AVSB SSA for a total cash consideration of RM7,200,000 which was subsequently completed on 23 April 2012. AVSB had on 2 February 2012 obtained a development order for the said land which was issued by Majlis Perbandaran Selayang for the Proposed Development in Selayang.

Details of the Proposed Development in Selayang are as follows:

Name of project	:	Res 280
Description of the properties	:	Two (2) contiguous parcels of leasehold commercial land held under: (i) PM 316, Lot 57274, Mukim Batu, Daerah Gombak, Negeri Selangor (ii) PN 93034, Lot 72341, (formerly held under H.S.(D) 48151, P.T. 1440), Bandar Selayang, Daerah Gombak, Negeri Selangor
Date of SPA	:	28 March 2012
Tenure/expiry date	:	(i) <u>PM 316, Lot 57274 Mukim Batu, Daerah Gombak, Negeri Selangor</u> 99 years/20 July 2093 <u>PN 93034, Lot 72341, (formerly held under H.S.(D) 48151, P.T. 1440), Bandar Selayang, Daerah Gombak, Negeri Selangor Darul Ehsan</u> 99 years/13 November 2102
Encumbrances	:	Nil
Approximate area (square meters)	:	3,988
Existing use of the Selayang Land	:	Currently the Selayang Land is vacant and is proposed to be developed into commercial buildings
Proposed development project	:	Twenty-one (21) storey commercial building comprising twelve (12) units of two (2) storey shop office with a total net saleable area of approximately 40,600 sq. ft. and two hundred and eighty (280) units of small office home office with a net saleable area of approximately 244,460 sq. ft. with one (1) level of basement car park together with full recreational facilities and amenities

Total estimated GDV	:	RM140 million
Total estimated gross development cost	:	RM105 million. The estimated gross development cost is inclusive of land cost and financing charges.
Total estimated profit	:	RM35 million
Expected commencement and completion dates	:	The Proposed Development in Selayang is expected to commence in the second (2 nd) quarter of 2013 and is estimated to be completed within the second (2 nd) quarter of 2016.
Source of funds by AVSB to finance the development costs	:	Internally generated funds of approximately RM80.3 million, shareholders' loan of approximately RM6.7 million and bank borrowings of approximately RM18.0 million. In the event that the internal funds generated are lower than the estimated amount, the shortfall will be funded by shareholders' loan. Salcon Development Sdn Bhd will fund its portion of the shareholders' loan from Salcon, which in turn, will fund its loan to Salcon Development Sdn Bhd from internally generated funds.
Current stage/ Status of approval for the development	:	<p>The Proposed Development in Selayang is still in the planning stages/</p> <p>(a) Building plans had been approved on 22 October 2012 by Majlis Perbandaran Selayang and the development project is currently pending the following approvals:</p> <ul style="list-style-type: none"> (i) land amalgamation for the surrender and realienation under Section 204D of the National Land Code and to extend the lease period to 99 years; (ii) the Developer's licence from the Housing Department, Ministry of Housing and Local Government. Approval-in-principle granted by the Housing Department was received on 15 January 2013; (iii) advertisement and sale permit from the Housing Department, Ministry of Housing and Local Government which is pending application; and <p>(b) Development order for the Proposed Development in Selayang has been obtained from Majlis Perbandaran Selayang on 2 February 2012</p>

2.1.2 Johor Land

On behalf of the Board, AFFIN Investment had on 8 November 2012 announced that Total Merit had on even date accepted an offer made by Nusantara Megajuta ("**Letter of Offer**") to purchase the Johor Land for a cash consideration of RM99,699,104.16 ("**Purchase Consideration**"). The offer is subject to, amongst others, the execution of a definitive agreement within thirty (30) days from the date of acceptance of the Letter of Offer.

Further, on behalf of the Board, AFFIN Investment had on 7 December 2012 announced that the parties have mutually agreed to extend the timeline to execute the SPA by another thirty (30) days from the date of expiration of the timeline for execution of the same pursuant to the Letter of Offer up to 7 January 2013.

Thereafter, the SPA was entered into between Total Merit and Nusantara Megajuta on 7 January 2013 and is subject to the condition precedent to obtain the approval of the shareholders of the Purchaser. The salient terms of the SPA is disclosed in Section 2.1.2.1 of this Circular.

The Vendor will be beneficially entitled to the Johor Land by virtue of the Development Agreement entered into between the Vendor, the Government of the State of Johor Darul Ta'zim ("**Johor State Government**") and the State Secretary Johore (Incorporation) on 15 August 2007 whereby the Vendor has agreed to build and deliver the Consideration Premises (as defined in the Development Agreement, which comprises a complex to be located at Plot 7, Jalan Kebun Teh, Johor Bahru, Johor Darul Ta'zim and a workshop and residence at Taman Impian Emas, Skudai, Johor Darul Ta'zim) in return for which the rights to develop, *inter-alia*, the Johor Land will be granted to the Vendor ("**Development Agreement**"). Under the Development Agreement, vacant possession of the Johor Land can only be delivered once the Vendor has delivered the Consideration Premises. As at the LPD, the Vendor has completed approximately 15% of the Consideration Premises and is expected to complete the construction of the Consideration Premises and deliver the same to the Johor State Government by first (1st) quarter of 2014. Please refer to Section 2.1.2.2 for the salient terms of the Development Agreement.

Details of the Proposed Development in Johor are as follows:

Name of project	:	To be determined
Description of the properties	:	Two (2) adjoining parcels of leasehold commercial land held under: (i) HS(D) 482930, No. P.T.B. 22841 (ii) HS(D) 482931, No. P.T.B. 22842 all located in the Bandar Johor Bahru, Daerah Johor Bahru, Negeri Johor Darul Ta'zim
Date of SPA	:	7 January 2013
Tenure/expiry date	:	99 years/7 June 2109
Encumbrances	:	Nil
Approximate area (square meters)	:	51,476
Existing use of the Johor Land	:	Occupied and erected with numerous buildings and structures which will be demolished and removed by Nusantara Megajuta after the delivery of vacant possession.

Proposed development project	:	The proposed development of the Johor Land into a mixed residential and commercial project and is expected to comprise a shopping mall with an indicative net lettable area of approximately 700,000 square feet, 37 units of 5 storey strata shop offices and 1,100 units of service apartments.
Total estimated GDV	:	RM1.16 billion
Total estimated gross development cost	:	RM926 million. The estimated gross development cost is inclusive of the acquisition costs of the Johor Land and financing charges.
Total estimated profits	:	RM234 million
Expected commencement and completion dates	:	The Proposed Development in Johor is expected to commence in the first (1 st) quarter of 2014 and is estimated to be completed by the fourth (4 th) quarter of 2021.
Source of funds by Nusantara Megajuta to finance the development costs	:	Internally generated funds and bank borrowings the breakdown of which has not been determined yet at this juncture
Current stage/ Status of approval for the development	:	Pending the completion of the conditional SPA dated 7 January 2013/ No applications have been submitted to the relevant authorities for the development order and planning consent.

2.1.2.1 Other salient terms of the SPA

The salient terms of the SPA are as follows:

- (i) The Vendor shall sell and the Purchaser agrees to purchase the Johor Land, free from any encumbrances together with the obligation by the Vendor for delivery of vacant possession within the time period expiring twelve (12) months from the date of the SPA ("**Delivery Period**") subject to the conditions of title whether express or implied contained in the document of title to the Johor Land with the existing "as is where is" condition of the Johor Land and upon the terms and subject to the conditions contained in the SPA;
- (ii) The Purchase Consideration is payable in the following manner:
 - (a) a deposit of RM9,969,910.41 (equivalent to 10% of the Purchase Consideration) to be paid to the Vendor on or before the execution of the SPA comprising the following:
 - (i) an earnest deposit of RM1,993,982.08 (equivalent to 2% of the Purchase Consideration) ("**Earnest Deposit**")⁽¹⁾; and
 - (ii) a balance deposit of RM7,975,928.33 (equivalent to 8% of the Purchase Consideration) ("**Balance Deposit**")⁽²⁾.

The Earnest Deposit together with the Balance Deposit shall be treated as a deposit and form part payment of the Purchase Consideration (the Earnest Deposit and the Balance Deposit shall be hereinafter collectively be referred to as the "**Deposit**");

Notes:

⁽¹⁾ *The Earnest Deposit was paid on 8 November 2012.*

⁽²⁾ *The Balance Deposit was paid on 7 January 2013.*

(b) the balance of RM89,729,193.75 ("**Balance Purchase Price**") shall be paid in the following manner:

(i) sum of RM15,729,193.75 ("**First Balance Sum**") only payable to the Vendor within 14 days from either:

(aa) the date of receipt of the relevant memorandum of transfers and documents as provided for in the SPA; or

(bb) the Unconditional Date (as defined in item 2.1.2.1(iii) below),

whichever shall be the latest ("**First Balance Sum Date**");

(ii) the balance thereof is payable by way of the issuance of bank guarantees by the Purchaser's financier amounting to RM74,000,000 (which is to be encashed within a period of after three (3) business days of delivery of vacant possession of the Johor Land and which shall be valid until a date expiring three (3) months from the date of Delivery Period) before the expiry of the time period either:

(aa) up to four (4) months from the date of receipt by the Purchaser's solicitors of the relevant memorandum of transfers and documents as provided for in the SPA; or

(bb) expiring two (2) months from the Unconditional Date (as defined in item 2.1.2.1(iii) below); or

(cc) four (4) months from the date of the SPA;

whichever is the latest ("**Completion Period**").

The Balance Purchase Price shall be deemed to have been paid on the issuance of the bank guarantees by the Purchaser's financier;

(c) The Purchaser shall be entitled to an extension of thirty (30) days from the expiration of the First Balance Sum Date and/or the Completion Period to pay the First Balance Sum and/or cause the issuance of the bank guarantees and upon such extension the Purchaser shall pay late payment interest of 8% per annum of the respective First Balance Sum or the sums guaranteed in the respective bank guarantees due calculated on a daily basis from the expiration of the respective First Balance Sum Date and/or the Completion Period till the date of actual issuance of the bank guarantees;

- (iii) The purchase of the Johor Land is subject to the approval of the shareholders of the Purchaser ("**Condition Precedent**"). The Purchaser will apply for the requisite shareholders' approval within two (2) months from the date of the SPA ("**Cut-Off Date**") subject to the right of the Purchaser to an extension of a further one (1) month ("**Extended Cut-Off Date**") free of interest provided that at such time the Vendor had notified the Purchaser of the Transfer Method Confirmation (*the transfer of the Johor Land to the Purchaser will be effected by way of a double transfer i.e. the Johor Land will be transferred from (a) the registered proprietor of the Johor Land to the Vendor and (b) thereafter from the Vendor to the Purchaser i.e. Double Transfer; however the Vendor will have to confirm whether a charge will be required to be lodged by the Vendor (which is referred to as "Double Transfer and 3P Charge") and "Transfer Method Confirmation" refers to the confirmation by the Vendor of whether there is to a Double Transfer or a Double Transfer and 3P Charge*) otherwise the Purchaser shall pay the interest at the rate of 8% per annum on the Balance Purchase Price due to the Vendor, calculated on a day to day basis from the expiry of the Cut-Off Date or from the Transfer Method Confirmation date until the Purchaser's shareholders' approval has been obtained and such payment shall be made on delivery of vacant possession of the Johor Land. The date of obtaining such approval shall hereinafter be referred to as "**Unconditional Date**". In the event the Condition Precedent cannot be fulfilled for any reason whatsoever within the Extended Cut-Off Date, the Purchaser shall be entitled within the Extended Cut-Off Date, to nominate a party in its place and failing such nomination, the Vendor shall be entitled to forfeit a sum of RM4,984,955.20, equivalent to 5% of the Purchase Consideration ("**Forfeiture Sum**") as agreed liquidated damages and to refund the balance of the Deposit paid and upon such refund being made, the SPA shall be null and void and be of no further effect and neither party shall have the right or claim against the other save for any antecedent breaches;
- (iv) Vacant possession of the Johor Land will be delivered to the Purchaser within the Delivery Period failing which the Vendor will pay a sum equivalent to 8% per annum calculated on a daily rest basis on the Purchase Consideration from the expiry of the Delivery Period until the Purchaser's receipt of the same; and
- (v) Pursuant to the SPA, the Vendor agrees to grant to the Purchaser an irrevocable power of attorney to deal with the Johor Land to secure the Purchaser's interest in the Johor Land as beneficial owner from the date of payment of the full consideration for the sale and purchase of the Johor Land until the registration of the transfer of the Johor Land in favour of the Purchaser.

2.1.2.2 Other salient terms of the Development Agreement

The salient terms of the Development Agreement are as follows:

- (i) The Consideration Premises, unless otherwise extended with the prior approval of the Johor State Government, shall be completed no later than sixty (60) months from its Commencement Date (*being a date which is subject to the fulfillment of the conditions precedent (as elaborated below) means i.e. thirty (30) days from the receipt of all the Relevant Approvals (as defined in the Development Agreement) from the relevant authority or twelve (12) months from the date of the Development Agreement, whichever is earlier*).

- (ii) The Development Agreement is subject to the fulfillment of the following conditions precedent within thirty (30) days from the date of the Development Agreement (unless extended by mutual agreement of the parties):
- (a) the Development Agreement shall have been duly executed and stamped;
 - (b) the Johor State Government shall have received:
 - (i) a certified true copy of the Total Merit's Board Resolution authorising the acceptance and the execution of the Development Agreement;
 - (ii) certified true copies of the Total Merit's Memorandum and Articles of Association and all of the incorporation documents including the latest and up-to-date Forms 24, 44 and 49 and the Johor State Government is satisfied that Total Merit has the necessary powers to issue execute deliver and perform its obligations under the Development Agreement;
 - (iii) from Total Merit the sum of Ringgit Malaysia One Million (RM1,000,000.00) only being part payment of the Cash Payments (as defined in the Development Agreement) on the date the Development Agreement is executed;
 - (iv) written confirmation from the Johor State Government's consultant namely Priced Resources Sdn Bhd and the Johor State Government's legal consultant namely Messrs Pakhrudin & Partners that their respective invoices in respect of the agreed fees for their services rendered prior to the date the Development Agreement is executed have been fully paid by Total Merit; and
 - (v) from Total Merit satisfactory evidences that it has increased its minimum paid-up capital to Ringgit Malaysia One Million (RM1,000,000.00) only or any other sum as required by Total Merit's financier to the said development, whichever is higher.

(The rest of this page has been intentionally left blank)

2.1.2.3

Risks in relation to the proposed acquisition of the Johor Land

(a) Non completion of the proposed acquisition of the Johor Land

The completion of the SPA is conditional upon the Condition Precedent being fulfilled or waived which is the approval of the shareholders of Salcon for the Proposed Diversification. There can also be no assurance that the completion date relating to the SPA can be within the timeframe stipulated in the SPA. Nevertheless, the Purchaser anticipates that such risk can be mitigated by proactively engaging with the relevant authorities/parties to obtain all the necessary approvals and documents required for the completion of the SPA and nominating another party in its place in the event that the Condition Precedent cannot be obtained.

However, in the event that the Purchaser fails to obtain the shareholders' approval for the Proposed Diversification within the Extended Cut-Off Date and fails to nominate a party in its place, the Purchaser will be liable to pay the Forfeiture Sum as liquidated damages (further details are set out in Section 2.1.2.1 (iii) above) and thereafter the SPA shall be null and void.

(b) Delay in the completion of the Proposed Development in Johor

At present, the Johor Land is occupied and erected with numerous buildings and structures which will be demolished and removed after the delivery of vacant possession by Total Merit pursuant to the SPA. Under the Development Agreement, vacant possession of the Johor Land can only be delivered once the Vendor has delivered the Consideration Premises. There may be a potential risk of delay in the completion of the Proposed Development in Johor in the event that vacant possession cannot be delivered to the Purchaser within the Delivery Period and/or the construction of the Consideration Premises cannot be completed and delivered within the stipulated time.

However, in the event that vacant possession of the Johor Land cannot be delivered to the Purchaser within the Delivery Period, the Purchaser will be entitled to a sum payable by the Vendor equivalent to 8% per annum calculated on a daily rest basis on the Purchase Consideration from the expiry of the Delivery Period until the Purchaser's receipt of the same as stated under Section 2.1.2.1 (iv) above. Nonetheless, there can be no assurance that such compensation for late delivery will not result in any delays in the completion of the Proposed Development in Johor or whether such compensation is sufficient to cover any reduced efficiency, cost overruns, and lower returns of the project arising from such delays. Consequently, this may have a material effect on the Group's financial performance and reputation relating to its property development business.

2.1.2.4

Information on Total Merit

Total Merit was incorporated in Malaysia on 20 August 2004 under the Act as a private limited company and has a registered office at Suite 801, (8th Floor), Merlin Tower, Jalan Meldrum, 80000 Johor Bahru. Its authorised share capital is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each, of which RM900,000 comprising 900,000 shares of RM1.00 each has been issued and fully paid-up.

The principal activity of Total Merit is property development.

The directors and the shareholders of Total Merit are as follows:

Name	Designation(s)	No. of ordinary shares of RM1.00 held	%
Soh Kok Hiang	Director	-	-
Kuan Poh Huat	Director	-	-
Soon Mon Huay	Shareholder	90,000	10.00
Rubaiah Binti Leman	Shareholder	180,000	20.00
Brandlink Sdn Bhd	Shareholder	630,000	70.00

(Source: Companies Commission of Malaysia search dated 29 November 2012)

The shareholders of Brandlink Sdn Bhd are as follows:

Name	Designation(s)	No. of ordinary shares of RM1.00 held	%
Soh Kok Hiang	Director/shareholder	150,000	30.00
Kuan Poh Huat	Director/shareholder	150,000	30.00
Mohd Kamal bin Harun	Shareholder	200,000	40.00

(Source: Companies Commission of Malaysia search dated 30 November 2012)

2.2. Key members and experience of the Property Development team

(a) Directors of Salcon

(i) Dato' Leong Kok Wah

Dato' Leong Kok Wah, a Malaysian aged 59, has more than 12 years of experience in property development. He was appointed on 1 June 2000 as an Independent Non-Executive Director in SP Setia Berhad and has since retired on 28 February 2013 after having served the board of SP Setia Berhad for more than 12 years. SP Setia Berhad is a reputable property developer listed on the Main Market of Bursa Securities. Its subsidiary companies are involved in, amongst others, property development, property investment holding, building contractors, sale of building materials, provision of property management services, provision of general management and administration services and provision of promotion, marketing and other related services to property development (Source: SP Setia Berhad's Annual Report).

Dato' Leong Kok Wah's responsibilities and involvement during his tenure in SP Setia Berhad as a board member includes charting the strategic business direction and business planning and development of the property development group. Having served as a board member in SP Setia Berhad for numerous years, he has the business acumen and skills in property development as well as familiarity with the property market which will be beneficial to the Salcon Group moving forward in relation to the Proposed Diversification. In this regard, Dato' Leong Kok Wah has the relevant experience to assist in the overall management of the new property development business.

(ii) Dato' Choong Moh Kheng

Dato' Choong Moh Kheng, a Malaysian aged 57, has approximately 25 years in property development. He started his career in property development with Chye Hin Development Sdn Bhd, a company that undertakes niche development projects in Perak. Dato' Choong Moh Kheng was appointed as an Executive Director of Chye Hin Development Sdn Bhd on 15 September 1987. As at the LPD, Dato' Choong Moh Kheng holds the position of a director of Chye Hin Development Sdn Bhd. Some of Chye Hin Development Sdn Bhd's property development projects includes, amongst others:

- (a) Taman Muhibbah Baru, a mixed development project comprising several phases totalling 39 units of double storey terrace houses, 6 units of shoplots and 2 units of semi-detached houses located in Jalan Kuala Kangsar, Ipoh, Perak which were completed between December 1995 to May 2005. Taman Muhibbah Baru's GDV was approximately RM2.4 million;
- (b) Taman Permai, a residential development project comprising 3 phases totalling 160 units of single storey terrace houses located in Kampar, Perak which were completed between April 1999 to June 2003. The GDV for this project was approximately RM5.38 million; and
- (c) Taman Mas, a residential development project comprising 62 units of single storey low cost houses and 35 single storey upgraded low cost houses located in Batu Gajah, Perak which were completed between July 2001 to November 2011. The GDV for this project is approximately RM2.89 million.

In 1991 he founded Pembinaan Punca Cergas Sdn Bhd, a "Class A" civil construction engineering company that provides general contracting services.

On 9 January 1995, he was appointed as a director of PPC Glomac Sdn Bhd, a joint-venture company between Pembinaan Punca Cergas Sdn Bhd and Glomac Berhad, a company listed on the Main Market of Bursa Securities. As at the LPD, Dato' Choong Moh Kheng holds the position of Managing Director in PPC Glomac Sdn Bhd. Dato' Choong Moh Kheng has managed and undertaken property development projects (under PPC Glomac Sdn Bhd) which include, amongst others, the following:

- the on-going development of Bandar Sri Permaisuri, a 220 acre integrated, self-contained residential, commercial and recreational township which comprises several condominiums and apartments, shop houses and town houses located in Cheras, Kuala Lumpur. The development project started in 1998 and is expected to complete in year 2016. The total GDV of this development project is approximately RM1.16 billion; and

- the on-going development of the Aman Putri Township, which will be developed in several phases. The first phase was launched in July 2010 and comprises 162 units of two (2) storey terrace homes. This development project is located in Sungai Buloh, Selangor Darul Ehsan and is expected to be completed by year 2020.

(b) Kembar Makmur (business partner for the Proposed Development in Johor)

Kembar Makmur was incorporated in Malaysia on 11 September 2012 under the Act as a private limited company and has a registered office at B607 6th Floor, Block B, Kelana Square, 17 Jalan SS7/26, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan. Its authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which the entire RM100,000 comprising 100,000 shares of RM1.00 each has been issued and fully paid-up.

Kembar Makmur is a special purpose vehicle set up to jointly undertake the Proposed Development in Johor with Salcon. The principal activity of Kembar Makmur is intended to be property development.

The directors and the shareholders of Kembar Makmur are as follows:

<u>Name</u>	<u>Designation(s)</u>	<u>No. of ordinary shares of RM1.00 held</u>	<u>%</u>
Ong Aun Kung	Director and shareholder	50,000	50.0
Lee Thiam Lai	Director and shareholder	50,000	50.0

Kembar Makmur is led by Ong Aun Kung and Lee Thiam Lai who are founders, directors and shareholders of Metropolis Property Consultants Sdn Bhd ("**MPCSB**") and Metropolis Development Services Sdn Bhd ("**MDSSB**"). MPCSB and MDSSB are two affiliated companies that provide property development services ranging from the inception to the completion of a project such as property development and project management consultancy, marketing and sales consultancy, construction and property management. Ong Aun Kung and Lee Thiam Lai (*via* MPCSB and MDSSB) have managed and undertaken property development projects which include, amongst others, the following:

- One Ampang Avenue, a development project comprising four (4) phases of condominium, shop houses and a private clubhouse located in Kuala Lumpur. This development project was completed in 1995 and had a total GDV of approximately RM200 million;
- Subang Central in UEP Subang Jaya ("**USJ**"), a development project comprising 144 units of 3 and 4 storey shop houses located in USJ, Subang Jaya, Selangor Darul Ehsan which was completed in 1996. Subang Central's GDV was approximately RM120 million;
- Subang Business Centre, a development project comprising 89 units of shop offices located in Subang Jaya, Selangor Darul Ehsan which was completed in 1997. The GDV for this project was approximately RM80 million;

- (d) Kiara View, an on-going development project comprising 250 units of semi-detached houses located in Desa Sri Hartamas, Kuala Lumpur which started in 2005 and is expected to be completed in 2014. The GDV for this project is approximately RM600 million; and
- (e) Taynton View, a proposed development of 87 units of semi-detached and detached houses located in Cheras, Kuala Lumpur which started in 2013 and is expected to be completed in 2016. The proposed development is currently in the planning stages and is expected to have a GDV of approximately RM300 million.

Kembar Makmur is a substantial shareholder of Nusantara Megajuta and holds 4,999 shares in Nusantara Megajuta representing approximately 49.99% of the issued and paid-up share capital of Nusantara Megajuta whilst Ong Aun Kung and Lee Thiam Lai are Directors of Nusantara Megajuta. The Board believes that Kembar Makmur, Ong Aun Kung and Lee Thiam Lai have the relevant skills, expertise and past track record to assist the Group in managing the Proposed Development in Johor.

Further details of Ong Aun Kung and Lee Thiam Lai are as follows:

(i) Ong Aun Kung

Ong Aun Kung, a Malaysian aged 57, started his professional career as a valuer in 1978. He graduated from University of Technology, Malaysia with a Bachelor of Surveying (Honours) degree in Property Management in 1978 and subsequently obtained a Masters of Science in Urban Land Appraisal from the University of Reading in 1981. He joined the Ministry of Finance, Malaysia on 2 May 1978 where he served as a valuer for approximately 6.5 years before leaving to head the property development divisions of two companies listed on the Main Market of Bursa Securities. In 1990, he moved on to jointly set up the Metropolis group of companies with Lee Thiam Lai. Ong Aun Kung was a director in E&O Property Development Berhad from 2000 to 2009 and he was also a director of Perdana Parkcity Sdn Bhd (the developer of Desa Parkcity in Kuala Lumpur) from 1990 to February 2013. He is a fellow member of the Royal Institution of Surveyors, Malaysia and Royal Institution of Chartered Surveyors, United Kingdom as well as a registered valuer with the Board of Valuers, Appraisers and Estate Agents Malaysia.

(ii) Lee Thiam Lai

Lee Thiam Lai, a Malaysian aged 57, graduated with a Bachelor of Engineering (Honours) degree in Civil Engineering from University of Sheffield, UK in 1978 and subsequently obtained a Masters of Science in Urban Development Planning from the University College, London in 1982. He started his professional career with an engineering consultancy firm in the United Kingdom in 1978 and upon his return in January 1982, he served as an engineer in Jabatan Kerja Raya. Lee Thiam Lai left government service in February 1984 and worked in the engineering and development department of Tan Chong Motor Holdings Berhad, a public listed company in Malaysia before moving on to jointly set up the Metropolis group of companies in 1990 with Ong Aun Kung. He is a member of the Institution of Engineering, Malaysia as well as a Professional Engineer registered with the Board of Engineers Malaysia.

(c) **Mepro (business partner for the Proposed Development in Selayang)**

Mepro was incorporated in Malaysia on 13 March 1981 under the Act as a public company and has a registered office at 1st Floor, Wisma Mepro, No. 29 & 31, Jalan Ipoh, 51200 Kuala Lumpur. Its authorised share capital is RM60,000,000 comprising 300,000,000 ordinary shares of RM0.20 each, of which RM18,582,957.80 comprising 92,914,789 ordinary shares of RM0.20 each has been issued and fully paid-up.

The principal activities of Mepro are investment holdings and management of development projects. The principal activities of Mepro's subsidiaries are investment holdings, property development and investment, manufacturing and trading of switchboards and other electrical products. Mepro also has a subsidiary company that is a dealer for Proton motor vehicles.

The directors and the substantial shareholders of Mepro and their shareholdings as at the LPD are as follows:

Name	Designation(s)	Direct		Indirect	
		No. of ordinary shares of RM0.20 held	%	No. of ordinary shares of RM0.20 held	%
Tan Sri Datuk Seri Elyas Omar	Chairman	25,000	0.03	-	-
Dato' Rosidi Bin Kamaruddin	Non-Executive Director	25,000	0.03	-	-
Png Chiew Chuan	Managing Director	374,894	0.40	49,885,913 ⁽¹⁾	53.69
Tan Ah Ting	Executive Director	201,250	0.22	363,501 ⁽²⁾	0.39
Tan Ban Seng	Executive Director	201,250	0.22	-	-
Png Theng Yoong	Non-Executive Director	305,507	0.33	-	-
Sri Rahatan Holdings Sdn Bhd	Substantial shareholder	41,463,785	44.62	-	-
Tetap Johan Holdings Sdn Bhd	Substantial shareholder	3,473,000	3.74	4,662,500 ⁽³⁾	5.02
Chembang Properties Sdn Bhd	Substantial shareholder	562,500	0.61	4,100,000 ⁽⁴⁾	4.41

Notes:

- (1) Deemed interested by virtue of his direct and indirect shareholdings in Sri Rahatan Holdings Sdn Bhd, Chembang Properties Sdn Bhd, Tetap Johan Holdings Sdn Bhd, Alam Berlian Sdn Bhd pursuant to Section 6A of the Act and disclosure made pursuant to Section 134(12)(c) of the Act, on interests held by his spouse (Tan Lee Chin) and child (Png Theng Shuan)
- (2) Disclosure made pursuant to Section 134(12)(c) of the Act on interests held by his spouse (Yap Loke Thai) and children (Tan Lip Hooi and Tan Lip Chin).
- (3) Deemed interested by virtue of its interest in Chembang Properties Sdn Bhd and Alam Berlian Sdn Bhd pursuant to Section 6A of the Act.
- (4) Deemed interested by virtue of its interest in Alam Berlian Sdn Bhd Sdn Bhd pursuant to Section 6A of the Act.

Mepro and its subsidiary companies' ("**Mepro Group**") current major project is the Proposed Development in Selayang. The Mepro Group will also be developing the Port Dickson International Resort in Port Dickson, Negeri Sembilan Darul Khusus, a 921 acre mixed development comprising residential and commercial properties, a retirement village, an education complex, a health institute and related facilities and an eco-tourism project.

Previously, the Mepro Group has managed and undertaken several property development projects which include, amongst others, the following:

- (a) Taman Mulia, a development project totalling 73 acres comprising 552 units of 5 storey low cost flats, 464 units of 2 storey link houses, 32 units of 2 storey bungalows and 36 units of 2 storey shop houses located in Cheras, Kuala Lumpur. This development project was completed in 1987 and had a total GDV of approximately RM113.50 million;
- (b) Taman Beringin, an 88 acres of mixed development project comprising 924 units of 2 storey low cost link houses, 41 units of single storey terrace houses and 32 units of 2 storey shop houses located in Jinjang Utara, Kuala Lumpur which was completed in 1986. Taman Beringin's GDV was approximately RM24.09 million;
- (c) Taman Bernam, an 80 acres of mixed development project comprising 212 units of single storey terrace houses, 562 units of 2 storey link houses, 64 units of semi-detached houses, 13 units of detached houses and 96 units of 2 storey shop houses located in Tanjung Malim, Perak Darul Ridzuan which was completed in 1990. The GDV for this project was approximately RM100.32 million; and
- (d) Taman Indah, a development project comprising 37 units of 2 storey shop houses, 140 units of 2 storey link houses, 132 units of single storey low cost terrace houses and 18 units of 2 storey semi-detached houses located in Labis, Johor Darul Takzim which was completed in 1992 and the GDV for this project is approximately RM28.72 million.

Arising from the AVSB SSA (as detailed in Section 1 of this Circular), AVSB is a subsidiary company of Salcon Development Sdn Bhd with a 50% plus one (1) share in AVSB whereas the remaining shareholders, Mepro and Wong Yoon Kim each hold 35% less one (1) share and 15% of AVSB's issued and paid-up share capital, respectively. Mepro is led by Png Chiew Chuan, who is the founder of Mepro.

Further details of Png Chiew Chuan are as follows:

(a) Png Chiew Chuan

Png Chiew Chuan, a Malaysian aged 63, is the founder of Mepro and is currently the Group Managing Director for the Mepro Group. He completed his Malaysian Certificate of Education (MCE) from SMJK Chong Hua, Kuala Lumpur. He started his career in the media industry as a journalist for Nanyang Siang Pau, Kuala Lumpur in 1970 until 1976. In 1977, he ventured into his own business in the construction industry where he was exposed to the development of commercial buildings and residential houses. Presently, Png Chiew Chuan is still involved in his own business in the construction industry. He has vast experience in property development and investment and under his leadership the Mepro Group has successfully completed a number of development projects in the Klang Valley as disclosed in Section 2.2(c) above. Currently, he sits on the board of several subsidiary companies of Mepro and several private companies.

In addition to the above, the Salcon Group expects to employ a new team of personnel to oversee its new property development business which as at the LPD is expected to comprise a general manager with approximately ten (10) years of relevant experience (expected to be employed by 1 September 2013), a marketing and sales manager with approximately five (5) years of relevant experience (expected to be employed by 1 January 2014), an accountant with approximately five (5) years of relevant experience (expected to be employed by 1 September 2013) and a project manager with approximately seven (7) years of relevant experience (expected to be employed by 1 January 2014) . The Board will exercise its discretion when hiring personnel and will endeavour to recruit the appropriate personnel who have the relevant skill set, expertise and experience in managing the property development business.

3. RATIONALE FOR THE PROPOSED DIVERSIFICATION

After recording five (5) years of continuous growth, the Group registered a decrease in revenue by approximately 14% to RM472.5 million in FYE 31 December 2011 from RM549.8 million in FYE 31 December 2010. Consequently, pre-tax profit and profit after tax also declined from RM44.0 million in FYE 31 December 2010 to RM29.0 million in FYE 31 December 2011 and from RM35.4 million to RM25.3 million, respectively. The reduction in the underlying revenue and operating profit arose mainly as a result of lower order books and competitive construction margins. The lower order books recorded for the FYE 2011 was primarily due to the reduction in the Government's expenditure for major water infrastructure projects. Furthermore, delays in project implementation and an uncertain socio-political environment have also contributed to the lower order books. For the FYE 31 December 2012, the construction segment recorded an unaudited loss of RM10.16 million as compared to the profit before tax of RM5.46 million for the same period in the preceding year. Salcon's order book has been declining from RM1.43 billion with RM436.1 million uncompleted orders on hand as at 31 December 2010 to RM1.35 billion with RM243.6 million uncompleted orders on hand as at 31 December 2011. This decline was due to several reasons which include, amongst others:

(a) Difficulties in securing new construction contracts

The Group's construction contracts are mainly to provide turnkey solutions for water and waste treatment plants. Amid the backdrop of the recent economic slowdown emanating from developments in several major economies such as the financial issues in the United States of America and the uncertainty surrounding the European debt crisis have weighed down on the markets the Group operates in, i.e. Malaysia, Sri Lanka, Thailand, India, China and Vietnam who have also experienced slower economic activity. This in turn has affected the Group's ability to secure new construction contracts.

The average duration of a Group's construction contract is approximately two (2) to three (3) years. The slower global economy coupled with the more competitive construction margins has resulted in the Group not been able to replenish its order books as quickly as compared to previous years.

(b) Limitations in the local market

Malaysia remains a core market for the Group, however the Group is of the view that the opportunities in the local Malaysian market is not sufficient to sustain the Group's long term growth plans. Hence, much effort is currently being focused on securing construction and concession contracts overseas particularly in Indonesia, India, Sri Lanka and Vietnam where the Group believes these markets will have long term growth prospects and with vast opportunities and strong demand for clean water solutions.

Historically, the Group's revenue is substantially derived from its construction segment. As the Group's order book is currently being depleted, the Group foresee a substantial drop of its revenue from the construction segment. As at the LPD, the Group has an order book of RM1.079 billion with RM306.6 million uncompleted orders on hand whereby the last project is expected to complete by 3 years. Similar to FYE 2011, the depletion in the order books recorded in 2012 for the Salcon Group was due to the reduction in the Government's expenditure for major water infrastructure projects as well as delays in project implementation. Furthermore, some of the contracts secured are relatively short term in nature (ranging from 2 to 3 years) and hence there is no certainty of the revenue and profit contribution from the construction segment of the Group beyond 2016.

Premised on the above, the Board has identified property development as a new business segment for the Group to venture into and as another source of revenue for the Group in addition to its existing Core Business. The Board believes that the diversification of the Group's business to include property development has attractive growth prospects and will be beneficial to the Salcon Group's future prospects. The Proposed Diversification will reduce the Group's sole reliance on its Core Business for its growth and will potentially provide the Group with another profit avenue and earnings growth for the Group in the future. Furthermore, the Board believes that by tapping on the skills and expertise of Dato' Leong Kok Wah and Dato' Choong Moh Kheng who both have experience in property development, venturing into property development would be in the best interest of the Company.

In addition to the above, as property development activities are generally of a longer term tenure (three (3) to five (5) years) as compared to the Group's average construction contract of two (2) to three (3) years, the Board believes that the revenue earned from property development activities will smooth out the earnings of the Group which will allow the Salcon Group to better manage its profitability in the long term.

The Board plans to increase the Salcon Group's presence in the property development market through more opportunistic acquisitions and/or joint ventures to secure more property development projects and investments subject to the positive evaluation of the projected returns from potential projects apart from its existing / proposed development projects.

4. FINANCIAL EFFECTS OF THE PROPOSED DIVERSIFICATION

(a) Share capital and substantial shareholders' shareholdings

The Proposed Diversification will not have any effect on the share capital or the substantial shareholders' shareholding in the Company as it does not involve the issuance of new Shares.

(b) NA, NA per Share and gearing

The Proposed Diversification is not expected to have any material impact on the Salcon Group's NA, NA per Share and gearing ratio for the FYE 31 December 2013 (save for the expenses related to obtaining the shareholders' approval in relation to the Proposed Diversification) in view of that the acquisition of the Johor Land is expected to be completed within the first (1st) quarter of 2014 and that the construction of the Proposed Development in Selayang is expected to commence in the second (2nd) quarter of 2013, after all the relevant regulatory approvals have been obtained. The Proposed Development in Selayang is expected to be completed within the second (2nd) quarter of 2016.

(c) Earnings and EPS

The Proposed Diversification is expected to be completed within the first (1st) quarter of 2013 upon obtaining the shareholders' approval for the Proposed Diversification and is not expected to have any material effect on the earnings and the EPS of the Salcon Group for the FYE 31 December 2013 (save for the expenses related to obtaining the shareholders' approval in relation to the Proposed Diversification) in view of that the acquisition of the Johor Land is expected to be completed within the first (1st) quarter of 2014 and that the construction of the Proposed Development in Selayang is expected to commence in the second (2nd) quarter of 2013, after all the relevant regulatory approvals have been obtained. The Proposed Development in Selayang is expected to be completed within the second (2nd) quarter of 2016.

The Proposed Diversification is expected to contribute positively to the future earnings of the Salcon Group in the long term.

5. INDUSTRY OVERVIEW AND PROSPECTS

5.1 Overview of the Malaysian property market

The Malaysian property market continued to grow albeit at a slower pace. The review period registered 217,135 transactions worth RM69.05 billion. Against the corresponding period, the volume and value of transactions recorded a modest increase of 1.1% and 6.5% respectively (first half of 2011: 214,778 transactions; RM64.81 billion). In comparison with the preceding period, the market recorded a marginal increase of 0.7% in volume whilst the value dropped by 5.4% (second half of 2011: 215,625 transactions; RM73.02 billion).

On the market activities, all sub-sectors except industrial recorded modest increments compared to the corresponding half year of 2011. Development land recorded the highest increase of 5.5%, followed by residential (1.5%), agricultural (0.4%) and commercial property sub-sectors (0.2%). Industrial sub-sector on the other hand recorded negative trend of 9.6%. Against the preceding half year, development land, agricultural and residential property sub-sectors recorded growths of 8.9%, 5.3% and 0.2% respectively. On the contrary, industrial and commercial property sub-sectors registered decreases of 10.0% and 6.4% respectively.

The overhang and unsold situation in the shops sub-sector improved further with gradual reduction in volume and value. As at end June 2012, the total number of overhang and unsold shops were 10,152 units, decreased by 17.8% against the corresponding period (12,353 units) and 17.1% compared to the preceding period (10,565 units). Of the total, 45.2% (4,590 units) was contributed by overhang units worth RM1.26 billion. This was lower by 22.6% in volume and 25.3% in value against the corresponding period (5,931 units: RM1.69 billion). Compared to the preceding period, similar movement was noted; volume decreased by 16.3% (5,482 units) whilst value by 20.5% (RM1.59 billion).

The purpose-built office and shopping complex sub-sectors saw encouraging performances. The national average occupancy rate for purpose-built office firmed up to 83.8% from 83.4% in the corresponding period and 84.0% in the preceding period. Likewise the take-up space increased to 14.72 million square meters (first half of 2011: 14.24 million square meters; second half of 2011: 14.65 million square meters). The total vacant space in the country however, stood equal to the corresponding period (2.84 million square meters) but higher compared to the preceding period (2.79 million square meters) due to the new completions which injected another 120,234 square meters of space. Across the states, the performance was promising with 10 states breaching the country's average occupancy rate of 83.8%. As at end June 2012, the existing supply of office space totalled 17.56 million square meters, with 2.16 million square meters in the incoming supply and more than 700,000 square meters in the planned supply.

Construction activity of shopping complex sub-sector improved in the review period. Against the corresponding period, completions were higher by 92.1% but lower by 10.5% against preceding period. Construction starts however, declined by 56.9% and more than two fold (265.9%) compared to corresponding period and preceding period respectively. Similarly, new building plan approvals contracted by 17.7% and 16.9% against corresponding and preceding period respectively.

(Source: Property Market Report First Half 2012, Valuation and Property Services Department, Ministry of Finance)

5.2 Overview of the Selangor property market

Selangor property market performed moderately in the first half of 2012. There were 48,620 transactions recorded worth RM22.83 billion, down by 2.6% in volume but increased by 9.4% in value over the second half of 2011. Compared to the second half of 2011, volume and value increased marginally by 0.7% and 1.9% respectively. Residential sub-sector remained the most dominant sector, capturing 77.4% of the total, followed by commercial (10.5%), agricultural (6.2%), development land (3.0%) and industrial (2.9%) sub-sectors.

Market activity movements were mixed. Against the first half of 2011, only commercial sub-sector recorded increase of 6.5% whilst other sub-sectors recorded otherwise. Compared to the second half of 2011, development land observed a steady upturn of 8.0%, followed by residential (2.0%) and agricultural (1.5%). Other sub-sectors remained on a negative track.

Three major transactions were recorded in the review period involving purpose-built office buildings with a total worth of RM263.14 million. Two office buildings in Cyberjaya were transacted in August 2009 and September 2011 but completed in the review period. While another building, located in Denai Alam Shah Alam changed hands in February 2012.

(Source: Property Market Report First Half 2012, Valuation and Property Services Department, Ministry of Finance)

In summary, both the volume and value of transactions of the Selangor property market improved marginally and was dominated by the residential sub-sector whereas only the commercial sub-sector recorded an increase in market activities movements for the first half of 2012.

5.3 Overview of the Johor property market

The Johor state's property market moderated in the first half of 2012. There were 25,845 transactions worth RM8.75 billion recorded. The number of transactions dropped slightly by 1.6% against the first half of 2011 (26,268 transactions) but the total value improved by 16.1% (first half of 2011: RM7.54 billion). The residential property propelled the states market, accounting for 58.2% of the total, followed by agricultural (24.4%) and commercial (9.3%) sub-sectors.

Volume of transactions across the sub-sectors recorded mixed performance. Market activity in residential and commercial sub-sectors contracted against corresponding and preceding half of 2011. Likewise, industrial sub-sector contracted by a double digit 14.2% after recorded positive growth of 3.0% against corresponding half of 2011. Conversely, agricultural sub-sector grew by 11.6% against second half of 2011 after experiencing a decline of 4.3% against first half of 2011. On positive note, development land recorded positive growth against both halves of 2011 at 3.7% (H1 2011) and 2.4% (H2 2011). In terms of value, residential, commercial and industrial sub-sectors depicted positive growth against both halves of 2011.

(Source: Property Market Report First Half 2012, Valuation and Property Services Department, Ministry of Finance)

Johor Bahru in particular, with Iskandar Malaysia's achievement of securing RM95.45 billion cumulative committed investments in various sector (from 2006 to 30 June 2012), it is the country's first economic growth corridor will continue to have positive impact to the economic growth of the region thus benefiting the property industry. New developments, especially, have experienced a gear shift in sales timing and take-up rates.

Iskandar Malaysia will continue to be the driving factor in boosting demand for properties in Johor Bahru. The recent completion of several major roads and highway projects in Iskandar Malaysia will provide a boost to demand of properties in Johor Bahru due to better connectivity.

(Source: Valuation report of the Johor Land dated 28 November 2012 prepared by C.H. Williams Talhar & Wong Sdn Bhd)

In summary, the value of transactions of the Johor property market has shown an improvement for the first half of 2012 and was dominated by the residential sub-sector but the volume of transactions across the sub-sectors were mixed where the market activity in residential and commercial sub-sectors contracted against corresponding and preceding half of 2011.

5.4 Prospects

5.4.1. Prospects of the Malaysian property market

Moving into 2013, investors are likely to focus on: (i) new property sales/ take-up rates in the primary market; (ii) the general sentiment in secondary market; (iii) tightening/ loosening of bank mortgage policy; (iv) awards of major government land and development plans (Sungai Buloh Rubber Research Institute land), and (v) newsflows on private investment/ property takeups in Iskandar Malaysia.

AFFIN Investment expects primary property sales in 2013 to weaken due to a high base effect, stricter banks mortgage policy as well as negative spillover effect from the sluggish rental and secondary market. Property investment / speculative activities are likely to slowdown due to strict mortgage policy while genuine home buyers may prefer to purchase from the secondary market given the substantial price discount of existing units versus the new launches.

(Source: Outlook 2013 - Early for a rotation to risk pre-election, AFFIN Investment research report dated 21 December 2012)

5.4.2. Prospects of the properties

(a) Prospects of the Johor Land

The Johor Land is strategically located approximately 2 kilometres north of the Central Business District of Johor Bahru and the Causeway of Singapore (with a 10 minute driving distance). The accessibility of the Johor Land is served by the major and busiest road within the Johor Bahru city centre via Jalan Tun Abdul Razak, Jalan Kebun Teh Lama and thereafter onto Jalan Abad and Jalan Kebun Teh. Alternatively, it is also easily accessible via Jalan Tebrau and thereafter onto Jalan Kebun Teh. As Johor Bahru city centre is sited within the Flagship Zone A of the Iskandar Malaysia economic corridor, upon development of the Johor Land, it is expected to enjoy good response in terms of demand and also in tandem with the growth of Iskandar Malaysia. The following factors will continuously boost confidence of the prospective purchasers from the local, other states and overseas thus impact highly demand for properties in Johor Bahru:

- Johor continued to achieve good performance as it is the second largest state received most foreign investment funds (RM1.88 billion) for the period of January to April 2012;
- Upcoming and completion of catalyst projects such as Legoland Malaysia, Marlborough College, EduCity@Iskandar, Puteri Harbour Indoor Theme Park, Johor Premier Outlet, etc., thus will attract more foreign visitors to Johor Bahru;
- Singapore's increasing property prices would open relocation opportunity from the cross straits;

- Completion of public infrastructural works such as Eastern Dispersal Link (aimed at improving the connectivity and accessibility to all the areas within the city), Coastal Highway (connecting the east and west of the State), Second Pasir Gudang Highway (easing the heavy traffic flow on existing highway and providing alternative route) and the Senai-Desaru Highway;
- Under the Federal Government's Economic Transformation Programme, plans for an integrated downstream oil and gas complex in Pengerang, Johor was also announced in 2011. Apart from contributing to the gross domestic product of Johor, the project will create at least 20,000 jobs during construction and 4,000 highly skilled job positions that will increase retail spending and demand for new housing;
- In accordance with unofficial statistic by the Ministry of Human Resources stated in August 2010, there are 350,000 to 400,000 Malaysians working in Singapore and out of which 150,000 of them travel from Johor Bahru daily. The expensive properties in Singapore and the strong currency exchange rate of Singapore Dollars against Ringgit Malaysia have in fact made Johor Bahru a favourable place to own a property for those work in Singapore; and
- The changes of lifestyle and desire of the prospective purchaser to wish to stay in unique, safety, privately as well as additional with resort facilities and services has made service apartments become a current trend in market and growth in future.

Moving forward, Iskandar Malaysia will continue to be the driving factor in boosting demand for properties in Johor Bahru. The recent completion of several major roads and highway projects in Iskandar Malaysia will provide a boost to demand of properties in Johor Bahru due to better connectivity.

(Source: Valuation report of the Johor Land dated 28 November 2012 prepared by C.H. Williams Talhar & Wong Sdn Bhd)

Further, greater cooperation between the 2 governments such as the High-Speed Rail Link from Kuala Lumpur to Singapore and the rapid transit system linking Singapore's Mass Rapid Transit System with Johor Bahru is expected to be positive for the Johor property market.

The Board is of the view that with the acquisition of the Johor Land and subsequently, upon completion of the Proposed Development in Johor, the Salcon Group will be in the position to benefit from the favourable market demand and selling price and as a result it is envisaged to contribute positively to the future earnings of the Salcon Group in the long term.

(b) Prospects of the Selayang Land

The Selayang Land is easily accessible from Kuala Lumpur city *via* the north bound Jalan Kuching, Jalan Ipoh and finally onto Lebuhraya Selayang Kepong. The Selayang Land lies at the northern fringe of Selayang Jaya which is an established housing estate comprising terrace houses, shop-houses, wet market, hawker centre, a national primary school and Selayang Capitol shopping centre. Located adjoining to the south of the Selayang Land is Selayang Point shop and service apartments. Selayang Hospital is sited to the immediate north of the Selayang Land whilst Universiti Teknologi MARA's ("UiTM") medical faculty is located further away towards the north east. The Selayang Land is also surrounded by residential areas such as Selayang Utama to the west, Taman Seri Melati to the east, Taman Intan Baiduri to the south and Taman Bidara to the north.

Premised on the above, the Board is of the view that the Selayang Land has good potential in view of its easy accessibility as well as close proximity to amenities such as Selayang Hospital, UiTM, schools, shopping malls as well as the surrounding residential areas where the Proposed Development in Selayang comprising the development of shop offices and small office home offices (SOHO) would be able to fulfil the demand and complement the existing establishment, facilities and amenities available in the area. Hence, upon the completion of the Proposed Development in Selayang, it is envisaged to contribute positively to the future earnings of the Salcon Group in the long term.

6. RISK FACTORS RELATING TO THE PROPOSED DIVERSIFICATION

As the Salcon Group is proposing to undertake the Proposed Diversification, the Group will be exposed to new business and operational risks relating to property development. Shareholders should carefully consider, in addition to the other information contained herein, the following risk factors, which may not be exhaustive, before voting on the ordinary resolution pertaining to the Proposed Diversification:

(a) Business Risk

The Proposed Diversification will expose the Salcon Group to risks inherent to the property development industry. These may include, amongst others, competition from existing players and entry of new players, changes in demand and oversupply of properties, increases in the costs of labour and building materials, labour and building materials disruptions and/or shortages, changes in the consumers' preference for products types, changes in credit conditions such as availability of end finance and changes in the legal and environment framework within which this industry operates.

Although the Salcon Group will seek to limit these risks through, *inter-alia*, effective human resource development strategies, market research and feasibility studies, product development, implement effective project management and cost-control policies, undertaking prudent business strategies, monitoring consumers' preference and lifestyle, reviewing operations and marketing strategies, no assurance can be given that any changes to these risks factors will not have a material adverse effect on the Salcon Group's business and earnings in the future.

(b) Threat of new entrants and lack of past track record and expertise

The Proposed Development in Johor and the Proposed Development in Selayang are two of the Salcon Group's foray into property development and therefore the Salcon Group will be exposed to the risks associated with new entrants in the market (as detailed in item (c) below). Premised on the foregoing, the Board will, to the best of its endeavours seek to limit the risks set out below (which may not be exhaustive) when undertaking current and future development projects. As the Salcon Group has no past track record or expertise in property development, Salcon has sought the assistance of Kembar Makmur (a 49.99% shareholder of the Nusantara Megajuta), which is led by Ong Aun Kung and Lee Thiam Lai (both of whom are directors of the Nusantara Megajuta) in relation to the Proposed Development in Johor and Mepro (a 35% less one (1) shareholder of AVSB) in relation to the Proposed Development in Selayang. Kembar Makmur, Ong Aun Kung, Lee Thiam Lai and Mepro will assist the Group to amongst others, advise Salcon, coordinate, manage and monitor the Proposed Development in Johor and the Proposed Development in Selayang, respectively. Further details of the abovementioned parties are set out in Section 2.2 of this Circular. In addition to the above, the Salcon Group expects to employ a new team of personnel to oversee its new property development business. The Board will exercise its discretion when hiring personnel and will endeavour to recruit the appropriate personnel who have the relevant skill set, expertise and experience in managing the property development business.

(c) Competition

Pursuant to the Proposed Diversification, the Salcon Group will face direct competition from both new entrants and existing players in the property development industry. The Salcon Group may also face disadvantages as a new entrant in the property development industry as it lacks the relevant track record and brand name as compared to the existing players which enjoy the privilege of their established brand name and reputation in the industry. The Salcon Group's competitiveness will largely depend on, amongst others, its sales and marketing strategies, products design, location of the development and its ability to price and differentiate its development to meet the needs of the target markets. Hence, measures that will be undertaken by the Salcon Group to mitigate competition risk includes conducting market surveys during the development planning stage to correctly position its products to fulfil the needs of its target market.

The Salcon Group will continuously monitor and if necessary, refine and adjust its development plan prior to launching and also its marketing strategies in response to changes in the economic environment, consumers' preference and market demand. Further, both Kembar Makmur and Mepro have the relevant skills, expertise and past track record in terms of its ability to manage property development projects. Nonetheless, no assurance can be given that any change to these factors would not have any material adverse impact on the financial performance and business of the Salcon Group in the future.

(d) Requirement of adequate financing

Property development activities may require adequate financing. There is no assurance that financing, either on short-term or long-term basis, will be made available or, if available, that such financing will be obtained on acceptable commercial terms. Additional debt financing may, apart from increasing interest expense and gearing, may contain restrictive covenants with respect to dividends, future fund raising exercises and/or other financial and operational matters. In the event that the Group is unable to secure adequate financing for its development projects, the ability to complete its development projects and the financial performance of the property development business may be adversely affected. The Group intends to fund its future acquisition of land bank and property development projects through a combination of internally generated funds and/or bank borrowings. The gearing level of the Group will increase depending on the quantum of the bank borrowings secured. Adverse movements in interest rates and quantum of the interest rates obtained may have a significant impact on the costs relating to the Group's property development projects and this will in turn affect the Group's financial performance. In this regard, the Group will actively review its debt portfolio taking into account the level and nature of borrowing and the interest rates, and maximise its financing options.

(e) Completion and Delay in Completion

There is always a potential risk that the returns from the proposed development projects to be undertaken by the Salcon Group may have a longer payback period than expected or the investment in the proposed development projects may not generate the expected rate of return due to various factors including, *inter-alia*, increase in development and/or construction costs, unavailability of skilled manpower, delay in completion of the development project and obtaining approvals from the relevant authorities for the development, securing adequate funding for the proposed development projects and that a ready market would be available for the developed properties in the future. Adverse developments in respect of these factors can lead to interruptions or delays in completing a project, which can consequently result in cost overruns and affect the profitability and cash flow of the Salcon Group.

Although the Salcon Group will mitigate its investment risks by exercising due care in the evaluation of its investments and continuously review and evaluate market conditions, the work in progress of the development project and cash flows, there can be no assurance that the proposed development projects or other future development projects to be undertaken by the Salcon Group will yield the targeted returns and be completed as planned or that such challenges would not have an adverse material impact on the Salcon Group's future financial performance.

(f) Reliance on sub-contractors

The Group may rely on third party sub-contractors to construct its development projects. Accordingly, it is subject to construction risks such as failure of sub-contractors to carry out their contractual obligations, failure of sub-contractors to bear cost overruns and any other unforeseen circumstances which may have an adverse impact on the financial performance of the Group.

In mitigating such risks, the Group will exercise due care in selecting its sub-contractors based on their past experiences, track record and qualifications. Further, as both Kembar Makmur and Mepro are familiar dealing with sub-contractors for their property development projects, they would be able to assist and recommend reliable and qualified sub-contractors to the Salcon Group for submission of tenders for their current and future development projects. The Group would also have in place project managers to continuously review and evaluate the progress of work of the sub-contractors to ensure the quality and timely completion of contracted construction work. In addition, as there are a large number of contractors in the construction industry, the risk of over reliance on any sub-contractors is minimal.

(g) Difficulty in securing suitable and/or strategically located land banks

The success of the property development business and activities is very much dependent on the locality and size of the land banks in order to achieve successful property launches which will sustain the profitability of the Salcon Group in the future. Currently, the Group has two properties, namely the Selayang Land and the Johor Land (subject to the completion of the SPA) as detailed in Section 2.1 of this Circular. In order to sustain the Group's future growth in the property development activities and profitability, the Group would need to continuously strive to obtain strategically located development land that has development potential.

However, replenishment of land banks is dependent upon various factors, including, amongst others, size, price, and suitability of the land, location, supply of land banks in growth areas, favourable Government policies as well as township planning. There can be no assurance that the Group will be able to identify and acquire attractive new sites at commercially acceptable prices which may have a material effect on the financial performance and the property development business of the Group in the future.

(h) Political, Economic and Regulatory Considerations

Adverse changes in political, economic and regulatory conditions in Malaysia could materially affect the financial and prospects of the property development business. Amongst the political, economic and regulatory uncertainties are the changes in the risks of economic downturn, unfavourable monetary and fiscal policy changes, exchange control regulations or introduction of new rules or regulation affecting the property development industry, changes in interest rates, inflation, taxation method, general employment outlook and political leadership.

In mitigating such risks, the Salcon Group will continue to review its business development strategies in response to the changes in political, monetary, fiscal and economic and regulatory conditions. Nonetheless, no assurance can be given that any change to these factors would not have any material adverse impact on the Salcon Group's business in the future.

(i) No shareholders agreement to regulate the relationship, shareholdings and interests of Salcon Development Sdn Bhd and Kembar Makmur in Nusantara Megajuta

There was no shareholders' agreement entered into between the shareholders of Nusantara Megajuta, namely Salcon Development Sdn Bhd and Kembar Makmur, which hold 50.01% and 49.99% shareholdings in Nusantara Megajuta respectively. In this regard, there is no explicit terms agreed upon between the two parties for purposes of regulating their relationship, shareholdings and interests in Nusantara Megajuta. Hence, the shareholders concerned may be exposed to disagreement or conflict in the event that there is situation of differing opinions such as how the business operations of the company should be managed, inability to reach to a consensus or unanimous opinion on any decision making and/or issues pertaining to shareholdings such as pre-emption rights and issue and transfer of shares. Such situation is likely to have a negative impact on the business of Nusantara Megajuta and substantial costs and efforts may be required in order to resolve the disagreement or conflict accordingly.

The Board believes that this risk is mitigated by virtue of the Group having control over the board and management of Nusantara Megajuta.

7. APPROVALS REQUIRED

The Proposed Diversification is subject to the approval of the shareholders of Salcon at the forthcoming EGM to be convened.

The Proposed Diversification is not conditional upon the any other proposals undertaken or to be undertaken by the Company.

The acquisition of the Selayang Land and the proposed acquisition of the Johor Land are not subject to any approvals and/or consents being obtained. However, the proposed acquisition of the Johor Land is conditional upon the shareholders' approval on the Proposed Diversification.

8. DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

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

9. DIRECTORS' STATEMENT AND RECOMMENDATION

The Board, having taken into consideration all aspects of the Proposed Diversification (including but not limited to the rationale of the Proposed Diversification), is of the opinion that the Proposed Diversification is in the best interest of Salcon and recommends that you vote in favour of the resolution pertaining to the Proposed Diversification to be tabled at the forthcoming EGM.

10. DETAILS OF OTHER INTENDED CORPORATE EXERCISES WHICH HAVE BEEN ANNOUNCED BUT PENDING COMPLETION

Save for the proposed acquisition of the Johor Land which was announced on 7 January 2013 and the Proposed Diversification, the Board confirms that Salcon does not have any other corporate exercise that which have been announced but is pending completion prior to the printing of this Circular.

11. EGM

An EGM, the notice of which is enclosed in this Circular, will be held at Classics Ballroom 2, Level 3, Holiday Villa Hotel & Suites Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Tuesday, 19 March 2013 at 10:30 a.m. or at any adjournment thereof, for the purpose of considering and if thought fit, passing the resolution so as to give effect to the Proposed Diversification.

If you are unable to attend and vote in person at the EGM, you are requested to complete, sign and return the Form of Proxy which accompanies this Circular in accordance with the instructions printed therein as soon as possible and in any event so as to arrive at the Registered Office of the Company located at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not later than forty-eight (48) hours before the time stipulated for holding the EGM or at any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

12. FURTHER INFORMATION

You are advised to refer to the Appendix of this Circular for further information.

Yours faithfully,
For and on behalf of the Board
SALCON BERHAD

TAN SRI DATO' TEE TIAM LEE
Executive Deputy Chairman

FURTHER INFORMATION

1. DIRECTORS' RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Board who collectively and individually accepts full responsibility for the accuracy and correctness of the information given herein. The Board confirms that, after making all reasonable enquiries and to the best of its knowledge and belief, there is no false or misleading statement and there is no other fact or information, the omission of which would make any statement in this Circular incomplete, inaccurate, false or misleading.

2. CONSENTS

AFFIN Investment has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form, manner and context in which it appears in this Circular.

C.H. Williams Talhar & Wong Sdn Bhd has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form, manner and context in which it appears in this Circular.

Allied Group Property Consultant (Selangor) Sdn Bhd has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form, manner and context in which it appears in this Circular.

JS Valuers Property Consultants Sdn Bhd has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form, manner and context in which it appears in this Circular.

3. DECLARATION OF CONFLICT OF INTEREST

AFFIN Investment is not aware of any situation where conflict of interest exists or is likely to exist in relation to its role as the adviser to Salcon in relation to the Proposed Diversification.

C.H. Williams Talhar & Wong Sdn Bhd, being the valuer appointed by Salcon to conduct a valuation of the Johor Land is not aware of any situation where conflict of interest exists or is likely to exist in relation to its role as the valuer in relation to the valuation of the Johor Land.

Allied Group Property Consultant (Selangor) Sdn Bhd, being the valuer appointed to conduct a valuation of the Selayang Land is not aware of any situation where conflict of interest exists or is likely to exist in relation to its role as the valuer in relation to the valuation of the Selayang Land.

JS Valuers Property Consultants Sdn Bhd, being the valuer appointed to conduct a valuation of the Selayang Land is not aware of any situation where conflict of interest exists or is likely to exist in relation to its role as the valuer in relation to the valuation of the Selayang Land.

FURTHER INFORMATION (CONT'D)**4. MATERIAL LITIGATION**

As at the LPD, to the best of the Board's knowledge and belief, neither Salcon nor its subsidiary companies are engaged in any material litigation, claims or arbitration either as plaintiff or defendant and the Directors of the Company are not aware of any proceeding pending or threatened against the Company or its subsidiary companies or of any facts likely to give rise to any proceeding which may materially affect the financial position or business of Salcon or its subsidiary companies or may affect their income from, title to or possession of, any of their assets or business.

5. MATERIAL CONTRACTS

Save for the SPA and AVSB SSA, there are no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by Salcon and its subsidiary companies within the two (2) years preceding the date of this Circular.

6. MATERIAL COMMITMENTS

As at the LPD, there is no material commitment incurred or known to be incurred by the Group, which upon becoming enforceable, may have a material impact on the financial position of the Group.

7. CONTINGENT LIABILITIES

Save as disclosed below, as at the LPD there is no contingent liability incurred or known to be incurred by the Group which, upon becoming enforceable, may have a material impact on the financial position of the Group:

Company	RM'000
Bank guarantees given to third parties relating to performance, tenders and advance payment bonds ⁽¹⁾	129,772
Guarantees given in favour of third parties ⁽²⁾	10,918
Total	140,690

Notes:

(1) *The bank guarantees given to third parties are relating to performance tenders and advance payment bonds*

(2) *Guarantees given in favour of third parties include guarantees given to client which is inclusive of the tender bond, performance bond and advance payment bond to facilitate the ordinary course of business of the Salcon Group. Other guarantees consist of deposit to Jabatan Kerja Raya and car workshop were also given to facilitate the ordinary course of business of the Salcon Group.*

FURTHER INFORMATION (CONT'D)

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of Salcon at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan, during normal business hours from 8.30 a.m. to 5.00 p.m. from Monday to Friday (excluding public holidays) for the period commencing from the date of this Circular up to and including the date of the forthcoming EGM:

- (i) the Memorandum and Articles of Association of Salcon;
- (ii) the audited consolidated financial statements of Salcon for the past two (2) FYE 31 December 2010 and 31 December 2011 and the latest unaudited consolidated results of Salcon for the FYE 31 December 2012;
- (iii) the letters of consent referred to in Section 2 of this Appendix;
- (iv) the SPA dated 7 January 2013;
- (v) the AVSB SSA dated 28 March 2012;
- (vi) AFFIN Investment research report entitled "*Outlook 2013 - Early for a rotation to risk pre-election*" dated 21 December 2012;
- (vii) Valuation report dated 28 November 2012 on the Johor Land prepared by C.H. Williams Talhar & Wong Sdn Bhd; and
- (viii) Valuation reports on the Selayang Land dated 14 March 2012 and 3 September 2012 prepared by Allied Group Property Consultant (Selangor) Sdn Bhd and JS Valuers Property Consultants Sdn Bhd respectively.

(The rest of this page has been intentionally left blank)



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

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting ("EGM") of Salcon Berhad ("Salcon" or "Company") will be held at Classics Ballroom 2, Level 3, Holiday Villa Hotel & Suites Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Tuesday, 19 March 2013 at 10.30 a.m. or at any adjournment thereof for the purpose of considering, and if thought fit, passing the following resolution, with or without modification:

ORDINARY RESOLUTION

PROPOSED DIVERSIFICATION OF THE PRINCIPAL ACTIVITIES OF SALCON AND ITS SUBSIDIARIES TO INCLUDE PROPERTY DEVELOPMENT ("PROPOSED DIVERSIFICATION")

"THAT subject to the approvals of all relevant authorities being obtained, approval be and is hereby given to the Company to diversify the existing business of Salcon Berhad and its subsidiaries to include property development.

AND THAT the Directors and/or any of them be and are hereby authorised to do all acts, deeds and things to enter into any arrangements, transactions, agreements and/or undertakings and to execute, sign and deliver on behalf of the Company, all such documents as they may deem necessary, expedient and/or appropriate to implement and give full effect to and complete the Proposed Diversification with full powers to assent to any conditions, modifications, variations and/or amendments as may be imposed or permitted by any relevant authorities in connection with the Proposed Diversification."

BY ORDER OF THE BOARD

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

Kuala Lumpur
4 March 2013

Notes:

- 1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote at the meeting except where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, in which event it may appoint not more than two (2) proxies in respect of each Securities Account it holds in ordinary shares of the Company standing to the credit of the said Securities Account.*
- 2. For an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
- 3. Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the appointments shall be invalid unless the proportion of shareholdings to be represented by each proxy is specified in the instrument appointing the proxies. A proxy may but need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply.*
- 4. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.*
- 5. The instrument appointing a proxy must be deposited at the Registered Office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.*
- 6. Only members whose names appear in the Record of Depositors as at 12 March 2013 will be entitled to attend, speak and vote at the meeting or appoint proxy(ies) to attend, speak and vote on their behalf.*



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

PROXY FORM

I/We, _____
(FULL NAME IN BLOCK LETTERS)

of _____
(ADDRESS)

being a member/members of **SALCON BERHAD** hereby appoint _____

of _____

or failing whom, _____ of _____

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf, at the Extraordinary General Meeting of the Company to be held at Classics Ballroom 2, Level 3, Holiday Villa Hotel & Suites Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Tuesday, 19 March 2013 at 10.30 a.m. and at any adjournment thereof.

	RESOLUTION	FOR	AGAINST
1.	Ordinary Resolution – Proposed Diversification		

(Please indicate with an "X" in the space provided above how you wish your vote to be cast. If no instruction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.)

Number of shares held:
If more than 1 proxy, please specify number of shares represented by each proxy

Name of Proxy 1:	%
Name of Proxy 2:	%
	100%

Signed this _____ day of _____, 2013.

Signature of Shareholder or Common Seal

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote at the meeting except where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, in which event it may appoint not more than two (2) proxies in respect of each Securities Account it holds in ordinary shares of the Company standing to the credit of the said Securities Account.
2. For an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
3. Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the appointments shall be invalid unless the proportion of shareholdings to be represented by each proxy is specified in the instrument appointing the proxies. A proxy may but need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply.
4. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.
5. The instrument appointing a proxy must be deposited at the Registered Office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.
6. Only members whose names appear in the Record of Depositors as at 12 March 2013 will be entitled to attend, speak and vote at the meeting or appoint proxy(ies) to attend, speak and vote on their behalf.



Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Company Secretary
SALCON BERHAD (593796-T)
15th Floor, Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Malaysia

1st fold here
