



Integrating
Sustainable
Values

annual report 2017



V

ISION

TO BE A **WORLD LEADER**

IN WATER AND SANITATION SERVICES

CORE



M

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

SSION





TEAMWORK

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



COMMITMENT

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

VALUES



PROFESSIONALISM

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



RESPECT

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



RESULTS

We strive towards maximizing stakeholders' values and returns.

WHAT'S INSIDE

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15TH ANNUAL GENERAL MEETING

Wednesday, 27 June 2018, 10.30 a.m.

Victorian Ballroom, Level 1, Holiday Villa
Hotel & Conference Centre, 9 Jalan SS12/1, 47500
Subang Jaya, Selangor Darul Ehsan



COVER RATIONALE

The cover design, featuring a drop of water transforming into a cascade of gems, depicts how Salcom creates value through our commitment to sustainability issues and integrating sustainability initiatives into our business strategies, thus ensuring our long term growth.



GLANCE

A T A

AWARDS



FOCUS MALAYSIA
BEST UNDER
BILLION AWARDS
2017 –
BEST
SUSTAINABILITY
REPORTING



CSR MALAYSIA
AWARDS 2017



PENCAPAIAN
CEMERLANG KPI
YBM TENAGA,
TEKNOLOGI HIJAU
& AIR 2016



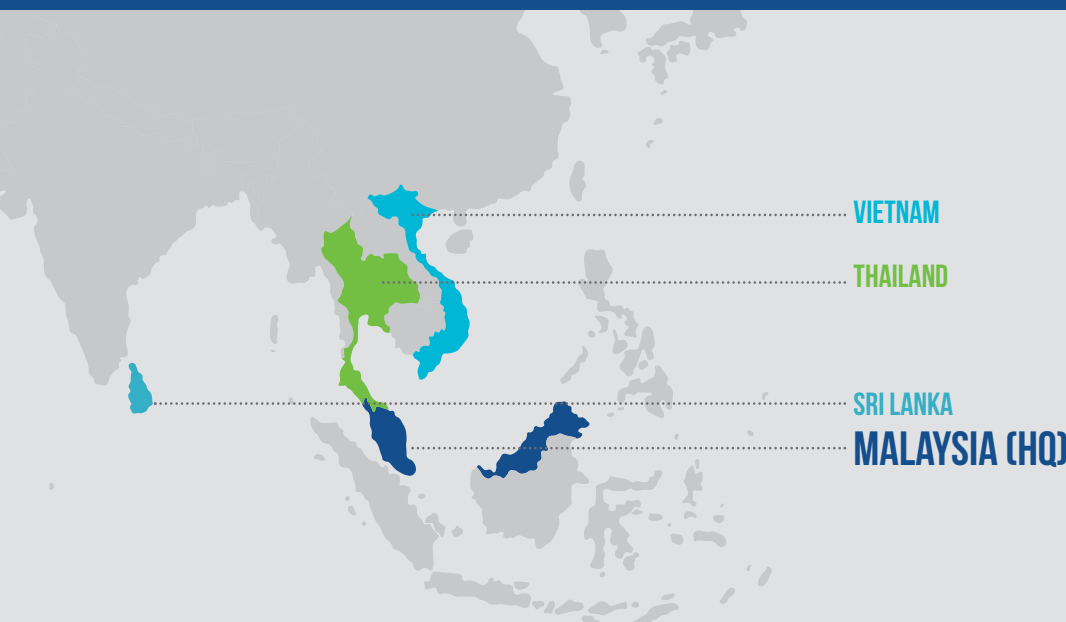
2016 AND 2017
ASIA
SUSTAINABILITY
REPORTING
AWARDS (ASRA) -
ASIA'S BEST CSR
COMMUNICATION
WITHIN ANNUAL
REPORT

HISTORY

ESTABLISHED

4TH MARCH

1974



GEOGRAPHICAL PRESENCE

322

**EMPLOYEES IN
ALL OPERATIONS**

BUSINESS SECTORS



**WATER &
WASTEWATER
ENGINEERING**



**PROPERTY
DEVELOPMENT**



**TECHNOLOGY
SERVICES**



**TRANSPORTATION &
OTHERS**

CORPORATE INFORMATION



BOARD OF DIRECTORS

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

Tan Sri Dato' Tee Tiam Lee
Executive Deputy Chairman

Dato' Leong Kok Wah
Executive Director

Dato' Dr. Freezailah bin Che Yeom
*Independent Non-Executive Director
(Resigned on 5 April 2018)*

Dato' Choong Moh Kheng
Independent Non-Executive Director

Chan Seng Fatt
Independent Non-Executive Director

● AUDIT COMMITTEE

Chan Seng Fatt
(Chairman)
Dato' Dr. Freezailah bin Che Yeom
(Resigned on 5 April 2018)
Dato' Seri (Dr.) Goh Eng Toon
Dato' Choong Moh Kheng
(Appointed on 5 April 2018)

● NOMINATION COMMITTEE

Chan Seng Fatt
(Chairman)(Appointed on 5 April 2018)
Dato' Dr. Freezailah bin Che Yeom
(Resigned on 5 April 2018)
Dato' Seri (Dr.) Goh Eng Toon
Dato' Choong Moh Kheng

● REMUNERATION COMMITTEE

Dato' Seri (Dr.) Goh Eng Toon
(Chairman)
Dato' Dr. Freezailah bin Che Yeom
(Resigned on 5 April 2018)
Dato' Choong Moh Kheng
Chan Seng Fatt
(Appointed on 5 April 2018)

● RISK MANAGEMENT COMMITTEE

Chan Seng Fatt
(Chairman)
Dato' Leong Kok Wah
Jamiluddin Amini Bin Sulaiman
Ooi Cheng Swee @ Wee Kwee Swee
Law Woo Hock

● SUSTAINABILITY COMMITTEE

Dato' Leong Kok Wah
Dato' Dr. Freezailah bin Che Yeom
(Resigned on 5 April 2018)
Ooi Cheng Swee @ Wee Kwee Swee
Law Woo Hock
Chern Meng Gaik

● COMPANY SECRETARIES

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

● REGISTERED OFFICE

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

● HEAD OFFICE

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

● AUDITORS

KPMG PLT
Chartered Accountants
Level 10, KPMG Tower
8 First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan

● PRINCIPAL BANKERS

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

● SHARE REGISTRAR

Tricor Investor & Issuing House
Services Sdn Bhd (11324H)
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur
Tel : 603-2783 9299
Fax : 603-2783 9222

● STOCK EXCHANGE LISTING

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

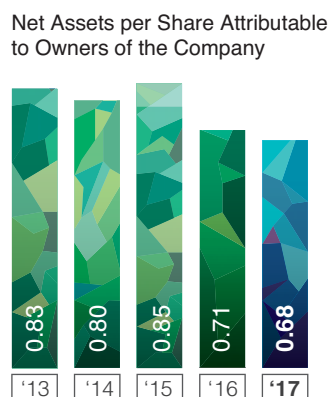
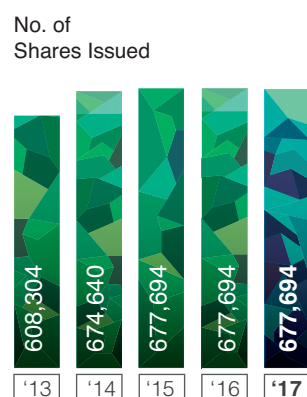
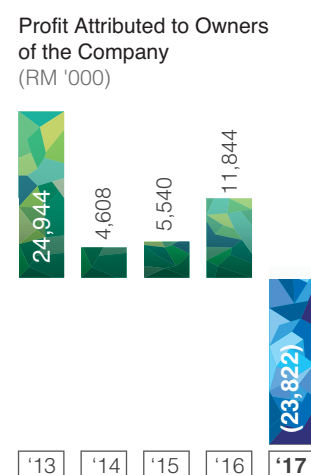
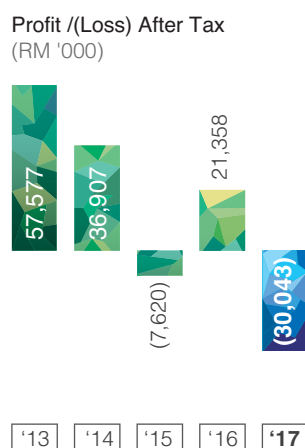
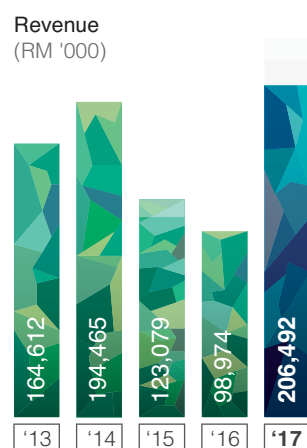
● WEBSITE

www.salcon.com.my

FINANCIAL HIGHLIGHTS

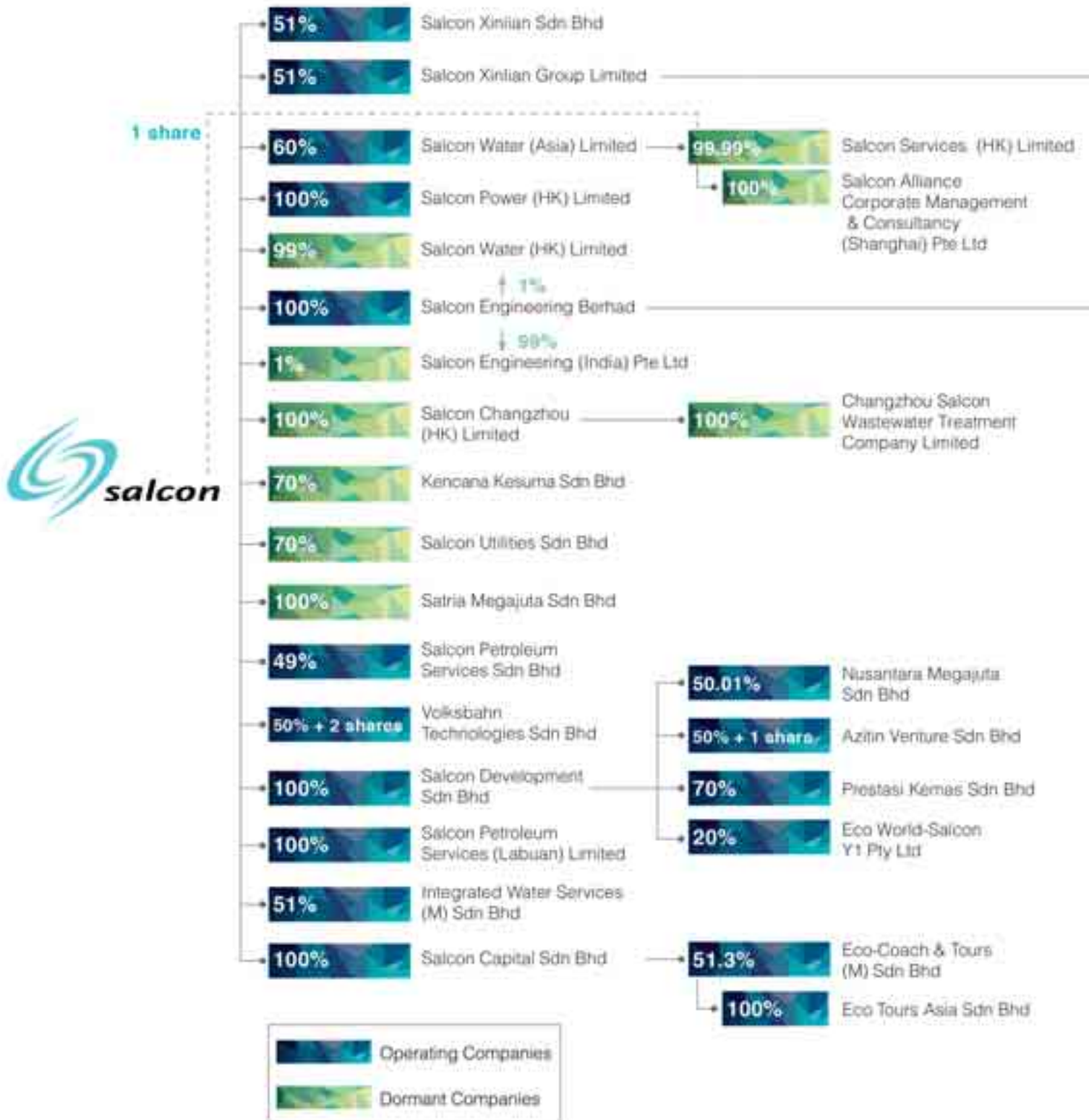
	2013 (restated)	2014 (restated)	2015	2016	2017
Revenue (RM '000)	164,612	194,465	123,079	98,974	206,492
Profit/(Loss) Before Tax (RM '000)	(30,756)	5,656	19,839	(11,687)	(34,785)
Profit/(Loss) After Tax (RM '000)	57,577	36,907	(7,620)	21,358	(30,043)
Profit Attributed to Owners of the Company (RM '000)	24,944	4,608	5,540	11,844	(23,822)
Total Assets (RM '000)	1,206,580	950,387	950,743	727,337	628,905
Total Liabilities (RM '000)	486,224	308,421	346,782	204,269	143,777
Total Equity Attributable to Owners of the Company (RM '000)	506,419	540,416	576,748	483,982	458,157
No. of Shares Issued ('000)	608,304	674,640	677,694	677,694	677,694
Net Assets per Share Attributable to Owners of the Company (RM)	0.83	0.80	0.85	0.71	0.68
Basic Earnings per Share (sen)	4.50	0.71	0.82	1.81	(3.52)
Dividend per Share (sen)	3.0	3.0	2.0	*	1.0
Return on Equity (%)	4.93	0.85	0.96	2.45	(5.20)
Share Price (Min) (RM)	0.395	0.555	0.555	0.545	0.390
Share Price (Max) (RM)	0.725	1.010	0.955	0.685	0.705

* One (1) treasure share for every eighteen (18) existing ordinary shares held in the Company.



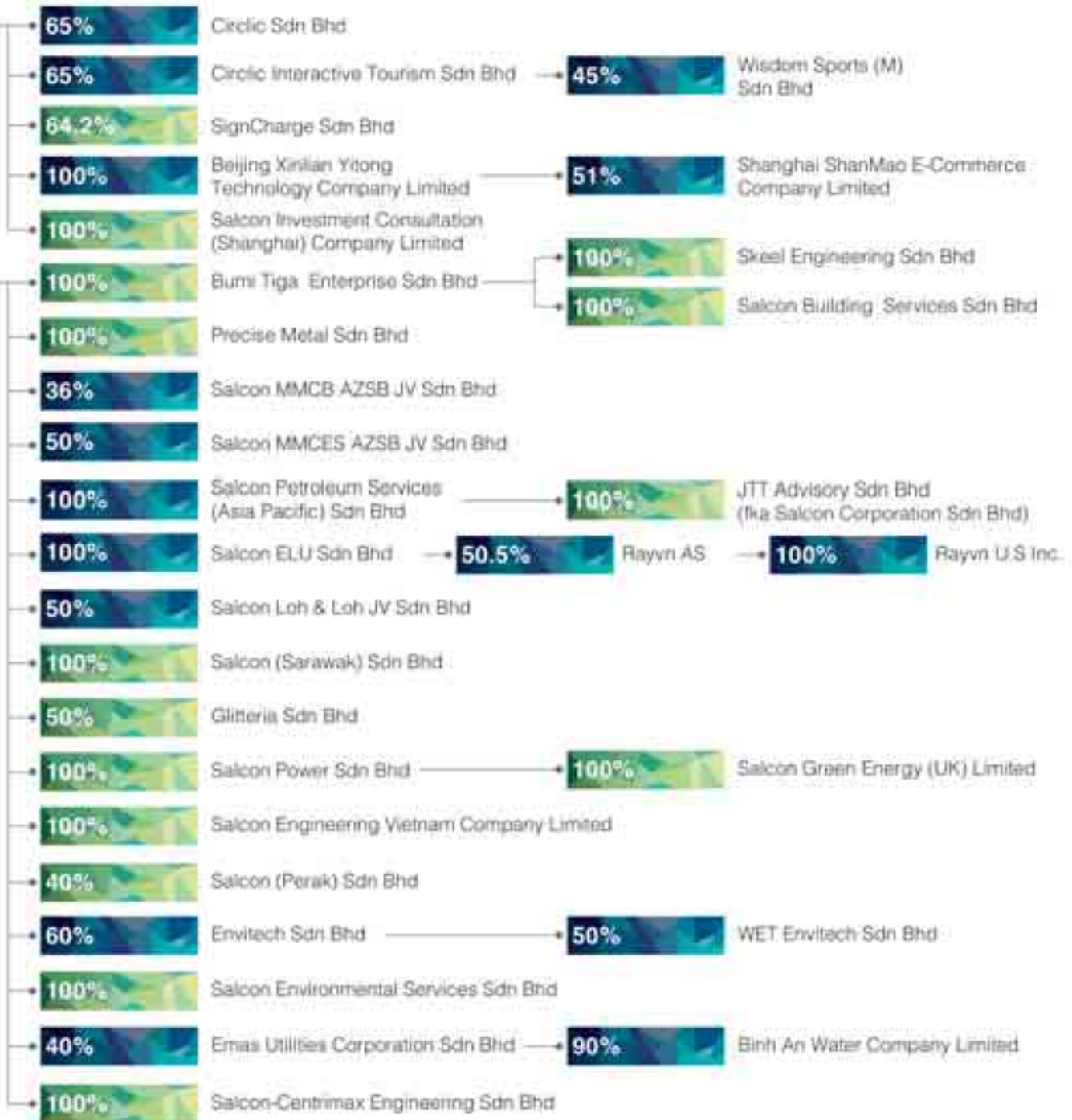
CORPORATE STRUCTURE

AS AT 31 MARCH 2018



CORPORATE STRUCTURE

AS AT 31 MARCH 2018





LEADERSHIP



LEADING TO SUSTAINABLE EXCELLENCE

Led by the Board of Directors and supported by the Management and Sustainability working teams, we aim to drive economic, environmental and societal initiatives towards sustainable excellence.

BOARD OF DIRECTORS

6



4



2

BOARD OF DIRECTORS

1. **DATO' SERI (DR.) GOH ENG TOON** *Chairman, Non-Independent Non-Executive Director*
2. **TAN SRI DATO' TEE TIAM LEE** *Executive Deputy Chairman*
3. **DATO' LEONG KOK WAH** *Executive Director*
4. **DATO' DR. FREEZAILAH BIN CHE YEOM** *Independent Non-Executive Director (Resigned on 5 April 2018)*
5. **CHAN SENG FATT** *Independent Non-Executive Director*
6. **DATO' CHOONG MOH KHENG** *Independent Non-Executive Director*



PROFILE OF DIRECTORS

DATO' SERI (DR.) GOH ENG TOON

Chairman, Non-Independent Non-Executive Director

Aged 84

Male

Dato' Seri (Dr.) Goh Eng Toon, aged 84, male, was appointed to the Board of Salcon Berhad ("Salcon") on 15 June 2005 as the Vice Chairman. He was appointed the Chairman of Salcon on 18 October 2007.

He holds a Cambridge General Certificate of Education and is a Fellow of the Asian Institute of Chartered Bankers (AICB) (formerly known as Institute of Bankers Malaysia).

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

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

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

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

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

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



PROFILE OF DIRECTORS

TAN SRI DATO' TEE TIAM LEE

Executive Deputy Chairman

Aged 60

Male



Tan Sri Dato' Tee Tiam Lee, aged 60, male, was appointed to the Board of Salcon on 1 January 2010.

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

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

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

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

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

Currently, Tan Sri Dato' Tee holds the position of Honorary President of Malaysia-China Chamber of Commerce (MCCC), The Federation of Malaysia Chinese Guilds Association and The Federation of Hokkien Association of Malaysia. Apart from this, he is the Founder-Member of The Federation of Chinese Associations Malaysia and Eminent Member of The Associated Chinese Chambers of Commerce and Industry of Malaysia.

PROFILE OF DIRECTORS

A portrait of Dato' Leong Kok Wah, a middle-aged man with short grey hair, wearing glasses, a dark suit jacket, a white shirt, and a patterned tie. He is smiling slightly and looking towards the camera. The background is a blurred office setting with large windows.

DATO' LEONG KOK WAH

Executive Director

Aged 64

Male

Dato' Leong Kok Wah, aged 64, male, was appointed to the Board of Salcon on 1 January 2010.

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

Dato' Leong has an extensive career and held senior positions in the banking industry. He has vast experience in stock broking, asset management and futures and options trading. He sits on the Board of various companies in Malaysia. He was formerly a Director of S P Setia Berhad.

Dato' Leong is a Non-Independent Non-Executive Deputy Chairman and shareholder of Eco-World Development Group Berhad. He also sits on the Board of MUI Continental Berhad (formerly known as MUI Continental Insurance Berhad).

Dato' Leong is a member of Risk Management Committee and Sustainability Committee of the Company.

PROFILE OF DIRECTORS

DATO' DR. FREEZAILAH BIN CHE YEOM

(Resigned on 5 April 2018)

Independent Non-Executive Director

Aged 78

Male



Dato' Dr. Freezailah bin Che Yeom, aged 78, male, was appointed to the Board of Salcon on 21 July 2003.

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

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

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

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

Dato' Dr. Freezailah was the Chairman of the Malaysian Timber Certification Council until May 2016.

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

Dato' Dr. Freezailah was the Chairman of Nomination Committee and Sustainability Committee and a member of the Audit Committee and Remuneration Committee of the Company until his resignation as a Director of the Company on 5 April 2018.

PROFILE OF DIRECTORS

A portrait of Chan Seng Fatt, a middle-aged man with short dark hair and glasses, wearing a dark suit, white shirt, and patterned tie. He is smiling slightly and looking towards the camera. The background is a blurred office setting with large windows.

CHAN SENG FATT

Independent Non-Executive Director

Aged 54

Male

Chan Seng Fatt, aged 54, male, a Chartered Accountant of the Malaysian Institute of Accountants was appointed to the Board of Salcon on 17 December 2014.

Mr. Chan Seng Fatt has an extensive career exposure spanning more than 30 years covering various aspects of experience namely external and management auditing, financial management, corporate finance, stockbroking and senior level operation and general management.

Mr Chan Seng Fatt has held several senior positions in various private and public companies. He joined Multi-Purpose Holdings Berhad in 1998 as the Internal Auditors for 3 years before serving Asian Pac Holdings Berhad from 1991 to 1993 as the Group Accountant. From 1993 to 1997 he was the Financial Controller for Pengkalen Securities Sdn Bhd and later appointed as the General Manager of Halim Securities Sdn Bhd in 1997 before joining K&N Kenanga Berhad in 1999 as a Remisier.

Mr Chan Seng Fatt was the Chief Financial Officer for Johore Tenggara Oil Palm Berhad from 2001 to 2002. He then joined Tradewinds Group in 2003 as the Senior General Manager, Finance of Tradewinds (M) Berhad and was promoted to Chief Financial Officer in 2004. He was then posted to Tradewinds Plantation Berhad as the Acting Chief Executive Officer cum Chief Financial Officer in 2006. Thereafter, he was promoted to Chief Executive Officer of Tradewinds Plantation Bhd in Oct 2007 and held the position till Dec 2012.

Mr Chan is currently an Independent Non-Executive Director and the Chairman of Audit Committee of Fitters Diversified Berhad.

Mr Chan is the Chairman of Audit Committee and Risk Management Committee of the Company. He was appointed as the Chairman of Nomination Committee and a member of Remuneration Committee on 5 April 2018.

PROFILE OF DIRECTORS

DATO' CHOONG MOH KHENG

Independent Non-Executive Director

Aged 62

Male



Dato' Choong Moh Kheng, aged 62, male, was appointed to the Board of Salcon on 3 January 2011.

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

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

Notes:-

1. All Directors are Malaysian.
2. There is no family relationship between the Directors and/or major shareholders of the Company except the following:-
 - (a) Datin Goh Phaik Lynn, who is a major shareholder of the Company by virtue of her interest in Naga Muhibah Sdn Bhd, is the spouse of Dato' Leong Kok Wah and a daughter of Dato' Seri (Dr.) Goh Eng Toon; and
 - (b) Dato' Leong Kok Wah is a son-in-law of Dato' Seri (Dr.) Goh Eng Toon.
3. None of the Directors has entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company.
4. None of the Directors has been convicted for offences (other than traffic offences) within the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 31 December 2017.

PROFILE OF KEY SENIOR MANAGEMENT

OOI CHENG SWEE @ WEE KWEE SWEE

Aged 64,
Male, Malaysian

Qualification

Bachelor of Engineering (Civil) (Hons) Degree from the University of Malaya in 1978

Designation

Chief Operating Officer

Date of first appointment to key senior management position

6 June 2011

Name of Company

Salcon Berhad

Working experience

Ir. Ooi Cheng Swee has 39 years of working experience in infrastructure works, beginning with drainage, road and bridge engineering design upon his graduation. And from 1987 onwards, Ir.Ooi has been involved in waterworks engineering including the construction supervision of water supply schemes, water supply distribution studies and operations and maintenance of water treatment plants.

Ir. Ooi is a Professional Engineer with Practising Certificate registered with the Board of Engineers Malaysia and a Member of the Institution of Engineers Malaysia. Prior to joining Salcon, he was with Puncak Niaga (M) Sdn Bhd for 6 years where his last position was Executive Director for Engineering/ Project Development Division. He is currently holding the position of Chief Operating Officer in Salcon Berhad.

LAW WOO HOCK

Aged 53,
Male, Malaysian

Qualification

1. A qualified accountant and fellow member of the Association of Chartered Certified Accountants (ACCA), UK.
2. A member of Malaysian Institute of Accountants (MIA).

Designation

Chief Financial Officer

Date of first appointment to key senior management position

1 November 2005

Name of Company

Salcon Berhad

Working experience

Prior to joining Salcon, Mr. Law held various senior management positions in large conglomerates and established group including Hong Leong Industries Bhd , Ireka Corporation Bhd and has gained more than 17 years of relevant experience in corporate finance, financial management and taxation.

PROFILE OF KEY SENIOR MANAGEMENT

JAMILUDDIN AMINI B. SULAIMAN

Aged 50,
Male, Malaysian

● **Qualification**

Bachelor of Science degree in Chemical Engineering from Brown University, Rhode Island, USA.

● **Designation**

Director - Engineering & Proposal

● **Date of first appointment to key senior management position**

29 June 2010

● **Name of Company**

Salcon Engineering Berhad

● **Working experience**

Jamiluddin Amini Sulaiman has been involved in the engineering and construction of various water treatment plants in the last 27 years, which include project management, design, procurement, construction, commissioning and operation. In his current capacity, he oversees the operation of Engineering & Proposal Division which is primarily responsible in preparing detailed engineering design and tender/proposal for water supply projects.

Prior to joining Salcon, Jamiluddin's experience includes carrying out detailed studies, preparation of design, tender documents/drawings and supervision of contracts in connection with the rehabilitation of 14 water treatment plants in Johor.

While working in the United States, Jamiluddin was involved in developing technology for hazardous wastewater control, operating an inorganic testing laboratory as well as conducting various tests on water, wastewater, soil and sludge.

YAP SUI PON

Aged 64,
Male, Malaysian

● **Qualification**

1. B. Sc Civil Engineering from Teesside University (UK) in 1978
2. M. Sc Construction Management from Birmingham University (UK) in 1979

● **Designation**

Project Director

● **Date of first appointment to key senior management position**

5 October 2010

● **Name of Company**

Salcon Engineering Berhad

● **Working experience**

Yap Sui Pon has more than 38 years of career experience in civil & building works, construction and design of power plant & water treatment plant.

Yap Sui Pon started his career as Assistant District Engineer from 1979 to 1981 at JKR, Grik, Perak. He was the Project Manager of Emal Construction Sdn Bhd from 1982 to 1987 before leaving for Shinor Construction Sdn Bhd as General Manager from 1987 to 1990. He then joined MRCB/Zelleco Construction Sdn Bhd as Project Director from 1990 to 1998 and from 1998 to 2000, he was the Deputy General Manager (Power Division) of Minconsult Sdn Bhd. He was the Project Director of Zelan Construction Sdn Bhd from 2000 to 2006 and Country Manager (Saudi Arabia) of Zelan Arabia Construction Company Limited from 2006 to 2009.

From October 2010, he was appointed as Project Director to oversee and head the Construction Division at Salcon Engineering Berhad .

PROFILE OF KEY SENIOR MANAGEMENT

LEE THIM LOYAged 69,
Male, Malaysian**Qualification**

1. Bachelor degree in Chemical Engineering from the National Taiwan University, Taipei in 1971.
2. Master degree in Environmental Engineering from the Asian Institute of Technology, Bangkok in 1973.
3. A Registered Professional Engineer with Practising Certificate from the Board of Engineers, Malaysia.
4. Member of the Institution of Engineers, Malaysia.

Designation

Managing Director

Date of first appointment to key senior management position

30 August 1984

Name of Company

Envitech Sdn Bhd

Working experience

Mr. Lee Thim Loy has more than 40 years experience in the wastewater industry. His experience ranges from design and construction of network pumping stations, oxidation ponds, aerated lagoon system, rotating biological contactors, oxidation ditches, extended aeration activated sludge system, and intermittently decanted extended aeration (IDEA) activated sludge treatment system for sewage treatment.

Mr. Lee's portfolio includes involvement in several Master Plans and Feasibility Studies for Sewerage in Malaysia. His capabilities extend into the treatment of palm oil wastes besides related environmental consultancy for industrial effluent surveys, wastewater flow analyses and wastewater feasibility studies.

Mr. Lee's noteworthy experience includes as a Principal Investigator in the Palm Oil Waste Treatment Project in Malaysia and in Thailand, a project sponsored by the International Development Research Centre, Canada, and undertaken by the Asian Institute of Technology, Bangkok, in association with the Department of Environment, Ministry of Science, Technology and Environment, Malaysia from 1979 to 1981.

LOW BENG PEOWAged 71,
Male, Malaysian**Qualification**

1. Bachelor degree in Chemical Engineering from the National Taiwan University, Taipei in 1971.
2. Master degree in Environmental Engineering from the Asian Institute of Technology, Bangkok in 1973.
3. A Registered Professional Engineer with practising certificate in the branch of Environmental Engineering with the Board of Engineers, Malaysia.
4. Fellow of the Institution of Engineers Malaysia.
5. A Qualified Person under Suruhanjaya Perkhidmatan Air Negara (SPAN)

Designation

Executive Director

Date of first appointment to key senior management position

30 August 1984

Name of Company

Envitech Sdn Bhd

Working experience

Mr. Low Beng Peow, has been in the environmental engineering industry for more than 40 years. His experience covered the study, design, construction, implementation and management of sewerage system including sewage treatment plants, pumping stations and sewer networks.

Mr. Low's noteworthy experience includes involvement in the multi-million ringgit Greater Kuala Lumpur Sewerage Project financed by the International Bank for Reconstruction and Development in year 70's, and successful completion of not less than 400 projects since the incorporation of Envitech Sdn Bhd in year 1984.

PROFILE OF KEY SENIOR MANAGEMENT

LIEW SWEE CHOONG

Aged 55
Male, Malaysian

● **Qualification**

Bachelor of Engineering degree from the National University of Singapore in 1988.

● **Designation**

General Manager

● **Date of first appointment to key senior management position**

16 June 2014

● **Name of Company**

Prestasi Kemas Sdn Bhd

● **Working experience**

Liew Swee Choong carries with him more than 28 years of excellence in the planning, execution and completion of property development and construction projects.

Prior to joining Salcon, he held various senior positions in Newfields Property Management Sdn Bhd - a niche property developer and Perdana Park City Sdn Bhd - the developer of the renowned Desa Park City township where he has played significant roles in the successful implementation of many notable development projects.

Notes: -

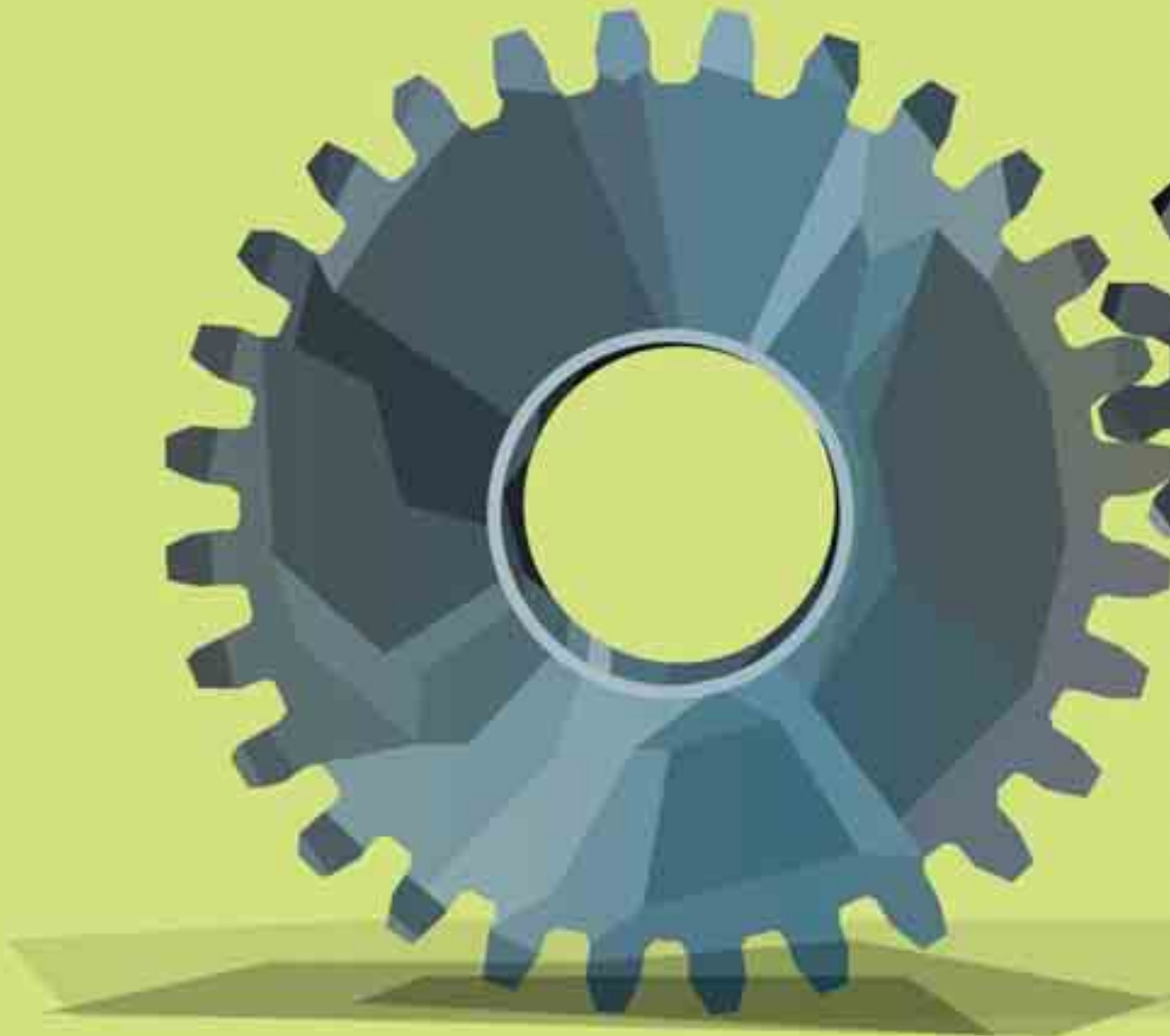
All key senior management do not have:

- (i) Directorship in other public companies
- (ii) Any family relationship with any director and/or major shareholder of Salcon Berhad.
- (iii) Any conflict of interests with Salcon Berhad.
- (iv) Other than traffic offences, none of the key senior management had been convicted for offences within the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 31 December 2017.

ENGAGEMENT

REACHING OUT HOLISTICALLY

Effective stakeholders' engagement enable us to align and strategize our initiatives towards a holistic and sustainable business model which takes into account all economic, environmental and societal aspects.





CHAIRMAN'S STATEMENT

— DEAR VALUED SHAREHOLDERS,

On behalf of the Board of Directors, it is my pleasure to present to you the Annual Report and Audited Financial Statements of Salcon Berhad ("Company") and its Companies ("Group") for the financial year ended 31 December 2017 ("FYE 2017").

The financial year 2017 ("FY 2017") was a challenging year for the Group as our performance was largely impacted by a demanding and competitive operating landscape. Despite these setbacks, our commitment to growing long term shareholder value remains a key priority for the Group. The Group's 2017 financial results and segmental performance are further detailed in the Management Discussion & Analysis section of this Annual Report.

Rewarding Shareholders

The Board is pleased to recommend a first and final single tier dividend of 1 sen per share, which is equivalent to RM 6.74 million and in line with our commitment to deliver consistent returns to our shareholders.

Growing Long Term Shareholder Value

We remain committed to invest in the business to support growth via our 3-pronged strategy of strong project execution, optimising our business portfolio and establishing an appropriate risk profile.

The Group continues to employ international best practices in project management and execution to deliver results safely, reliably, on time and within budget. As the lead partner in the Langat 2 Water Treatment Plant project, the Group is committed to ensure that the single largest water contract in

Malaysia will be completed by November 2018, to ensure sufficient supply of treated water to residents in the Klang Valley. The construction of the Langat Centralised Sewage Treatment Plant project is currently on-going and is making good progress.

In building long term shareholder value, the Group has laid the foundations through the optimization of its business portfolio to enable it to expand to new markets, new technologies and new geographical areas. The Group's investment in technology services via Volksbahn Technologies Sdn Bhd (VBT) hold much promise in a growing and thriving industry where infrastructure and network needs are expected to grow and mobile broadband in particular, is seen as a growth driver in the local telecom industry. On the contrary, the China tourism e-commerce business became untenable as the business unit did not have a sustainable competitive advantage. Coupled with the Group's limited resources, a difficult decision was made to wind down the operations.

CHAIRMAN'S STATEMENT

DATO' SERI (DR.) GOH ENG TOON

Chairman, Non-Independent
Non-Executive Director

Moving forward, the Group is cognizant of maintaining a prudent risk policy in order to deliver stable results, maintain financial strength and positive public image as well as the overall quality of services to benefit all stakeholders. The Group has in place an effective risk management process and appropriate governance structure to identify and mitigate risks whilst capitalizing on opportunities to ensure long term sustainable growth.

Awards and Recognition

The Group received accolades and awards in both operational and sustainability excellence performance.

The Group was awarded the 'Pencapaian Cemerlang KPI YBM Tenaga, Teknologi Hijau & Air 2016' by Jabatan Perkhidmatan Pembetungan (JPP) and Yayasan Hijau Malaysia (Yahijau) for meeting excellent standards in project management of the Package D55 – Construction of Sewage Pipes Network at Klang, Selangor project.

In the areas of environmental, social and governance, the Group has maintained its inclusion in the FTSE4Good Bursa Malaysia Index for the third consecutive year. As further testament to the Group's commitment to timely and quality reporting of our sustainability performance to stakeholders, the Group was awarded the 'Best Sustainability Reporting Award' by Focus Malaysia's Best Under Billion Awards (BUBA) for its initiative in providing stakeholders a holistic and

comprehensive report on corporate governance, environment, workplace and the marketplace. Besides this, the Group was also awarded the CSR Malaysia Awards 2017 for pioneering Corporate Social Responsibility initiatives in the past year under its flagship CSR programme, the Salcon Smart Water Programme.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my heartfelt gratitude to my fellow Board of Directors for their invaluable advice, the management and staff for their hard work and commitment as well as our financiers, business partners and the relevant approving authorities for their continuous support.

The current challenges are but a temporary setback and I strongly believe that by working together as a team and continuing to mobilise our energies to deliver, we shall overcome these obstacles and will soon usher in a new and exciting chapter of growth for the Group.

Yours sincerely,

Dato' Seri (Dr.) Goh Eng Toon

Chairman
Salcon Berhad

M MANAGEMENT

DISCUSSION AND ANALYSIS

Business Overview

Salcon Berhad (“the Company”) is an investment holding company with principal activities in Engineering & Construction, Property Development, Technology Services and Others. The Company’s core business under the Engineering & Construction division is in the investment, design, construction, commissioning, operation & maintenance of water and wastewater treatment plants, Non-Revenue Water (NRW) Management & Controls and ancillary facilities. The Company has built a strong foothold in Malaysia, Thailand, Vietnam and Sri Lanka as a leading water and wastewater engineering company with more than 900 successfully completed water and wastewater projects since 1974.

Besides its traditional water and wastewater business, as part of its portfolio optimization strategy, the Company has expanded into Property Development, Technology Services, Transportation and China Tourism e-commerce in the recent years.



In order to generate greater shareholder value and improve business performance, the Company and its Companies (“the Group”) grows its business via a 3-pronged strategy of strong project execution, optimising its business portfolio and establishing an appropriate risk profile. These key strategies in creating values are further elaborated in the Chairman’s Statement of the annual report.

Additionally, the Group is ever mindful of its role as a responsible corporate citizen and is cognizant of the fact that the sustainability initiatives derived from its businesses can bring about positive impacts to the communities and the environment in which it operates. As such, the Group constantly strives towards greater transparency and sustainability through good corporate culture and governance.

MANAGEMENT DISCUSSION AND ANALYSIS



Aerial view of Langkat 2 Water Treatment Plant

Financial Performance

For the year under review, the Group posted a 109% increase in revenues amounting to RM206.5 million in FYE 2017 compared to RM98.9 million in FYE 2016. This was mainly due to revenue contribution from the property division of RM100.7 million which was recognised when the ré280 SOHO property project in Selangor was completed in November 2017.

However, the Group posted a higher loss before tax of RM34.8 million for the year as compared with a loss of RM11.7 million a year ago. These losses are primarily due to:-

- **Unrealised forex losses**
The Group's financial performance was affected by the appreciation of the Ringgit Malaysia against the US Dollar for the past year, which resulted in the Group recording a substantial unrealised loss of RM8.8 million from foreign currency translation.
- **Provision for one-off Legal Claim relating to sewerage contract in Sabah**
The Group's subsidiary, Salcon Engineering Berhad (SEB) was unsuccessful in a lawsuit against Terra Environment Management Sdn. Bhd. (formerly known as UG Management Services Sdn. Bhd.) resulting in the provision of a penalty sum of RM2.4 million. However, SEB has filed an appeal to the Court of Appeal and an application for stay of execution pending appeal in respect of the Judgement.

- **Impairment Loss on Goodwill**
Although the Group's new venture in China e-commerce tourism started with excellent growth projections, the operating company namely Beijing Xinlian Yitong Technology Co Ltd ("BXYT"), was not able to capitalise on its tie-up with Alitrip and as a result, incurred high operating costs and low revenue contribution during its operation. In consideration of the potential impact on its future results and unsustainable competitive advantage, the Group recognised an impairment loss on goodwill of RM6.74 million. For the year under review, BXYT had made total loss after MI of RM0.6 million.

Notwithstanding the above, the Group's financial position remains healthy with total cash and cash equivalents of RM133.8 million whilst the Group's gearing ratio remains low at 0.15 as at 31 December 2017 with borrowings totalling RM66.6 million.



The Group's financial position remains healthy with total cash and cash equivalents of RM133.8 million whilst the Group's gearing ratio remains low at 0.15.



MANAGEMENT DISCUSSION AND ANALYSIS

Engineering & Construction Division

Financial Highlights

The Engineering & Construction Division, which is driven by the Group's subsidiaries, Salcon Engineering Berhad ("SEB") and Envitech Sdn Bhd ("Envitech"), recorded revenues of RM83.8 million during the year under review, a 0.8% increase from RM83.1 million in FYE 2016. This represents 41% of the total consolidated revenues for FYE 2017.

Despite the share of profit of RM13.6 mil from the Group's 2 major projects namely Langat 2 Water Treatment Plant Project (Langat 2 WTP) and Langat Centralized Sewage Treatment Plant (Langat CSTP), the division recorded a loss of RM4.0 million in FYE 2017 compared to a profit of RM6.5 million in the previous year. This is mainly due to additional costs incurred for overseas projects and the provision of one-off legal claim as mentioned above.

As at 31st March 2018, the Group's total order book stood at RM1.3 billion comprising water and wastewater projects, both locally and overseas, with RM552.7 million balance of works to be carried out.



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Operational Highlights

During FY 2017, the division successfully completed the upgrading of the Sg. Lebam Water Treatment Plant and Distribution System in Johor in September 2017 which involves the conversion of two existing tanks to the dissolved air flotation system to assist our client in reducing operational costs and increasing efficiencies.

Current major projects on hand include the following:-

- 1) Langat 2 WTP which achieved physical progress of 90.6% as at FYE 2017 and is expected to be completed in 2018,
- 2) Langat CSTP which achieved physical progress of 59% as at FYE 2017 and is expected to be completed in 2020,
- 3) Kuala Terengganu Utara Water Supply Scheme (KTU) and
- 4) Network Pumping Stations in Langat Catchment - Conversion of 10 sewage treatment plants into network pumping stations, both of which are currently on-going and in good progress.

In FYE 2017, the division remains active in securing new projects in Malaysia and overseas with a total of RM89.2 million worth of new water and wastewater contracts secured.

In Malaysia, the division successfully secured nearly RM43.7 million worth of contracts from Pengurusan Air Selangor Sdn Bhd in relation to the state of Selangor's pipe replacement programme ie Package 8 (RM17.2 million), Package 6 (RM13.2 million) and Package 11A (RM13.3 million).

On the wastewater side, Envitech had a good start to 2018 when it bagged contracts totalling RM26.0 million from Jurutera Perunding Tegap Sdn Bhd for works related to the construction and upgrading of sewage infrastructure in Banting, Selangor and from China State Construction Engineering (M) Sdn Bhd for sewage infrastructure works for 2 blocks of 53 and 55-storey serviced apartment at Mukim Batu, Kuala Lumpur.

The division is also active in overseas where the Group's 25%-owned joint venture secured a water supply upgrading works contract worth 426.2 billion Vietnam Dong or RM77.1 million from Haiphong Water Joint Stock Company, the water authority of Haiphong City, Vietnam. The project commenced in early January 2018 and is expected to be completed in 24 months.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking Forward

The Engineering & Construction Division is expected to be the mainstay of the Group's profitability in the coming year with the commencement of works for the new projects that we have successfully procured during the year as well as on-going existing projects. At the same time, we are also forging ahead with efforts to tender for more water and wastewater projects in Malaysia and overseas.

Under the Malaysian Budget 2018, the government has allocated RM1.4 billion to tackle Non-Revenue Water ("NRW") issues under the National NRW Management and Reduction Programme. Based on its experience, proven track record and expertise in NRW reduction works, the division is confident of capitalising on these government initiatives to address water losses in an efficient and transparent manner.



Installation of Sludge Silo Base for Langat CSTP



Internal welding of 1400mm ND pipe for Kuala Terengganu Utara water treatment plant.

Besides allocation under Budget 2018, Pengurusan Aset Air Berhad ("PAAB"), being the owner and developer of water and wastewater infrastructure in Malaysia, offers opportunities for new and upgrading works in the states where it has taken over the ownership of the assets. The Group has established a good track record with PAAB having successfully completed several water projects and currently undertaking the single largest water treatment project in Malaysia, the Langat 2 WTP. We are confident that our excellent track record and expertise will stand in good stead to secure more projects in the near future.

As for the Group's overseas projects, our focus is mainly in Sri Lanka where we have successfully completed 4 major water projects namely Hambantota Water Supply Project, Batticaloa Water Supply Project, Kelani Right Bank Water Supply Project and the Kandana Water Supply Project. The division has actively tendered for both water and wastewater projects in Sri Lanka and we look forward to positive news flow soon.

Its current outstanding order book of RM552.7 million is expected to keep the Group busy over the next 3 years.

MANAGEMENT DISCUSSION AND ANALYSIS

Concession Investments Division

Vietnam Concession

The Binh An water concession located in Ho Chi Minh City, Vietnam has been contributing a consistent recurring income to the Group since it commenced operations in 1999. For FYE 2017, this division contributed a share of profit of RM4.8 million to the Group.

Property Development Division

Financial Highlights

The Property Development Division posted its maiden revenue of RM100.7 million with the successful completion of the rés280 development project in Selayang in November 2017. The rés280 development project itself has recorded profit after tax of RM5.3 million.

However, the profitability of the division was affected by the lease rental payment of Belfield Crest in Kuala Lumpur, unrealised foreign exchange loss from monies held in AUD relating to our property development in Australia and the finance costs incurred in relation to the Eco Midtown in Johor, which resulted in a loss after tax of RM5.8 million in the division.

Operational Highlights

The Group's small office home office ("SOHO") development project rés280 obtained the Certificate of Completion & Compliance (CCC) on 16 November 2017. In terms of sales, a total of 188 units of SOHO and 12 units of commercial lots translating to 68.5% of total sales, has been sold despite the slow-moving property market in Malaysia and also more stringent bank requirements on housing loan approvals. The division is currently intensifying its promotional efforts via an attractive buying scheme to market the remaining unsold units.

In April 2017, the Group via its subsidiary Salcon Development (Australia) Pty Ltd had entered a Sales and Purchase Agreement with Fortune Quest Group Ltd, the subsidiary of Eco World International Bhd (EWI) to sell 80% of stake in the company, thus embarking on a collaboration with EWI to develop the freehold commercial land located at Melbourne, Australia into a project named "Yarra One". The project comprises a 27-storey tower with 268 residential units complemented by a retail and office podium. It was launched in 2017 and the construction works is expected to commence in April 2018. As at today, 36% of units in Yarra One has been sold.

In view of the adverse market conditions, the other property development projects on hand including Eco Midtown in Johor and Belfield Crest in Kuala Lumpur are currently on hold and under review.

Looking Forward

The division looks forward to sustained revenue and profit contribution via the rés280 project from the remaining units to be sold for the year ahead. Besides that, with the collaboration with EWI for the Yarra One project which has an estimated Gross Development Value of RM 776.0 million (AUD \$253.6 million), the Group expects to recognise its share of profits upon completion of the project in year 2020.



View of completed SOHO development project rés280 at Selayang, Selangor

MANAGEMENT DISCUSSION AND ANALYSIS

Other Divisions*Transportation*

The Transportation Division which is spearheaded by the company's subsidiary, Eco-Coach & Tours (M) Sdn. Bhd. ("Eco-Coach"), has maintained a steady and stable performance, recording revenues of RM15.3 million, which constitutes 7% of the Group's total revenue during the year under review.

During the year, Eco-Coach has added 27 vans and 15 MPVs to its fleet of vehicles to cater for demand for transportation services from its clients which include multinational companies such as Intel, Western Digital Media, Paramit and B Braun Medical. To date, Eco-Coach operates a total of 129 vans, 31 coaches, 20 MPVs, 8 limo services vehicles and employs 168 drivers to provide safe, reliable and comfortable transportation services to its customers in Kulim and Penang.

“

Eco-Coach operates a total of 129 vans, 31 coaches, 20 MPVs, 8 limo services vehicles and employs 168 drivers.

”



A unit of Double Decker Coach was launched recently for transportation services to Intel staff in early 2018.

Technology Services

Under the Technology Services Division, Volksbahn Technologies (M) Sdn Bhd ("VBT") recorded revenue of RM5.3 million, an increase of 178% compared to RM1.9 million recorded in the previous year. The higher revenue resulted in lower losses of RM1.2 million during the financial year under review.

The improved performance is due to the increase in number of sites utilised at the stations by the various telecommunication operators resulting in increased revenue contribution from the site rental for shared infrastructure as well as bandwidth charges.

Currently, the mobile operators which have already signed up with VBT include U Mobile Sdn Bhd, Celcom Berhad and Digi Telecommunication Sdn Bhd. VBT looks to extend its collaboration with other mobile operators such as Maxis, YTL Broadband, Webe and Symphonet Sdn Bhd.

During the year under review, VBT entered into a strategic partnership with YTL Broadband and Symphonet Sdn Bhd to provide their broadband services to retailers through VBT's fibre optic backbone. VBT is currently working closely with both parties to secure buildings and property development for retail services in order to generate a new income stream.

MANAGEMENT DISCUSSION AND ANALYSIS



Sectorisation site survey at Gombak LRT station.

The income from this division is expected to improve progressively in the years ahead in tandem with the increase in number of sites at the extended Light Railway Transit (LRT) line. The division expects to commence the laying of fibre optics cable for the LRT line extension in Klang Valley in the first half of 2018.

Solar Power Services

The performance of the Group's subsidiary Salcon Power (HK) Limited was boosted by the income generated from the on-going of electricity meter reading which resulted in revenue recognition of RM3.4 million and loss after tax of RM3.4 million respectively during the year under review compared to the revenue of RM0.6 million and loss after tax of RM3.8 million in the previous year.

“ The income from this division is expected to improve progressively in the years ahead in tandem with the increase in number of sites at the extended Light Railway Transit (LRT) line. ”

China E-Commerce Tourism

Operated by the Group's subsidiary Beijing Xinlian Yitong Technology Co Ltd ("BYXT"), the China e-commerce tourism business was not able to leverage on its collaboration with Alitrip, a unit of the Alibaba group. In FYE 2017, the company had made loss after tax of RM1.2 million due to high operating expenses and no revenue contribution from the operation.

As BYXT could not sustain its competitive advantage and in order to ensure efficient management of the Group's resources and also the goodwill of shareholders, the Group has made the strategic decision to wind down the operation of this division to minimise further losses.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Outlook

The challenging economic landscape had compelled us to further review and strengthen the Group's commitment to growing long-term shareholder value. Despite strong headwinds and the Group's lacklustre performance over the past year, the Group maintains a cautiously positive outlook for FYE 2018.

Notably, in the Engineering & Construction Division, our capabilities and outstanding track record has placed us in a strong position to play a key role in the nation's water supply needs as well as in overseas markets. With RM1.4 billion allocated under the Malaysian Budget 2018 for NRW reduction and control, the Group looks to capitalise on opportunities to grow and expand in the niche NRW segment where profit margins are higher and are less competitive due to specialised skills and knowledge. We remain focussed on building our competitive strengths in the design and construction of water and wastewater treatment plants and are confident of our tender prospects in the overseas market especially Sri Lanka where we have established a good track record with the successful completion of 4 projects there.

In the Technologies Services Division, the Group's performance will be underpinned by the strong demand from the various telecommunication companies to provide fast and reliable bandwidth service for their users. As VBT extends its fibre optic backbone in the Klang Valley in line with the LRT extension from the existing 70 km to 108 km, this will enable us to reach out to more telecommunication operators to assist in the fiberization of their networks to improve service coverage and meet customer demands for digital services, content and applications.

As for the Property Development Division, whilst uncertainties and risks exist in the current soft Malaysian property market, there will still be demand for well-located and affordable properties and the Group will review its development strategies to ensure an attractive offering which will appeal to buyers in the current market conditions.

The Group continuously reviews and evaluates its operation and strategies with the aim of delivering sustainable growth and remaining competitive. To this end, the Group will continue to manage its risks through prudent management policies, close working relationships with its stakeholders, especially the community within which it is operating, government authorities and retention of key management staff.



CONSISTENCY



DEVELOPING A SUSTAINABLE FUTURE

Consistency in our sustainability practices throughout our business operations is important to develop credibility with stakeholders and ensure growth for a sustainable future.



SUSTAINABILITY STATEMENT

REPORT OVERVIEW

This is our 11th yearly reporting since 2007 on the disclosure of our sustainability best practices. In line with the Bursa Malaysia Sustainability Reporting Guide as well as other additional guidelines mentioned below, this report has been renamed as a Sustainability Statement to better reflect a more comprehensive and holistic reporting of the company's sustainability efforts. This report is prepared with the support of our cross-functional Sustainability Working Group (SWG) which consists of the head of various related departments involved in the management and implementation of the company's sustainability work. The SWG is guided by the Sustainability Committee which in turn reports to the Board of Directors. This year, we also reached out to our internal and external stakeholders to perform a materiality analysis and identify key material aspects which are important to the Group following the GRI Sustainability Reporting Standards Guidelines. We also took into account the 17 United Nations Sustainable Development Goals (SDGs) and have identified thirteen of the SDGs as most aligned to our business and operations.

SCOPE OF REPORT

Reporting Period: 1st January 2017 to 31st December 2017

Coverage:

This report covers Salcon Berhad, a public listed company in Kuala Lumpur Stock Exchange, Malaysia, and the companies below which spearhead its diversified business operations:

1. Salcon Engineering Berhad
2. Envitech Sdn Bhd (wastewater treatment services)
3. Eco-Coach & Tours Sdn Bhd (transportation services)
4. Azitin Venture Sdn Bhd (property development)
5. Volksbahn Technology Sdn Bhd (technology services)
6. Salcon Power (HK) Limited (solar power investment)
7. Salcon Petroleum Services Sdn Bhd (oil & gas software marketing)

REFERENCES & GUIDELINES

This report has been prepared in accordance with the following guidelines with the objective to deliver a transparent and comprehensive disclosure to our stakeholders.

Principal guidelines: Bursa Malaysia Sustainability Reporting Guide.

Additional guidelines:

1. FTSE4Good Bursa Malaysia Index Rating Guide
2. Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (please refer to the GRI Content Index at page 224)

FEEDBACK

This report can be downloaded at our corporate website at <http://salcon.listedcompany.com/ar.html>

We welcome feedback, enquiry, suggestion or comment on this report and any aspect of our sustainability performance. Please address your feedback or enquiry to the Sustainability Committee at corporate@salcon.com.my

SUSTAINABILITY STATEMENT

SUSTAINABILITY AT SALCON

As a company that delivers inherently sustainable products and core services in water and wastewater, technology services and property development, our approach to sustainability stems from our goal to manage and nurture a safe and profitable business in an open and transparent manner, respects the communities in which we operate in and sustains the environment.

The Group's core values of Teamwork, Commitment, Professionalism, Respect and positive Results underpin everything we do. By integrating economic, social and environmental social risks and considerations into our corporate strategies, we are committed to delivering sustainable outcomes on every project, everywhere we operate. We will continue to minimize our impact on the

environment and carbon footprint throughout our value chain, and we are committed to being a good corporate citizen through our investment in the communities in which we operate.

Awards & Recognitions

During Financial Year ("FY 2017") we made great strides in our sustainability journey and received recognition from sustainability organizations both locally and internationally. Awards not only acknowledge success, but also the commitment, ability, efforts and above all, excellence put in by an organisation.

Salcon is honoured to be awarded noteworthy recognitions by established and well-known organisations in the region.

 <p>FTSE Russell</p> <p>Inclusion in FTSE4Good Bursa Malaysia Index for the third consecutive year</p>	 <p>Best Sustainability Reporting Award</p> <p>Best Sustainability Reporting Award</p>	 <p>Sewerage Services Department & Yayasan Hijau Malaysia</p> <p>Excellent Achievement under Ministry of Energy, Green Technology & Water KPI 2016 (Pencapaian Cemerlang KPI YBM Tenaga, Teknologi Hijau & Air 2016)</p>	 <p>CSR Malaysia Publication</p> <p>CSR Malaysia Awards 2017</p>	 <p>Asia Sustainability Reporting Awards</p> <p>Asia's Best CSR Communication within Annual Report Awards</p>
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Tan Sri Dato' Tee Tiam Lee, Executive Deputy Chairman of Salcon Berhad (left) receiving the Excellent Achievement Award from YB Datuk Seri Panglima Dr. Maximus Johnity Ongkili, Minister of Energy, Green Technology and Water (KeTTHA)

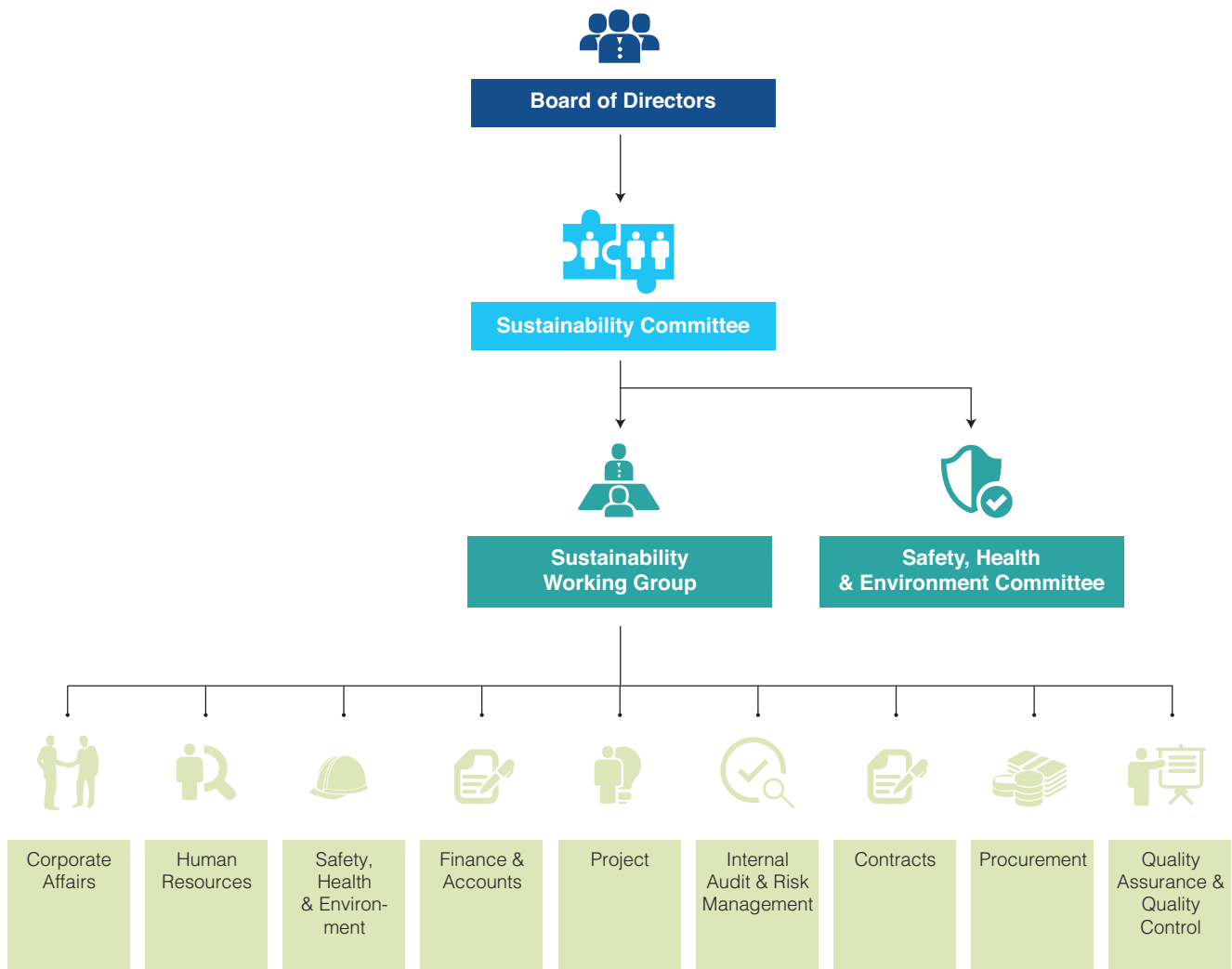
SUSTAINABILITY STATEMENT

SUSTAINABILITY GOVERNANCE

At Salcon, the Board of Directors via the Sustainability Committee oversees the Group’s sustainability strategies and performance. The Sustainability Committee reports to the Board on the Group’s sustainability performance. The Committee consists of 2 Board members, the Chief Operating Officer, the Chief Financial Officer and the General Manager of Corporate Affairs Division, who is the key personnel in the Group’s sustainability efforts.

The Sustainability Committee meets at least once a year to review, discuss, evaluate and recommend strategies for improvement in the Group’s sustainability performance and reports to the Board.

The Sustainability Committee is supported by the Sustainability Working Group, a cross-functional team who is responsible for the implementation of sustainability strategies and to provide Economic, Environmental & Social (EES) performance data for sustainability reporting.



SUSTAINABILITY STATEMENT

MATERIALITY

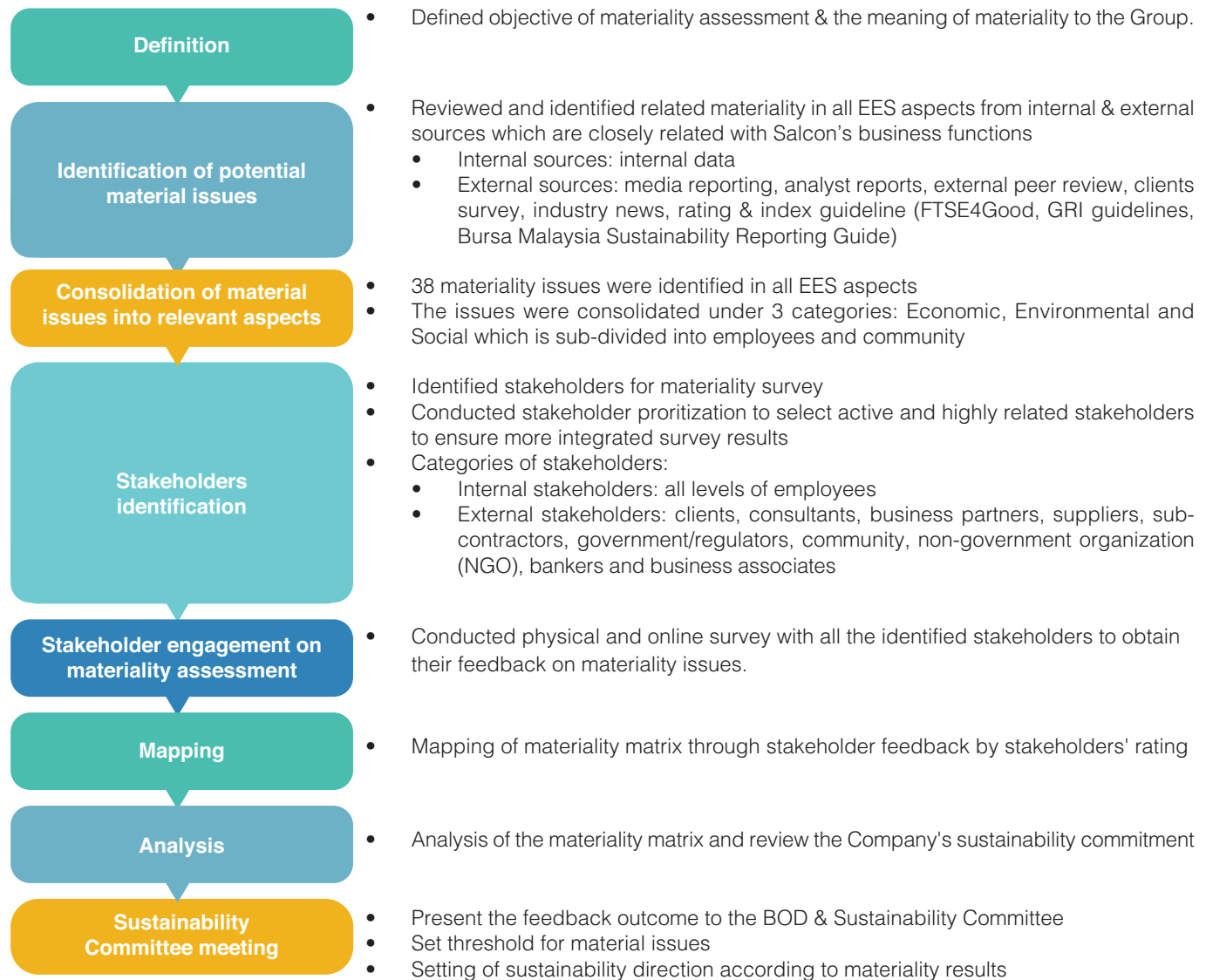
We have undertaken an extensive materiality assessment in FYE 2017 to help us to identify where we should invest our resources meaningfully and take more effective strategies to improve the performance of issues which are most material and close to the hearts of our stakeholders.

This materiality analysis has provided us an effective platform for us to analyze our stakeholders' priorities and concerns and serve as a useful guide for us to identify the areas important to our stakeholders and the business. Besides financial

performance, it is increasingly clear that stakeholders are placing greater emphasis on social and environmental issues.

METHODOLOGY

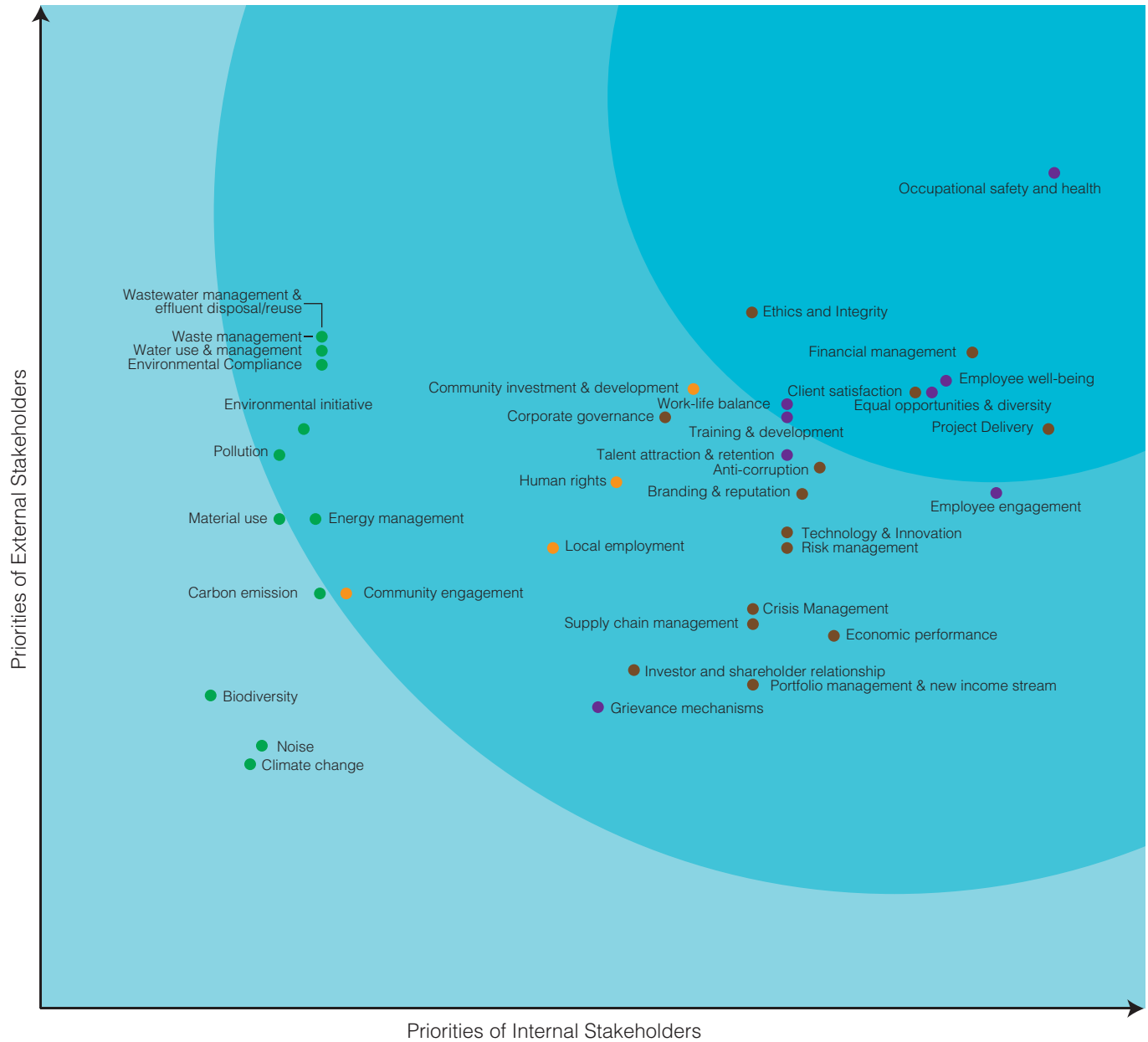
The assessment was conducted in accordance with the Bursa Malaysia Sustainability Reporting Guide, FTSE4Good Rating Index and GRI Sustainability Reporting Guidelines.



SUSTAINABILITY STATEMENT

MATERIALITY MATRIX

The findings of the materiality assessment on the 38 EES issues has been mapped into the materiality matrix below based on our stakeholders' feedback.



Legend

- Community issues
- Workplace issues
- Marketplace issues
- Environment issues
- High
- Medium
- Low

SUSTAINABILITY STATEMENT

MATERIALITY ANALYSIS

We have further categorized the above 38 issues into 3 categories which are: economic, environmental, and social which is sub-divided into employee and community. From the matrix, we have identified 9 of the issues as key material issues for both internal and external stakeholders. This has enabled us to prioritise the key material issues in our sustainability commitment.

KEY MATERIAL ISSUES - VERY MATERIAL

No.	Material issues	Description	Page reference for more details
1.	Occupational safety & health	Creating a safe and healthy workplace, at both offices and project sites, with zero or minimal occupational illness/ injury	68
2.	Ethics & integrity	Embedding integrity and ethical business practices in all aspects of our business	46
3.	Financial management	Good management on the Group's financials and investment as well as maintaining healthy economic growth	48
4.	Work-life balance	Social & recreational activities/ initiatives for employees	66
5.	Clients satisfaction	Meeting clients' requirement in terms of costing, timing, technical expertise etc	50
6.	Employee well-being	Employees benefits and compliance with all wage laws for all categories of employees	66
7.	Equal opportunities & diversity	Fair treatment to all employees, employee diversity in respectful workplace	61
8.	Training & development	Training opportunities and career development to employees for self-improvement and development	67
9.	Project delivery	Successful completion and delivery of projects on time and within budget.	50

STAKEHOLDER ENGAGEMENT

Stakeholder engagement is the foundation of Salcon's EES strategies and commitment. It is our priority to nurture positive relationships with varied stakeholders and listen to their concerns and interest, so that we understand their priorities and enable us to make better decisions in our efforts to create sustainable values for all the stakeholders.

Throughout the years, we engage with various group of stakeholders who has significant impact on our businesses via different engagement channels. We appreciate the mutual respect and trust with our stakeholders.

Going forward, we plan to enhance our materiality assessment system by improving and strengthening stakeholder engagement in materiality assessment whilst at the same time obtaining feedback from different major stakeholders.

SUSTAINABILITY STATEMENT

Stakeholder Group	Concern	Engagement Approach	Frequency Annually	Values created
Employees	<ul style="list-style-type: none"> • Safe & healthy workplace • Career development • Work-life balance • Talent retention • Employee engagement 	<ul style="list-style-type: none"> • Safety & Health Campaign • Training opportunities • Salcon Recreational Club • Employee performance review & rewards • Employee entitlements & benefits • Festive celebrations • Company Facebook page • Internal newsletter • Voluntary opportunities 	<ul style="list-style-type: none"> As needed As needed As needed As needed As needed As needed As needed As needed 	<ul style="list-style-type: none"> • Safe and healthy working environment with better productivity • Enhanced skills for improved work efficiency • Sports and family-based activities to foster good work-life balance • Recognizing our employees' contributions • Fostering positive relationships amongst colleagues • Up-to-date information on the company's direction/ news • Opportunities for employees to give back to the society together
Shareholders/ Investors	<ul style="list-style-type: none"> • Transparent information disclosure • Financial performance 	<ul style="list-style-type: none"> • Analysts/ bankers/ fund managers meeting • Annual General Meeting 	<ul style="list-style-type: none"> As needed Annually 	<ul style="list-style-type: none"> • Analyst presentations with positive feedback on information shared • Return on investment • Platform to share the company's economic performance, business direction and strategies with our shareholders • Rewarding our shareholders through dividend payment.
Clients/ Customers	<ul style="list-style-type: none"> • Deliverable • Timely solution 	<ul style="list-style-type: none"> • Client satisfaction survey • Regular project meetings • Customers services (at billing services center in Sandakan office) 	<ul style="list-style-type: none"> As needed As needed Daily (working day) 	<ul style="list-style-type: none"> • Project delivery within timeline and budget • Fast and prompt attention to customer needs at billing services center
Regulators/ Government Authorities	<ul style="list-style-type: none"> • Compliance with policies • Support government initiatives 	<ul style="list-style-type: none"> • Full compliance with Bursa Malaysia, Security Commissions and Quality Management (ISO 9001) policies and guidelines • Environmental compliance at project sites 	<ul style="list-style-type: none"> As needed As needed 	<ul style="list-style-type: none"> • Create reputable branding as well as keeping track with the current market regulations • Biodiversity conservation at project sites and create minimal carbon footprint • Effective resources management • Better awareness on environmental issues and compliance knowledge among employees

SUSTAINABILITY STATEMENT

Stakeholder Group	Concern	Engagement Approach	Frequency Annually	Values created
Business Partners/ Associate partners	<ul style="list-style-type: none"> Long term partnership 	<ul style="list-style-type: none"> Strategic business planning meetings 	As needed	<ul style="list-style-type: none"> Improve business and economic performance Forge long term bond
Local Community	<ul style="list-style-type: none"> Community development Job opportunities 	<ul style="list-style-type: none"> Charitable giving Internship opportunities Environmental education - Conducted 5 Salcon Smart Water Programme and 1 Train The Trainers Programme Local employment 	<p>As needed</p> <p>As needed</p> <p>Bi-monthly</p> <p>As needed</p>	<ul style="list-style-type: none"> Build positive relationships with the community and attend to their needs Real corporate world exposure for students Outdoor education learning opportunities for students Creation of job opportunities for local communities at project sites
Suppliers/ Sub-contractors	<ul style="list-style-type: none"> Transparency Long term partnership Fair procurement policy 	<ul style="list-style-type: none"> Suppliers & sub-contractors evaluation Tender & bidding/ quotation requests Procurement policies & system 	<p>Annually</p> <p>As needed</p> <p>As needed</p>	<ul style="list-style-type: none"> Performance monitoring and Improve efficiency throughout supply chain Share the same ethical procurement values
Media	<ul style="list-style-type: none"> Up-to-date and transparent information disclosure 	<ul style="list-style-type: none"> Media releases One on One interviews 	<p>As needed</p> <p>As needed</p>	<ul style="list-style-type: none"> Reach out to public on company's strategic direction, future aspirations to promote company branding and reputation.
Non-Governmental Organisations	<ul style="list-style-type: none"> Community development Environmental conservation 	<ul style="list-style-type: none"> Partnership and support in community, and environmental sustainability Support NGOs 	As needed	<ul style="list-style-type: none"> Mutual understanding on sustainable environmental and social growth as well as biodiversity conservation River & water conservation and education for community
Industry Associations	<ul style="list-style-type: none"> Long term relationship & membership 	<ul style="list-style-type: none"> Industry exhibitions and conferences Membership with Malaysia Water Association (MWA), Global Water Intelligence (GWI) and International Water Association (IWA) 	<p>As needed</p> <p>As needed</p>	<ul style="list-style-type: none"> Keeping track with industry updates Foster good relationships with industry peers

SUSTAINABILITY STATEMENT

UNITED NATIONS GLOBAL COMPACT

Our sustainability journey marked another milestone when Salcon became a signatory of the United Nations Global Compact (UNGC) in 2017, with the commitment to uphold the Compact's 10 principles in 4 areas principally, human rights, labour standards, environment and anti-corruption.



SUSTAINABLE DEVELOPMENT GOALS

In September 2015, the United Nations adopted 17 sustainable development goals. These goals build on the preceding Millennium Development Goals and seek to tackle the world's economic, social and environmental issues by 2030. Achieving the sustainable development goals (SDGs) will require action by governments, non-governmental organisations and the private sector. Companies can contribute to the achievement of the SDGs by reducing the negative impact of their operations and seeking to contribute positively to the environments and communities in which they work.



SALCON AND THE SDGS

In this report, the goals highlighted below are most closely related to the topics that were identified as most relevant to Salcon and where our sustainability efforts and operations are closely aligned to the SDGs.

ECONOMIC Page 45						
ENVIRONMENTAL Page 52						
SOCIAL Page 60 & 72						

ECONOMIC

Delivering healthy economic performance is our foremost sustainability commitment. It is vital to ensure a sound organization and performance with strong and solid economic performance as the cornerstone, which include highest standards of corporate governance and transparency, sustainable business solutions and supply chain.

OUR ALIGNMENT TO SDG GOALS



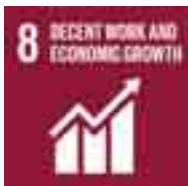
Water & Wastewater Treatment

We treat water and wastewater to provide communities with clean, safe and quality water.



Solar Power

We install solar photovoltaic systems in the United Kingdom to provide clean and affordable energy to households.



Healthy Economic Growth

We create employment and support local businesses. We contribute to economic growth by paying taxes to the government.



Water & Wastewater Treatment

Our core services, water & wastewater treatment provides one of the most basic yet essential infrastructure for healthy and sustainable living.

Technology Services

We provide smart city solutions through our joint venture, Volksbahn Technologies Sdn. Bhd. by enabling efficient and fast networks through our fiber optic backbone in the Klang Valley.



Improvement to Living Quality

Our diversified businesses (water and wastewater, property development, transportation & technology services) create sustainable cities and quality living environment.



Transparency and Integrity

Our core values of teamwork, commitment, professionalism and respect underpin how we work. We are committed to adhere to the highest standards of corporate governance and transparency with zero tolerance on corruption.

SUSTAINABILITY STATEMENT

CORPORATE GOVERNANCE

We are committed to demonstrate transparency, accountability and embrace responsible business behavior across our operation to gain stakeholders trust and confidence and forge strong relationship with them. We are a member of the Malaysia Institute of Corporate Governance (MICG) which supports corporate governance advocacy in Malaysia. During this reporting period, we did not register any non-compliance with laws and regulations in the social and economic areas.



Ministry of Energy, Green Technology & Water team paid a visit to the Langat 2 Water Treatment Plant which is currently under construction

We are committed to demonstrate transparency, accountability and embrace responsible business behavior across our operation to gain stakeholders trust and confidence and forge strong relationships with them.

ETHICS & INTEGRITY

As one of the key material issues identified during our Materiality Assessment, our ethical business practice is underpinned by relevant policies, guidelines and systems, which serve as the guidance for all level of employees in the Group, including the Board Members.

The principles set out in our Code of Ethics and Conduct (COEC) and Statement of Policy and Business Ethics (SPBE) outline these responsibilities to our shareholders, customers, employees, business partners and society. They include commitments to business integrity and compliance with applicable laws and regulations to minimize the potential business risk or illegal conduct.

SUSTAINABILITY STATEMENT

Salcon's Integrated Risk Management Policy, which is in compliance with ISO 31000, will enhance controls/safeguards against ever-increasing and fast-morphing risks in today's challenging global business environment.

CODE OF ETHICS & CONDUCT

All employees are guided by the Code of Ethics & Conducts (COEC), which is overseen by the Board and reviewed from time to time to ensure its compliance and effectiveness. The COEC was reviewed during FYE 2017 where relevant sections were updated and improved in order to be aligned with global best practices on transparency and business conduct. The amendments were then disseminated and communicated to all employees.

Every new recruit is briefed and introduced on the COEC during the staff induction process to convey the Group's stance on bribery, corruption, bullying, discrimination etc.

Employees are encouraged to promptly report any activities which may constitute a violation of any law relating to fraud or deceptive practices. We have a whistle-blowing mechanism and grievance mechanism for employees and other stakeholders to raise their concern about misconduct in any matters related to the Group.

FAIR COMPETITION

We strictly abide by legal regulations on fair competition and do not support anti-competitive, anti-trust and monopolistic practices as such practices affect our clients' choices and pricing. In FYE 2017, the company was not involved in any legal cases related to anti-competitive or monopoly practices.

ANTI-CORRUPTION

Corruption and bribery is a risk to the Group's image. As such, the Board does not tolerate any fraud, corruption or bribery practice in the Group, either directly or indirectly. Complete honesty and fairness is required in conducting all the business operations. Appropriate actions will be taken against employees who are involved in bribery and corruption.

All employees, sub-contractors, suppliers and those working in joint ventures that we operate, are expected to understand and work in line with the Statement of Policies and Business Ethics. We encourage suppliers and our partners in joint ventures that we operate, to apply equivalent principle.

- No reported incidents of corruption in FYE 2017
- No fines/ penalties in FYE 2017 in relation with corruption/ bribery
- No staff disciplined or dismissed due to non-compliance with anti-corruption guidelines

RISK MANAGEMENT

In order to achieve our business objectives with minimal uncertainties and loss, Salcon takes proactive steps to identify, evaluate, mitigate and report on risks in all of our business operations, inclusive for new projects. The risk factors we identified include operational risks, environmental risks, corruption and bribery. Salcon's enterprise-wide risk management practice is led by the Risk Management Committee. The Committee meets at least once a year to discuss any risk issues in the Group, review the adequacy and effectiveness of the risk management process and report to the Board accordingly.

Salcon's Integrated Risk Management Policy, which is in compliance with ISO 31000, will enhance controls/safeguards against ever-increasing and fast-morphing risks in today's challenging global business environment.

For more details on the composition of the RMC, please refer to Corporate Information section of our Annual Report/ Website.

For more information on Salcon's risk management activities, please refer to Corporate Governance Statement and Statement of Risk Management and Internal Control in our Annual Report.

SUSTAINABILITY STATEMENT

ECONOMIC PERFORMANCE

During FYE 2017, the Group recorded RM216.2 million gross economic value, a 91.8% increase compared to the preceding year. This is mainly due to profit recognition of our completed rés280 project. The Group's financial position remains healthy with total cash and cash equivalents of RM133.8 million. Our gearing ratio stands at 0.15 with total borrowing of RM66.6 million. We are confident that the Group will deliver improved performance in the coming year with more contracts coming in.

Description	2015 (RM '000)	2016 (RM '000)	2017 (RM '000)
Revenue	123,079	98,974	206,492
Other income and interest income	37,114	13,823	9,744
Gross value generated	160,193	112,797	216,236
Our suppliers: Operation costs	(135,234)	(57,954)	(221,470)
Our employees: Salaries and benefits	(21,935)	(35,438)	(38,742)
Our lenders: Payment to lenders (financial cost)	(5,576)	(4,820)	(4,034)
The Government: Payment to Government	(9,369)	(4,896)	2,707
The Rakyat: Community Investment	(192)	(161)	(360)
Net-value added	(12,113)	9,528	(45,663)
Our shareholders: Payment to shareholders	(20,325)	(13,294)	(21,898)
Our Future: Economic Value Retained	(32,438)	(3,766)	(67,561)

Revenue by Country:

Description	2015 (RM '000)	2016 (RM '000)	2017 (RM '000)
Malaysia	81,387	89,471	198,406
Vietnam	13,927	207	-
Sri Lanka	11,877	8,483	-
Thailand	1,485	205	-
Others	14,403	608	8,086
Total	123,079	98,974	206,492

SUSTAINABLE BUSINESS SOLUTIONS

Over the past 40 years, Salcon has developed an excellent portfolio of supplying clean and quality water as well as developing sustainable water resources within the Asian region. It has brought us to be the leader in the region as a one-stop total solutions provider for water and wastewater services. In recent years, we have diversified into several industries to ensure sustainable returns to our shareholders and create more sustainable values to our stakeholders.

SUSTAINABLE SUPPLY CHAIN

An effective and sustainable supply chain helps to conserve resources, enhance processes and increase productivity and values. Our suppliers consist of manufacturers, distributors and vendors and we engage them locally, where possible for economic and social reasons. We expect our suppliers and sub-contractors to conduct business ethically and we are committed to maintaining the highest standard of integrity throughout our supply chain.

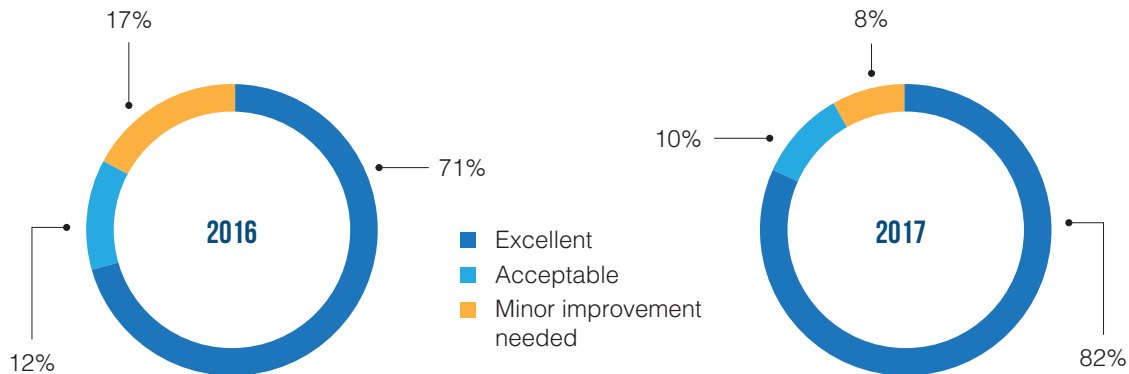
SUSTAINABILITY STATEMENT

We apply a stringent procurement process to select suppliers and sub-contractors to work with. Suppliers and sub-contractors must abide by the Group's ISO policies ISO 9001 Project Quality manual, ISO14001 Environmental Manual, OHSAS 18001 Manual and other applicable codes of ethics and conduct. Our firm stand on integrity and ethical business conduct is clearly communicated via several channels, such as Letter of Awards and Statement of Policies & Business Ethics to ensure that transparency, accountability and efficiency is well-instilled throughout the supply chain.

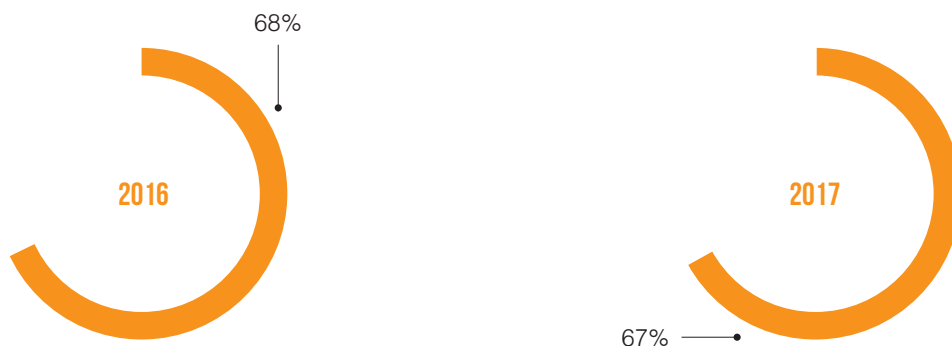
Besides this, we are also guided by our Green Policy to commit towards an Environmental Purchasing Program that covers the procurement of environmentally sound products by considering the environmental impact of products and services throughout the procurement process as well as make efficient use of products by re-using and recycling the products throughout their life-cycle.

In order to maintain and ensure the performance of our suppliers and sub-contractors, we conduct yearly assessments on them via a performance evaluation. They are reviewed and rated according to criteria such as deliverables, pricing workmanship, cooperation and emergency response.

SUPPLIER PERFORMANCE EVALUATIONS (%)



SUB-CONTRACTOR EVALUATION SCORE (%)



SUSTAINABILITY STATEMENT

COMMITMENT TO OUR CLIENTS

We strive to meet our clients' requirements and deliver the best quality services to ensure utmost clients' satisfaction. We review our performance annually through a clients' satisfaction survey to gather feedback and insights as well as identify our area of improvement.

Five of our project clients assessed our performance delivered in FYE 2017. They are Langat 2 Water Treatment Plant project, Langat Centralized Sewage Treatment Plant project, Kuala Terengganu Utara Water Treatment Plant project, NRW Kuala Terengganu and NRW Marang project. We were given an average rating of 71.4% satisfaction by our clients, a 4.4% increase compared with the preceding year.

Under our NRW section, our Customer Service Centre in Sandakan, Sabah Malaysia aims to provide excellent customer experience. There are 4 customer officers at the centre to attend to customers enquiries or water issues, providing solutions on billing and collection matters. An average time of 1.52 minutes is taken to handle each call.

All of our clients' data are protected under the Personal Data Protection Act 2010. We respect our clients' privacy and do not disclose or use the clients' information for any purposes other than those agreed upon. There were no incidents or complaints pertaining to breaches of clients' privacy in FYE 2017.

Project Delivery

We are committed to deliver all projects entrusted to us by our clients on time and within budget. By keeping pace with our client demands and preventing project overruns, we have managed to gain our clients' confidence and build a portfolio of successful projects which are well executed and meet our clients' satisfaction.

We review our performance annually through a clients' satisfaction survey to gather feedback and insights as well as identify our area of improvement



We are committed to meet our clients' requirements and deliver the best quality services

SUSTAINABILITY STATEMENT

BRANDING & REPUTATION

By deepening our engagement with our stakeholders at the marketplace, we aim to maximize effective communications and create a positive image to the public. Our approach to branding and reputation is through meaningful engagement with our stakeholders via various platform, such as participation in industrial exhibitions and conference, get-together activity, membership participation as well as online channels.

1) Industrial Exhibitions and Conferences

In FYE 2017, we participated in the MyanWater Exhibition in Yangon, Myanmar, one of the biggest water exhibition in the country as one of our approach to brand exposure. We met industry players as well as relevant authorities to seek for potential opportunities. It is also a platform for us to keep updated with the latest industry news and updates.

2) Get-together Activity

We conducted informal networking sessions with our clients and business partners, ie. through the Salcon Durian Party in FYE 2017 to maintain positive and meaningful relationships. The networking activity serves as an important channel to show our appreciation to our clients and business partners. We take this opportunity to listen to their feedback or comment.



Get-together Activity to show our appreciation to clients and business partners

3) Membership Participation

We participated in various related industry associations as a member to support and keep track of the latest industry trends and maintain our presence through participation in their activities. We are a member of:

1. Global Water Intelligence
2. Malaysia Water Association (MWA)
 - a. Participation in the Water Industry Guide & Table Calendar
3. International Water Association (IWA)
4. Malaysia Investor Relations Association (MIRA)
 - a. Attended seminars/ workshop organized by MIRA
5. Malaysia South-South Association (MASSA)
6. United Nations Global Compact (UNGC) (signatory)
 - a. Participation in the Global Compact Malaysia Networking Session
7. Malaysia Institute of Corporate Governance (MICG)
8. Malaysia Employment Federation (MEF)

4) Online Channels

Our corporate website (www.salcon.com.my) and Facebook page (www.facebook.com/SalconBerhad) are the two main online tools of our branding management in this fast-moving environment. We share relevant information and corporate updates with our stakeholders on a timely basis in these online channels and attend to any feedback or enquiry promptly.



Active participation in significant regional water exhibitions

ENVIRONMENTAL

We are committed to reduce and minimize any potential adverse environmental impacts at all stages of our value chain by adhering to applicable environmental policies, rules and regulations. We monitor our environmental performance and are involved in conservation initiatives to reduce pollution and greenhouse gas emissions.

In recognizing the effect of climate change as an impactful risk to the business and environment, we are committed to minimize our carbon footprint through resource optimization, prudent use of materials and proper management in waste disposal.

OUR ALIGNMENT TO SDG GOALS



The Company's commitment towards sustainability and environmental management is encapsulated in the Salcon Green Policy which aims to reduce our carbon footprint and pollution in the key areas of energy & water consumption, waste management, procurement, biodiversity and education.

Our Approach

Our approach in environmental conservation is to minimize negative environmental impacts throughout our business operations by cultivating an environmentally conscious behavior across all levels of employees in daily operation. The Safety, Health and Environment (S.H.E.) Department, S.H.E. committee at both headquarters (HQ) and project sites level is responsible for monitoring the environmental performance and ensuring that all the practices are well implemented.

The Board oversees the Group's environmental performance and progress and the environmental topic is part of the agenda discussed during Board Meetings. The Chief Operating Officer (COO) of the Group is responsible for the Group's environmental progress and report to the Board. He is assisted by the S.H.E. Department and committees to ensure the Group's environmental approach is well-instilled throughout the operation. There were no fines and penalties on issues related to the environment during the period of reporting due to any non-compliance with environmental laws and regulations.

Policies, guidelines & system



We are guided by our Environmental Policy, ISO 14001 (Environmental Management System) and Green Policy throughout our business operations.

The ISO 14001 certification is reviewed yearly by the Bureau Veritas Certification. All of our project sites which are monitored by the S.H.E. Department are certified under ISO 14001.

SUSTAINABILITY STATEMENT

Environmental conservation effort

All offices and project sites under the Group are responsible to take long term action to conserve the environment, reduce carbon footprint and GHG emissions in the area of:



- Energy
- Emission
- Biodiversity
- Water
- Dust
- Recycling

At Group level, we collaborate with organizations which advocate environmental conservation through environmental-themed based project implementation.

Environmental data/performance monitoring



We are guided by our Environmental Policy, ISO 14001 (Environmental Management System) and Green Policy throughout our business operations.

The ISO 14001 certification is reviewed yearly by the Bureau Veritas Certification. All of our project sites which are monitored by the S.H.E. Department are certified under ISO 14001.




CLIMATE CHANGE & POLLUTION

Although climate change and pollution was not identified as one of the key material issues under our materiality assessment by our stakeholders, it remains one of the biggest risks and issues facing the world right now. As such, the Board takes a serious view of these issues as a responsible corporate citizen. The Group COO oversees environmental issues and concerns and reports to the Board accordingly.

In FYE 2016, we launched the Salcon Green Policy as part of our commitment to reduce climate change and pollution.

We are committed to reduce our carbon footprint and GHG emissions through:




- Efficient energy consumption and management
- Providing quality water to the community in our business areas and water conservation
- Effective waste management to prevent pollution
- Procurement of environmentally sound products
- Reducing actions which will adversely impact the ecosystem and biodiversity
- Education to employees and intermediaries

Country	Initiatives to reduce our carbon footprint	Environmental impact
 MALAYSIA	<ul style="list-style-type: none"> • Zero burning at project site • Video conferencing to replace traveling • Yearly oil spillage drill to avoid soil contamination 	<ul style="list-style-type: none"> • Biodiversity conservation • Carbon footprint reduction • Land preservation
 VIETNAM	<ul style="list-style-type: none"> • External drainage cleaning 	<ul style="list-style-type: none"> • Drainage management
 UNITED KINGDOM	<ul style="list-style-type: none"> • Solar panel installation investment 	<ul style="list-style-type: none"> • Green energy






SUSTAINABILITY STATEMENT

ENVIRONMENTAL PERFORMANCE

The Group has set a 10-year long term environmental target to minimize our footprint in energy, water and waste management. In order to ensure that we are on track to achieve our environmental targets, we monitor and measure our environmental progress on a yearly basis. Meanwhile, we continuously conserve the environment in other key management areas such as emission and dust management as well as biodiversity conservation.

Environmental focus area	Actions	Company/ Operation country
 <p>Energy management</p>	<ul style="list-style-type: none"> • Temperature control for air conditioning • Turn off lights in rooms not used • Replacing damaged lights to LED lights which is more environmentally friendly • Educating employees on energy saving through posters & emails • Clear perspex roofing to reduce electricity usage at Eco-Coach & Tours in Penang • Energy conservation policy at Binh An Water Corporation (BAWC) and energy audit was conducted to monitor the consumption 	<p>Group level</p> <p>Group level</p> <p>HQ</p> <p>Project sites, Malaysia</p> <p>Penang</p> <p>Vietnam</p>
 <p>Water management</p>	<ul style="list-style-type: none"> • Non-Revenue Water (NRW) reduction projects in several towns in Malaysia, such as Kuala Terengganu, Marang and Sandakan • Our NRW reduction achievement: <ol style="list-style-type: none"> 1. Kuala Terengganu project: 10 million litres per day (MLD) reduction 2. Sandakan: successfully reduced the NRW rate from 61% to 47% • Partnership with Non-Government Organization - Water Watch Penang for a holistic educational approach on water conservation • Recycle water for site washing at project sites as well as car and depot washing • Regular checking and immediate action taken for any leakage 	<p>Malaysia</p> <p>HQ</p> <p>Malaysia</p> <p>Vietnam</p>
 <p>Waste Management</p>	<ul style="list-style-type: none"> • Scheduled/ hazardous waste to be stored in designated container for onward disposal by Department of Environment (DOE) licensed contractor to licensed location • Introduction of e-Waste bin at office for employees to dispose household or office e-waste properly 	<p>Malaysia</p> <p>HQ</p>

SUSTAINABILITY STATEMENT

Environmental focus area	Actions	Company/ Operation country
 Emission Management	<ul style="list-style-type: none"> Usage of diesel instead of oil for our transportation services 	Penang
 Dust Management	<ul style="list-style-type: none"> Regular watering of access roads at project sites to reduce dust pollution around the neighbourhood 	Malaysia
 Biodiversity Conservation	<ul style="list-style-type: none"> Conducted Environmental Aspect Identification (EAI), Risk & Opportunities for Environment and Hazard Identification, Risk Assessment and Risk Control (HIRARC) before commencing a project 	Malaysia
	<ul style="list-style-type: none"> Strictly zero burning and zero hunting at project site 	Malaysia
	<ul style="list-style-type: none"> We are a signatory with World Wild Life (WWF) to support No-Shark Fin for all our corporate functions 	Malaysia
 Recycling	<ul style="list-style-type: none"> Recycle practice at all offices 	Group level
	<ul style="list-style-type: none"> Recycling campaign/ competition 	HQ
	<ul style="list-style-type: none"> Recycling awareness & competition at SK Dusun Nanding to educate students on importance of recycling 	HQ
 Landscaping	<ul style="list-style-type: none"> Mural painting on 10 walls for SK Dusun Nanding to beautify the school while delivering eco-living message 	HQ

(no significant spill recorded in FYE 2017)



Introduction of e-waste bin at our HQ to promote proper disposal of e-waste



Mural painting at SK Dusun Nanding contributed by Salcon

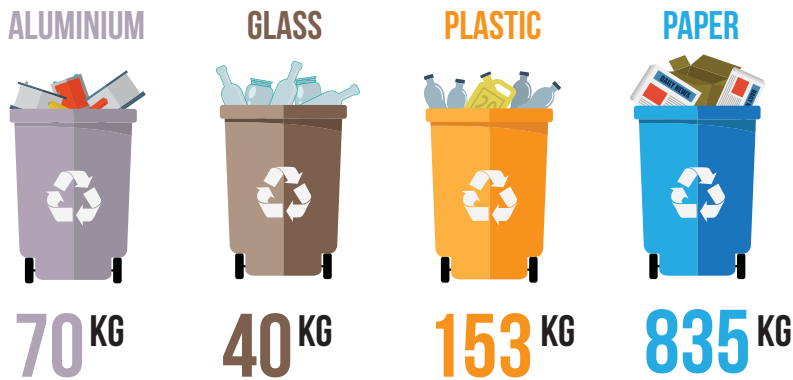
SUSTAINABILITY STATEMENT

COLLABORATION FOR ENVIRONMENTAL SUSTAINABILITY

The Group focuses on educating the younger generation in our environmental conservation initiatives as we believe that environmental conservation behavior can be more effectively instilled and shaped through proper understanding and education. In FYE 2017, we partnered with organisations which advocate environmental protection for 2 different projects, focusing on water conservation and waste recycling respectively.

In waste recycling, we partnered with Community Recycle for Charity (CRC), a non-profit organisation to conduct a recycling competition and upcycle workshop to 270 students in SK Dusun Nanding, Hulu Langat in conjunction with Salcon Environmental Week in November 2017.

Recycling result by SK Dusun Nanding:



We are also in long-term partnership with Water Watch Penang, a Non-Government Organization (NGO) which advocates environmental education to conduct hands-on river water monitoring programme for primary and secondary school students. For more information, please refer to our Social - Community section of this report.



Education is our approach in advocating environmental conservation

SUSTAINABILITY STATEMENT

ENVIRONMENTAL DATA:

From the indicated environmental data, we are able to monitor our energy consumption and waste generated, hence measure our progress compared with the target set.

Following a review of the targets set for energy and water consumption in FYE 2016, the scope in terms of geographical coverage for our energy and water consumption target has been revised to apply only to administrative offices and to exclude project sites. This is due to the fact that the duration of a typical project ranges from between 1 to 3 years. As such, both of our 10-year target to reduce energy and water consumption will only apply to administrative offices where data can be compared and analysed meaningfully year on year.



3-YEAR ENERGY CONSUMPTION DATA (KWH):

The energy consumption data below was extracted from the electricity bills generated by the electricity utility authority in the respective operating areas.



To reduce energy consumption by 10% on a per unit basis by 2026 from 2016 for administrative offices

	FYE 2015		FYE 2016		FYE 2017	
Administration office	Electricity consumption (kWh)	No. of employees	Electricity consumption (kWh)	No. of employees	Electricity consumption (kWh)	No. of employees
HQ	146,622	113	147,368	124	140,225	122
Envitech	77,136	55	79,240	53	71,942	44
VBT	34,025	10	47,096	16	39,960	16
SPS	N/A	N/A	N/A	N/A	9,930	14
Eco-Coach	2,100	15	2,239	18	3,900	20
Total	259,883	193	275,943	211	265,957	216
Energy consumption per person (kWh)	1,346		1,307		1,231	

Progress as at FYE 2017: 5.8% reduction of energy consumption per person compared with FYE 2016.

Energy Consumption at Project Sites:

Project site	FYE 2015 (kWh)	FYE 2016 (kWh)	FYE 2017 (kWh)
Langat 2	100,174	417,089	271,749
Langat CSTP	N/A	240,000	74,876
Vietnam	10,510,412	10,434,400	10,430,400

SUSTAINABILITY STATEMENT



3-YEAR WATER CONSUMPTION DATA (M³):

The water consumption data below was extracted from the water bill generated by the water supply authority in the respective operating areas.



To reduce water consumption by 10% on a per unit basis by 2026 from 2016 for administrative offices

Water Consumption at Administrative Offices:

	FYE 2015		FYE 2016		FYE 2017	
Administration office	Water consumption (m ³)	No. of employees	Water consumption (m ³)	No. of employees	Water consumption (m ³)	No. of employees
Envitech	444	55	549	53	365	14
SPS	N/A	N/A	N/A	N/A	12	44
Eco-Coach	14.4	15	16.8	18	19.2	20
Total	458.4	70	565.8	71	396.2	78
Water consumption per person (m³)	6.5		8.0		5.1	

HQ and VBT's water data is not available as its water usage is taken as part of the office rental.
Progress as at FYE 2017: 36.3% reduction of water consumption per person compared with FYE 2016.

Water Consumption at Project Sites:

Project Sites	FYE 2015 (m ³)	FYE 2016 (m ³)	FYE 2017 (m ³)
Langat 2	35,840	148,861	1,928
Langat CSTP	N/A	480	841.75
Vietnam	20,000	20,000	20,000



3-YEAR SCHEDULED WASTE DATA (METRIC TONNES):



To reduce scheduled waste generation by 10% per project basis by 2026 from 2016

Project Site	FYE 2015	FYE 2016	FYE 2017	Result (Comparison of % reduction FYE 2017 with FYE 2016)
Langat CSTP	N/A	1.60	1.27	20.6%
Langat 2	8.60	4.30	2.18	49.3%
Vietnam	0.12	0.12	0.12	Maintained

2 out of 3 of our project sites (66.7%) successfully reduced scheduled waste generation by more than 10%.

SUSTAINABILITY STATEMENT



3-YEAR RAW MATERIAL USED DATA (TONNES):

Vietnam project	FYE 2015	FYE 2016	FYE 2017
Chlorine	45	48	46
Lime	199	240	248
Alum	512	572	550
Fluoride	55	55	60

CSTP project	FYE 2016	FYE 2017
Metal	9,300	13,443
Concrete	36	98,830

Data in 2015 is not available as the project only commenced in 2016.



3-YEAR DIESEL CONSUMPTION DATA (LITERS):

Office/Site	FYE 2015	FYE 2016	FYE 2017
Eco-Coach & Tours	836,309	940,801	1,080,521

The above diesel consumption is the diesel usage by our vans and coaches of our subsidiary, Eco-Coach & Tours which provides transportation services.



3-YEAR RECYCLED DATA (KG):

Year	Paper	Plastic	Metal	Glass	Reusable items	Electronic item
FYE 2015	1,281	1	0	0	0	0
FYE 2016	4,262	288.6	157.1	106.4	469.3	252.1
FYE 2017	2874.6	50	4	11	92.2	41.4

External drainage cleaning to reduce pollution at our Vietnam operation site



SOCIAL-EMPLOYEES

Employees are the backbone for every success of a Company. We treat our employees as the Group's greatest and most valuable assets and we are committed to continuously invest in our people to provide a safe, healthy, diverse and respectful workplace, so that they are able to deliver values to our other stakeholders. We see this is as win-win situation where both parties share the same values for sustainable growth.

OUR ALIGNMENT TO SDG GOALS



We are committed to create a safe and healthy workplace to all employees at office and project sites, at the same time promote work-life balance for better work productivity



We provide trainings to employees to enhance their skills at the workplace, zero tolerance on child and forced labour and job opportunities are offered according to capability



We create a culture of inclusivity, diversity and zero discrimination at the workplace regardless of gender, race, religion or ethnicity.

HUMAN RIGHTS

We fully abide with the national and local Employment Act in Malaysia and other countries in which we operate. We respect employee rights and have zero tolerance on human rights abuse at the workplace. We have in place a whistleblower

system and grievance mechanism at Group level to ensure source protection. In FYE 2017, there were no reports on grievance or non-compliance on human rights issue.

SUSTAINABILITY STATEMENT

Our principals in human rights at workplace:

Principal	Description
No child labour No forced labour	We do not recruit child labour or forced labour in any of our operating countries and comply with all the local laws and regulations throughout our business operations.
Freedom in political view	It is the employees' freedom to have their own political views. Nevertheless, we do not allow an employee to affect other workforce or work performance due to political views.
Fair workforce welfare	We comply with applicable wage laws to ensure fair and ethical human resources management practices, including working hours, overtime, minimum wage.
Safe & healthy workplace	We take prudent and precautionary measures in handling safety and health issues at our workplace and project sites.

DIVERSITY & EQUAL OPPORTUNITIES

As one of the 9 key material issues identified by both our internal and external stakeholders, a diverse workforce which is accorded equal opportunities, fosters creativity and innovation and helps an employee to reach his or her fullest potential.

Our commitment in diversity & equal opportunities, irrespective of sexual orientation, gender, age group, racial, ethnicity, nationality, cultural background, marital status, disabilities, religion, political inclination, union membership are as below:

1. Offer equal opportunities in recruitment.
2. Career advancement, promotions or remuneration are solely based on performance and merit.

We support an inclusive workplace by valuing differing abilities. At Envitech, we have employed a Senior Draughtswoman with hearing disabilities who receives fair treatment and benefits. There is no incident of discrimination reported in FYE 2017.

In Malaysia where our main operations are based in, we appreciate living and operating in this multi-racial country which provides us the unique opportunity of working with people from different races, religions and background. We embrace diversity, promote inclusion and reduce discrimination at workplace through festive celebrations, sports events and recreational activities. In Malaysia, our workforce is averagely balance in terms of ethnicity.

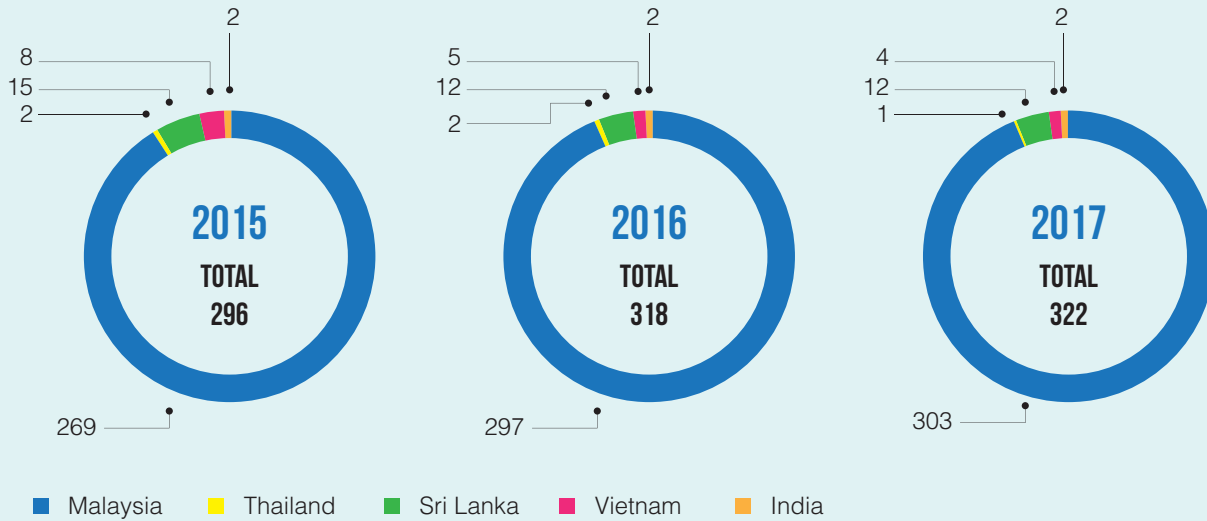


Equal opportunities & diversity has been identified as key material issues in workplace sustainability

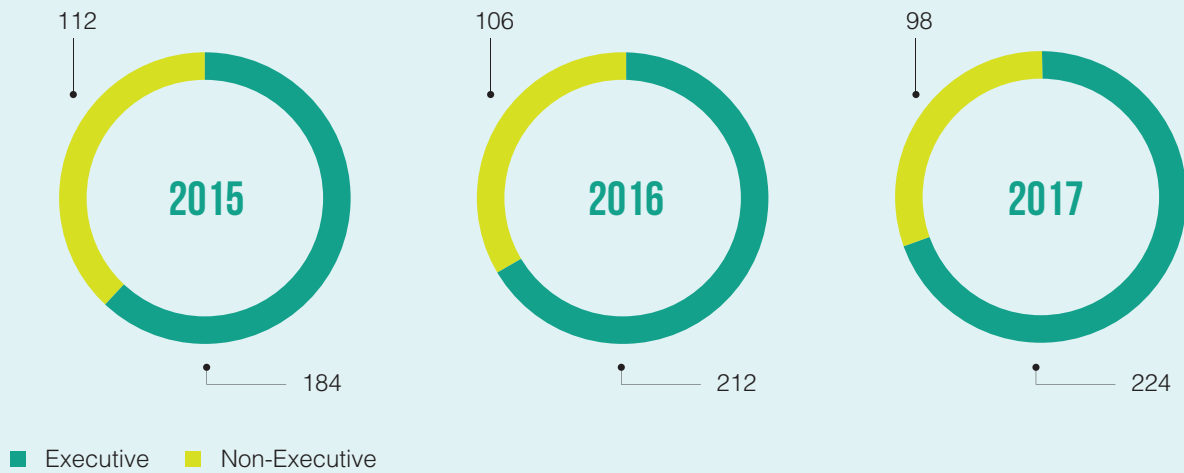
SUSTAINABILITY STATEMENT

EMPLOYEE DIVERSITY:

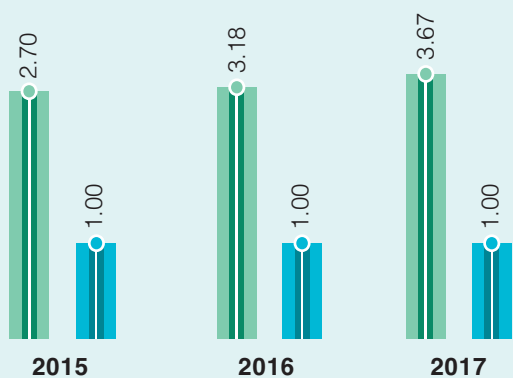
Total number of Employees



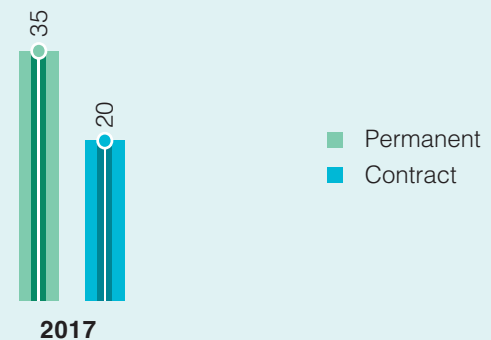
Category



Status (Ratio between permanent to contract employees)

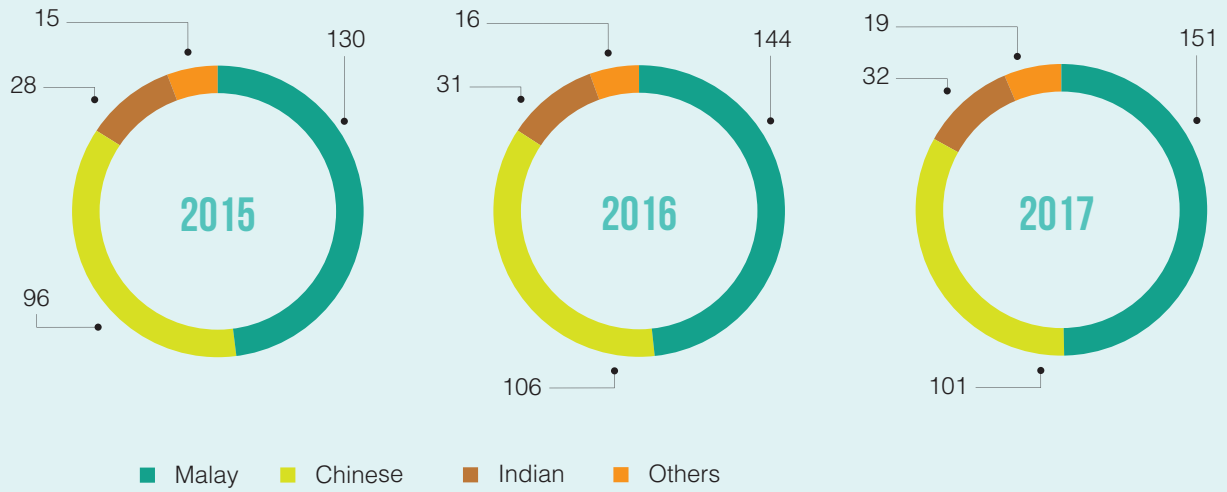


New Recruitment

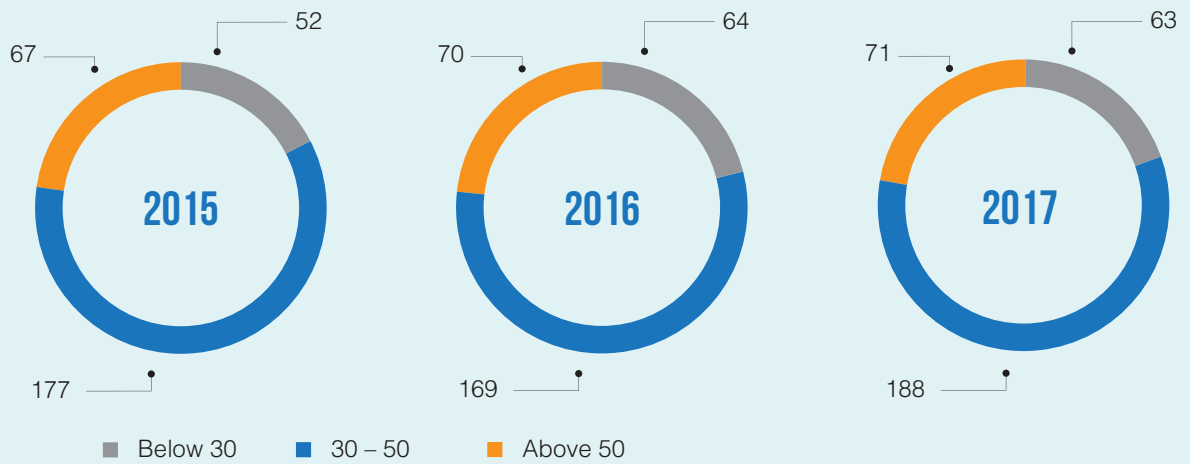


SUSTAINABILITY STATEMENT

Ethnicity (Malaysia only)



Age Group



SUSTAINABILITY STATEMENT

WOMEN EMPOWERMENT & GENDER EQUALITY

At Salcon, both of our male and female employees enjoy equitable opportunities and benefits in all aspects of employment. 41% of our employees are female and we understand the need to achieve a more balanced gender workforce. The percentage of our female leaders, who hold the position of manager and above has slightly increased from 25% to 28% compared with the preceding year.

We fully respect employees who are working mothers and appreciate their contribution at both the workplace and family. At Salcon, we do not prohibit our employees from expressing breast milk during working hours on the condition that they practice proper time management and do not affect work deliverables.

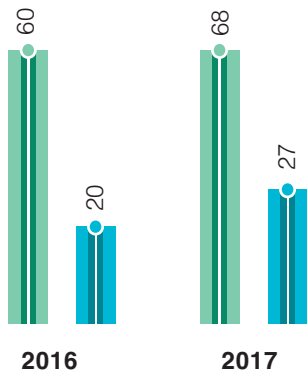
We support and recognize the value of having women directors on the Board. Currently, we have 6 male directors on Board and have aimed to identify a suitable female director by year 2019.

■ Male ■ Female

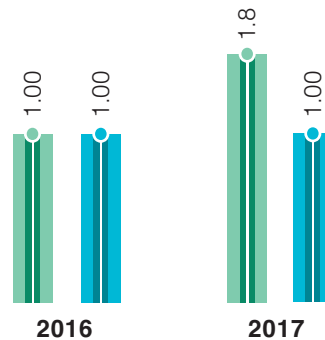
Gender



Gender of employees with position manager & above



Ratio of remuneration (men versus women)

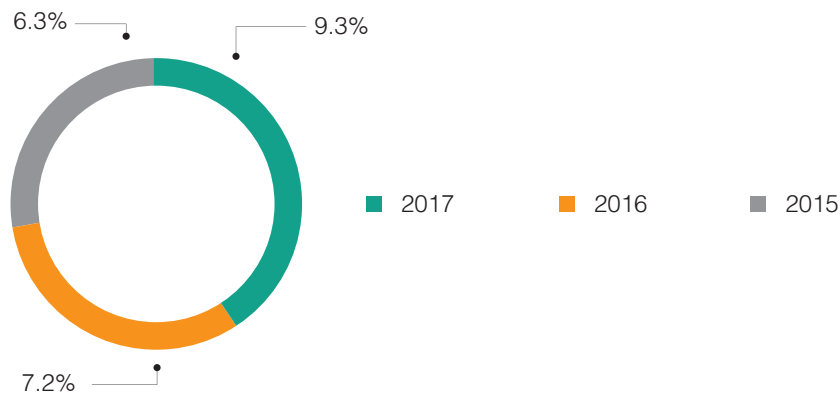


SUSTAINABILITY STATEMENT

TALENT RETENTION & ATTRACTION

Talent attraction and retention is increasingly challenging in order to attract potential talent and retain our employees who are innovative, motivated, committed and share the same values as the Company. In FYE 2017, our full-time employee turnover rate increased slightly to 9.3%.

Full time employee turnover rate



No.	Approach
1	<p>Competitive Performance-based Rewards</p> <p>We appreciate our employees' contribution by rewarding them through salary increment, bonus, promotion or upgrading opportunity and long services awards</p>
2	<p>Career growth & development</p> <p>We invest in our people through training and development to improve their knowledge and skills, so that they can achieve higher milestone in their career path</p>
3	<p>Effective communication</p> <p>A transparent communication between employer and employee is crucial for an effective working relationship. The Company adopts an open-door policy where communication is encouraged for a better understanding on work performance. Besides this, annual appraisals for all employees and regular meetings are held to identify any shortfall and area of improvement.</p>



We invest in our people through training and development to improve their knowledge and skills

SUSTAINABILITY STATEMENT

EMPLOYEE WELL-BEING & WORK-LIFE BALANCE

A balanced lifestyle between workplace and personal lives can create meaningful results to both employer and employees. Employees who achieve a good work-life balance are able to deliver better results. Providing employees with a good work life balance can also instill a sense of appreciation and loyalty to the Company.

Our approaches in fulfilling employees' well-being:

1. Good Work-life balance
2. Family-friendly benefits

Work-life Balance: We promote work-life balance through our Salcon Recreational Club (SRC) to encourage sports and family-based activities for our employees. We aim to foster a healthy work-life balance culture and build camaraderie among employees through the activities organized. The SRC which consists of 16 committee members from different divisions and subsidiaries, is responsible for organizing activities in the 3 categories below:

Category	Activity
 Sports	<ul style="list-style-type: none"> • Weekly badminton games • Fortnightly bowling games • Badminton tournament • Bowling tournament
 Outings	<ul style="list-style-type: none"> • Annual Trip to Xi'an, China • Family Day at District 21, Putrajaya
 Staff get-together	<ul style="list-style-type: none"> • Annual Dinner, a networking session for all colleagues



Annual Family Day at District 21, Putrajaya



Annual trip to Xi'an, China

SUSTAINABILITY STATEMENT

Under the S.H.E. Committee, we also organize a yearly Safety & Health Campaign Month at HQ to raise awareness on living a safe and healthy lifestyle. Activities conducted under the campaign include The Salcon Biggest Loser Contest, a weight-loss competition as well as blood donation drive and various health talks and free medical check-ups.

Family-friendly benefits: We offer family-based benefits to all of our eligible employees including marriage leave, paternity leave, maternity leave, compassionate leave, cash coupons for newlyweds and new-born baby and medical coverage for employees and their children. Besides this, we comply to the Malaysia Employment Act and support the long-term economic well-being of our Malaysian employees by contributing to the Employee Pension Fund (EPF) throughout their employment period. In FYE 2017, total employees related expenses account for 48% of the total expenses.



Bowling tournament is one of the annual sports activity organized by SRC

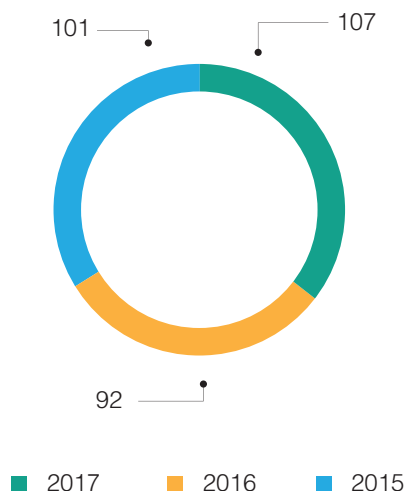
SELF-IMPROVEMENT & DEVELOPMENT

Our objective in employee self-improvement & development is not only limited to building functional and technical skills for career success, but also expands to more meaningful personal development where we offer community contribution or volunteering opportunities to our employees.

Training Opportunities

Training Needs Analysis is conducted on a yearly basis to identify learning opportunities and provide employees with relevant training sessions for skills improvement.

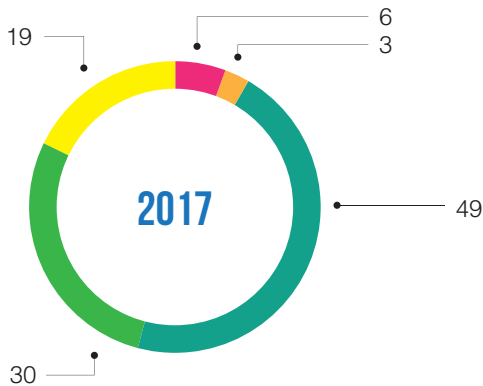
Total training programme for employees



We support our people in fulfilling their career aspirations and maximize personal potential by improving their management and technical skills and knowledge in this fast-changing business environment through internal and external trainings.

SUSTAINABILITY STATEMENT

Categories of Training



- Personal & leadership development
- Positive mindset
- Functional/knowledge
- Supplementary Knowledge
- Safety & Health

NUMBER OF TRAINING HOURS

1612 HOURS

AVERAGE HOUR PER EMPLOYEE

5.25 HOURS

AVERAGE DAY PER EMPLOYEE

0.65 DAY

TRAINING INVESTMENT

RM 136,396

EFFECTIVENESS OF TRAINING

92% of participants met their training objectives

OCCUPATIONAL SAFETY & HEALTH

A safe and healthy workplace for our employee is the pillar to support the Group's performance. This is also reflected in our recent materiality assessment where occupational safety & health was rated to be the most material issue for both our internal and external stakeholders.

We are committed to create a hazard-free and healthy working environment for our employees, contractors, community and customers. The Board oversees the occupational safety and health to ensure business continuity and zero fatalities. The Board is assisted by the Safety, Health & Environmental (S.H.E.) Department and Committee, which implements safety and health initiatives throughout the Group's operation.

Guided by our Safety and Health Policy, we strive to achieve a safe and healthy workplace by taking preventive measures and creating employee awareness.

S.H.E. COMMITTEE

The S.H.E. Committee consists of different representatives from the management and employees. It is chaired by our COO and is responsible for carrying out duties to cultivate a safe & healthy workplace at both offices and project sites.

SUSTAINABILITY STATEMENT

Measures taken by the S.H.E. Committee:

No.	Initiatives	Frequency
1	Inspections and audits to identify any hazardous safety and health practice	Quarterly
2	Audit at HQ & project sites	Yearly for HQ Quarterly for project sites
3	Meetings to discuss workplace safety & health issues	Quarterly
4	Organize activities to raise safety and health awareness	As needed

WORKPLACE SAFETY & HEALTH INITIATIVES

Each project site and office has its own S.H.E. team to monitor the Group's safety and health performance. Our HQ office and Kuala Terengganu Utara (KTU) Water Treatment Plant project are monitored by the S.H.E. Department and these are 100% certified with OHSAS 18001. Under OHSAS 18001 requirements, we follow the practices and procedures and go through audit by the Bureau Veritas.

No.	Action	Project site/ office
1	Hazard Identification, Risk Assessment and Risk Control (HIRARC) to identify the potential risks and opportunities before commencement of project	Applicable water and wastewater project
2	Basic occupational first aid, CPR & AED training	Envitech
3	Safety & Health Campaign Month	HQ
4	OHSAS Campaign - Labour Safety and Hygiene Week	Vietnam
5	Fire drill	HQ, Envitech, Package D49 (wastewater project), SPS
6	SHE induction training for new workers	
7	Toolbox briefing	Applicable water and wastewater project sites
8	Machinery inspection	
9	S.H.E. audit & inspection	
10	Fogging at project site	Package D49, res 280 (property project)
11	Spine & joint talk & check up	HQ
12	Blood donation	HQ
13	Breast cancer awareness campaign	HQ
14	Dengue campaign	Langat CSTP

SUSTAINABILITY STATEMENT

ACCIDENT MANAGEMENT:

We adopt a comprehensive management system in handling workplace accidents or incidents leading to injuries or fatalities. Investigations are conducted to look for the cause factor and findings are reviewed to reduce risks in the future.

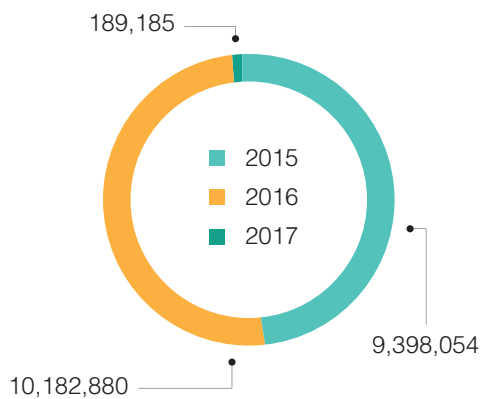
Our process of accident management:



In October 2017, an incident occurred at our KTU project site where the finger of the employee of our sub-contractor was hurt by a bar-bending machine. Immediate action was taken to bring the victim for proper medical treatment and an investigation was carried out for review.

Our man hours with zero loss time injury (LTI) target has been reset in November 2017 due to the incident at the KTU project site. As such, our target has also been reset to 1 million man hours without LTI.

Achieved man hours without LTI (hours)



Zero work-related employee or sub-contractor fatalities case for the past 3 years

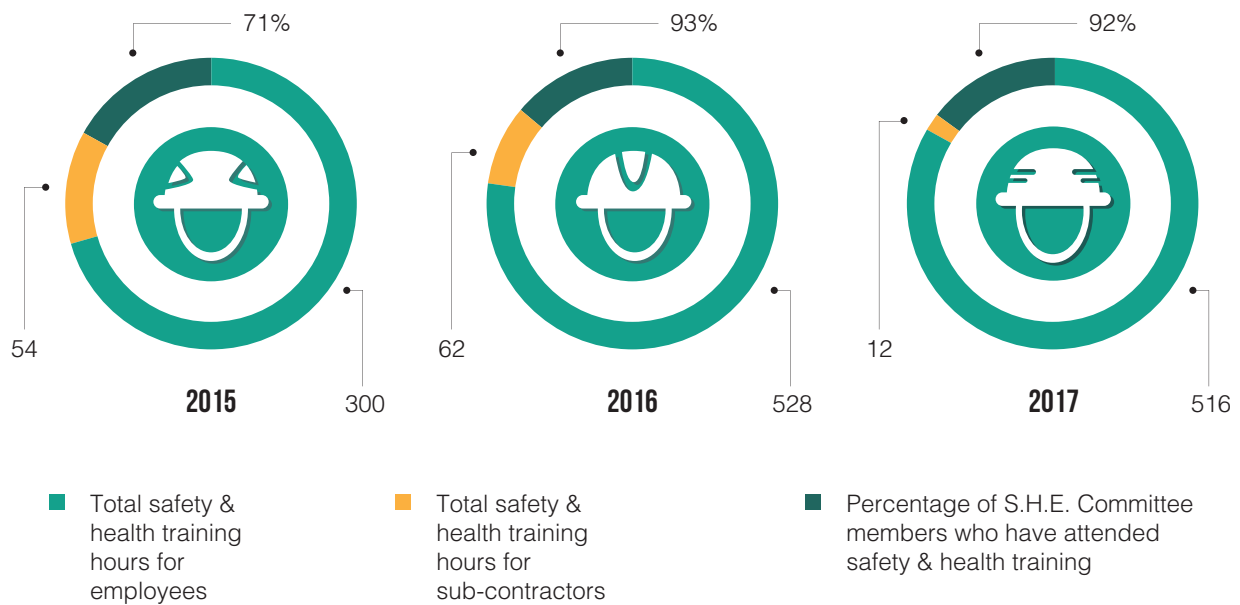


Annual fire drill for all employees at HQ and project sites to highlight the importance of fire safety

SUSTAINABILITY STATEMENT

SAFETY & HEALTH TRAINING

Safety and health training are important for our S.H.E Committee and employees to keep abreast of the proper techniques to apply when handling safety and health matters. Knowledgeable employees equipped with relevant and practical knowledge will also mitigate safety and health risk and reduce unnecessary loss to the Company.



44  **EMPLOYEES**

44 employees who are not S.H.E. Committee attended safety-related training in FYE 2017



Safety & health training is important to raise awareness on workplace safety & health

SOCIAL- COMMUNITY

As a responsible corporate citizen, we are committed to building a sustainable, strong and resilient community through our engagement and social development. We understand that gaining the trust of our community is crucial for long term relationships and success of our business operations. Through our measures in community investment, NGO collaborations, local employment as well as philanthropic giving, we aim to drive positive change to the community where we operate in.

OUR ALIGNMENT TO SDG GOALS



We collaborate with various NGOs who share the same values as us in developing the community by uplifting their living quality

COMMUNITY RIGHTS

In some of our projects, our job scope involves working within the local neighbourhood. In such cases, it is our standard operating procedure to conduct townhall meetings with the local communities before the commencement of the project. These briefings serve to inform the communities on what to expect throughout the project period and helps to minimize any potential disruptions.

The Project Manager of each project acts as the point of contact for any resident to address their concerns or report any breaches of human rights. To date, there have been no such reported incidences.

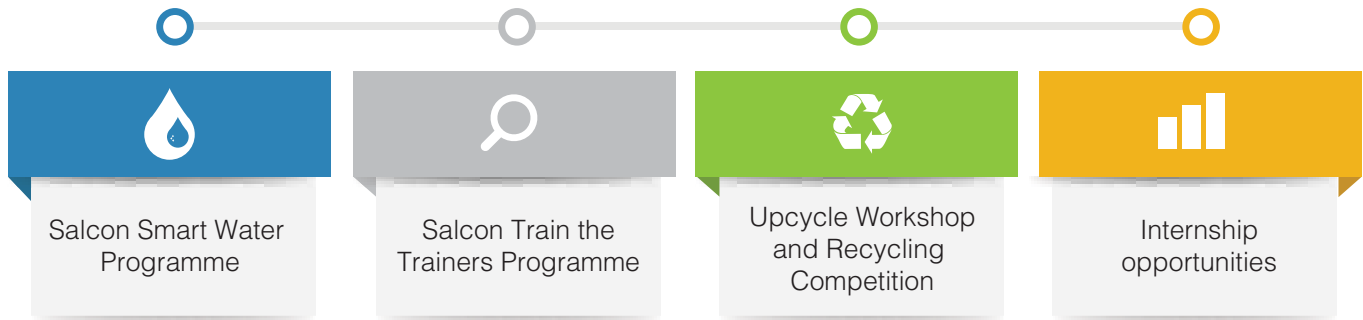
LOCAL EMPLOYMENT

Priority is given to the local communities, where possible, in terms of job opportunities for all new projects. Our commitment to local employment is also stated in the Group's Recruitment Policy. Local employment serves as a cost-saving measure for us as we do not need to import talent from outside which may lead to higher human resource expenditure. Local communities will enjoy greater variety of job opportunities at the same time.

SUSTAINABILITY STATEMENT

YOUNG GENERATIONS

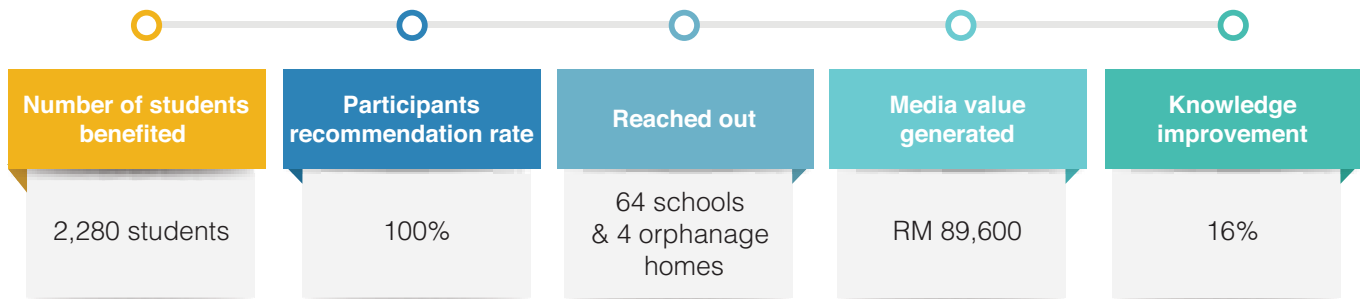
Our community sustainability initiatives focus very much on the development of our younger generation as future leaders of the nation. In FYE 2017, we continued to engage with school students and university students via the following programmes:



SALCON SMART WATER PROGRAMME

We have been in long term collaboration with Water Watch Penang (WWP) since 2010 to conduct the Salcon Smart Water Programme for primary school students in Klang Valley. The Salcon Smart Water Programme is a hands-on bi-monthly programme where school students have opportunity to conduct physical, chemical and biological river water testing at Lembah Kiara, Taman Tun Dr. Ismail. Students are educated on water conservation and biodiversity in the river. This regional award-winning programme was extended to secondary school students in 2016 after we revised the syllabus to suit the students. We are glad to see that the participants' knowledge gained from our pre and post event survey.

Highlights of the Salcon Smart Water Programme:



SUSTAINABILITY STATEMENT



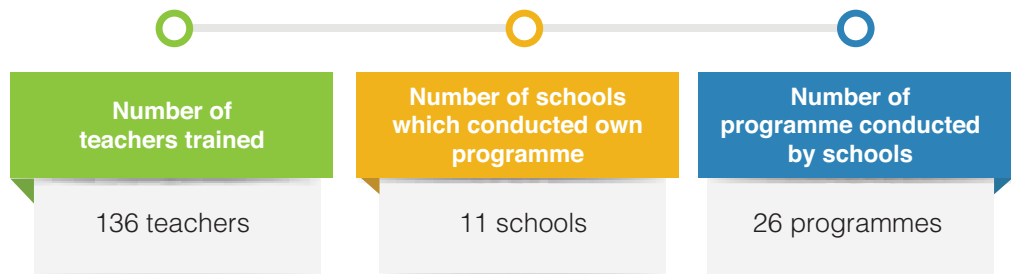
The Salcon Smart Water Programme is a hands-on bi-monthly programme where school students have opportunity to conduct physical, chemical and biological river water testing at Lembah Kiara, Taman Tun Dr. Ismail. Students are educated on water conservation and biodiversity in the river.

School students gain knowledge through hands-on physical, chemical and biological river water testing via the Salcon Smart Water Programme

SALCON TRAIN THE TRAINERS (TOT) PROGRAMME

In order to reach out more students, we expanded the programme in 2014 by conducting trainings for teachers to be the facilitators themselves. With the transfer of knowledge, teachers are empowered and have the flexibility to conduct the programme to fit their school schedules. Through this ripple effect, we can expand our reach to positively impact students' attitudes and actions.

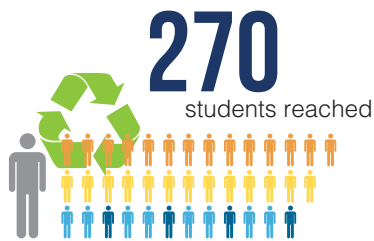
Teachers are equipped with the necessary know-how and skill to become 'Certified Trainers' of the Salcon Smart Water Programme by undergoing a half-day on-site training session. Besides being provided with water testing kits and teaching materials, we also subsidise the transportation costs of ferrying the students and teachers from their respective schools to the river site.



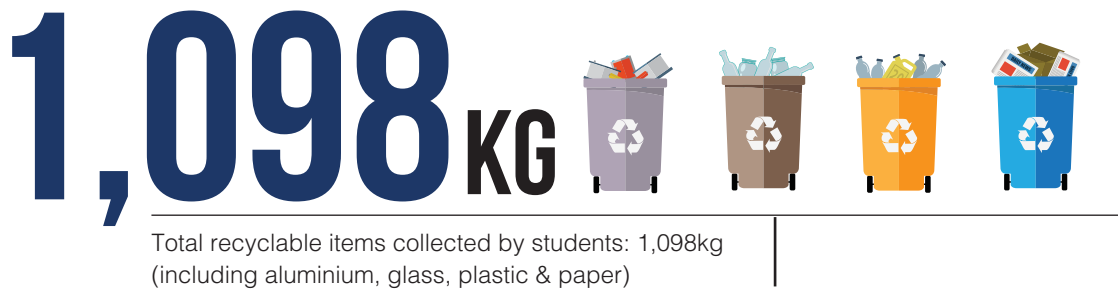
SUSTAINABILITY STATEMENT

UPCYCLE WORKSHOP AND RECYCLING COMPETITION

In conjunction with the Salcon Environment Week, we collaborated with Community Recycle for Charity (CRC) to organize an Upcycle Workshop and Recycling Competition for SK Dusun Nanding in Hulu Langat. The objective of the workshop and competition is to raise upcycle and recycling awareness among the primary school students.



We expanded the Salcon Smart Water Program by training teachers to be facilitators for their own schools



INTERNSHIP OPPORTUNITIES

We offer practical job experience to university students for real corporate world exposure. We recruited 5 university students as interns in FYE 2017 and are one of the partners in the Tunku Abdul Rahman University College's i-Star Internship Programme.

CARE FOR THE NEEDY

As a part of the larger community, we aim to foster a strong sense of compassion and giving amongst our employees to those who are less fortunate and in need. We strongly encourage our employees to give back to the society whether in the form of time, money or in-kind contribution.

Our community outreach targets to touch as many layers of the of the community as much as possible, via:

1. Philanthropic giving
2. Knowledge sharing
3. Donating for a good cause (organ donation pledge & blood donation)

SUSTAINABILITY STATEMENT

PHILANTHROPIC GIVING

In line with our Sponsorship & Donation Policy, we support orphanage homes, old folks homes, and disabled people homes through philanthropic giving. In FYE 2017, we have donated RM 114,795 to 20 charity homes in FYE 2017 which include USD 3,200 of Vietnam office's yearly initiatives in participating in the Terry Fox Run Fundraising Programme and in-kind support to poor families at Binh Thang Ward. All donations under our Malaysia operations are entitled for tax relief from the Government.



Terry Fox Run fund raising event in Vietnam

SALCON BACK TO SCHOOL PROGRAMME

Our employees also showed their support to charity homes under the Salcon Back to School Programme to Pertubuhan Yesuvin Mahligai, an orphanage home in Selangor. We purchased school uniforms and shoes for the orphans through donations by the employees and Company and paid the home a visit before Christmas to deliver school supplies and spread cheer to the children at the home.



Our annual Back to School Programme aims to ease the expenses of the orphanage



Our annual blood donation drive received good response from the Salcon employees and public

DONATE FOR GOOD CAUSE

In conjunction with the Salcon Safety & Health Campaign Month, we collaborated with the National Kidney Foundation (NKF) to conduct an organ donation talk to employees to explain organ donation myths and misconceptions.

On the closing day of the campaign, we reached out to employees and the public at our office tower through an organ donation pledge by NKF and annual blood donation drive by National Blood Bank. A total of 16 signed up for the organ donation pledge whilst 62 pints of blood were collected, translating into 186 lives saved.

SUSTAINABILITY STATEMENT

KNOWLEDGE SHARING

In FYE 2017, we collaborated with HOPE Worldwide Malaysia, a non-profit, non-religious organisation to conduct a voluntary talk to our employees. Subsequently, 14 of our employees and family members visited HOPE Worldwide Malaysia Centre in Sentul to teach underprivileged children English reading and creative art work to improve their knowledge, skills and confidence.


56 HOURS

Our employees volunteer to spend their time with under-privileged children via knowledge sharing



Our employees volunteer to spend their time with under-privileged children via knowledge sharing



Our employees and children in HOPE Worldwide Malaysia

CONCLUSION

Moving forward, the Group will continue to strive to enhance our sustainability initiatives to achieve ever higher milestones in all our EES aspects by taking impactful actions to create and sustain healthy economic performance, sustainable supply chain, long term environmental conservation, productive workplace and high living quality for the community

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (“the Board”) of Salcon Berhad (“Salcon” or “the Company”) is committed to ensure that a high standard of corporate governance is practised throughout the Company and its subsidiaries (“the Group”) for the financial year 2017. This is a fundamental part of discharging their fiduciary duty to safeguard shareholders’ investments and protect their interests.

The Group will continue its effort in evaluating its governance practices in response to evolving best practices. The Board is pleased to present this statement and explain how Salcon Group has applied the three (3) principles set out in the Malaysian Code on Corporate Governance (“MCCG”):

- a) Board leadership and effectiveness;
- b) Effective audit and risk management; and
- c) Integrity in corporate reporting and meaningful relationship with stakeholders.

Compliance with MCCG

The Company has complied with the practices and applied the main principles of the MCCG for financial year 2017 except:

- Practice 7.2 (The Board discloses on a named basis the top five (5) senior management’s remuneration in band of RM 50,000)
- Practice 12.3 (Companies with large number of shareholders should leverage technology to facilitate voting in absentia and remote shareholders’ participation at General Meeting)

The Corporate Governance Report provides specific disclosures on how the Company has applied the Practices set out in the MCCG for the financial year 2017. The report is available at www.salcon.com.my.

Principle A: Board Leadership and Effectiveness

I. Board Responsibilities

- 1.1 The Board is fully responsible for formulating policies, setting business strategies and directions, making key business decisions and the overall performance of the Group.

In order to create and promote clear understanding of the functions of the Board and Management; a Board Charter, which clearly sets out these functions, has been developed.

To facilitate effective management, certain functions of the Board have been delegated to various Board Committees, which reviews and make recommendations to the Board on specific areas. There are currently five Board Committees appointed by the Board, namely:

- Audit Committee (“AC”);
- Nomination Committee (“NC”);
- Remuneration Committee (“RC”);
- Risk Management Committee (“RMC”); and
- Sustainability Committee (“SC”)

The roles and responsibilities of the Board and Management are adequately established and communicated to ensure accountability. Management is responsible for the day-to-day operations of the Group’s activities and for achieving corporate objectives and goals, set by the Board.

Although specific powers had been delegated to the Board Committees, the Board keeps itself abreast with relevant key issues and decisions via presentation of Board Committee’s reports and minutes of meetings.

Additionally, the responsibilities of the Executive Directors (“EDs”) are also set out in the Board Charter.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board will periodically review the Board Charter and Terms of References (“TOR”) for the respective Board Committees and make necessary amendments to ensure consistency with the Board objectives. The latest review was conducted in 2018 and the amended version of Board Charter and TOR are available on the company’s website, www.salcon.com.my.

The Board should assume, among others, the following responsibilities:

- together with Senior Management, promote good corporate governance culture within the company which reinforces ethical, prudent and professional behaviour;
- review, challenge and decide on management’s proposals for the Company, and monitor its implementation by management;
- ensure that the strategic plan of the Company supports long-term value creation and includes strategies on economic, environmental and social considerations underpinning sustainability;
- supervise and assess management performance to determine whether the business is being properly managed.
- ensure there is a sound framework for internal controls and risk management;
- understand the principal risks of the Company’s business and recognise that business decisions involve the taking of appropriate risks;
- set the risk appetite within which the board expects management to operate and ensure that there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks;
- ensure that Senior Management has the necessary skills and experience, and there are measures in place to provide for the orderly succession of board and Senior Management;
- ensure that the Company has in place procedures to enable effective communication with stakeholders; and
- ensure the integrity of the company’s financial and non-financial reporting.

- 1.2 The Chairman of the Board leads the Board with dedication and focus on governance and compliance. The Board also monitors the various Board Committee’s functions to ascertain effective performance of their responsibilities in accordance with their respective TOR.

Detailed key responsibilities of the Chairman of the Board are stated in the Board Charter which is available on the Company’s website.

- 1.3 The positions of Chairman of the Board and EDs are held by different individuals.

The EDs manages the day-to-day business and operations of the Company and implements the Board’s decisions. The distinct and separate roles of the Chairman of the Board and EDs, with clear division of duties and responsibilities; ensure a balance of power and authority. That is, no single individual has unfettered decision-making powers.

Detailed key responsibilities of the EDs are stated in the Board Charter which is available on the Company’s website.

- 1.4 The Board is supported by 2 qualified Company Secretaries who have extensive years of experience in corporate secretarial practice. One of the Company Secretaries is a member of Malaysian Institute of Chartered Secretaries and Administrators (“MAICSA”) whilst the other is licensed by the Registrar of Companies.

The main responsibilities of the Company Secretary are:

- advise the board on its roles and responsibilities;
- facilitate the orientation of new directors and assist in director training and development;
- advise the board on corporate disclosures and compliance with company and securities regulations and listing requirement;
- manage process pertaining to the annual shareholder meeting;
- monitor corporate governance developments and assist the board in applying governance practices to meet the board’s needs and stakeholders’ expectations; and
- serve as a focal point for stakeholders’ communication and engagement on corporate governance issues.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board is satisfied with the performance and support rendered by the Company Secretaries in assisting the Board in the discharge of their duties.

The Company Secretaries have constantly keep themselves abreast of the regulatory changes and developments in corporate governance through attendance at relevant conferences and training programme.

- 1.5 The Board and Board Committees' meetings are organised with a pre-set agenda, providing the Directors with complete, relevant and timely information, for proper and effective discharge of their fiduciary duties and responsibilities.

The Board Papers which contain updates on the operational, financial and corporate developments, are circulated at least five (5) business days in advance of the meetings. The Board Papers would enable Directors to analyze the matters arising / possible outcomes and to obtain clarifications, if required, in order to facilitate sound decisions-making. Additionally, all members would ensure that information / deliberations / discussions and / or decisions made in prior meetings, are accurately reflected in the minutes of meeting; for confirmation and approval.

From time to time and when necessary, whereby the board papers are not able to circulate at least five (5) business days in advance; detailed presentations / briefing would be performed by EDs / Chief Financial Officer ("CFO") during the meeting. Furthermore, the Directors are entitled to obtain independent professional advice at the expenses of the Company, if and when necessary, in furtherance of their duties.

- 2.1 The Board and its Committees has a Board Charter and its respective TORs, which are available on the Company's website. The Board Charter set out among others; the governance structure, authority and responsibilities of the Board, its committees, directors and management. Although the Board has delegated some of its authorities to the Committees and Management, the Board is ultimately responsible to oversee the activities and functions of the Committees and Management.

In 2018, the Board has reviewed the Board Charter and respective TORs to be in line with the new MCCG practices and guidance.

- 3.1 All Directors and employees are expected to safeguard the integrity, reputation and performance of the Group by behaving ethically and professionally at all times.

The Board has adopted and implemented a Code of Ethics and Conduct ("COEC") throughout the Group since year 2010. The COEC applies to all employees including Directors, and adheres to a high ethical standard of Integrity, Objectivity, Confidentiality and Competency; while complying with all applicable laws and regulations that govern the Group's businesses and activities.

The COEC emphasizes ethical conduct in all aspects of the Groups' activities including conflicts of interests, privacy and confidentiality of information. The COEC also sets out prohibited activities or misconducts; such as acceptance of gifts, corruptions, dishonest behaviour, sexual harassment, etc.

- 3.2 The Whistle-blowing Policy ("WBP") which was established in year 2012, is to provide an avenue for all employees, vendors, contractors, suppliers, consultants, customers and stakeholder to raise concerns about any improper conduct within the Group, without fear of retaliation and to offer protection for the individual who report such allegations.

Any employee or stakeholder who is aware that any improper conduct has been, is being, or is likely to be committed, is encouraged to report directly to the AC Chairman, via the email to chansf8@yahoo.com.

During the year, no report had been received pertaining to any misconduct from employees, management, public or stakeholders. The COEC and WBP can be viewed on the Company's website.

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Board Development

The Board, together with the Management, attended applicable trainings to keep abreast with general economic, statutory requirements, industry and technical developments. The Board through the NC assess the training needs of each director.

During the year, all members of the Board who have attended various training programmes as summarised below: -

#	Name	Training Programmes attended	Date
1	Dato' Seri (Dr.) Goh Eng Toon	Companies Act 2016 vis-à-vis Malaysian Companies Law Malaysian Code on Corporate Governance 2017	28-Aug-17 22-Nov-17
2	Tan Sri Dato' Tee Tiam Lee	Companies Act 2016 vis-à-vis Malaysian Companies Law Malaysian Code on Corporate Governance 2017	28-Aug-17 22-Nov-17
3	Dato' Leong Kok Wah	Companies Act 2016 Bursa CG Breakfast Series - "Board Excellence: How to engage and enthuse Beyond Compliance with Sustainability" Companies Act 2016 vis-à-vis Malaysian Companies Law Sustainability Reporting 2017 Malaysian Code on Corporate Governance 2017	18-May-17 17-Jul-17 28-Aug-17 14-Sep-17 22-Nov-17
4	Dato' Freezailah Bin Che Yeom	Corporate Governance & Sustainability Microsite - Focus Group with Listed Issuers and Investors Companies Act 2016 vis-à-vis Malaysian Companies Law Technical Workshop on Green Financing in Malaysia Malaysian Code on Corporate Governance 2017	19-Jul-17 28-Aug-17 13-Oct-17 22-Nov-17
5	Dato' Choong Moh Kheng	Bursa CG Breakfast Series - "Board Excellence: How to engage and enthuse Beyond Compliance with Sustainability" Companies Act 2016 vis-à-vis Malaysian Companies Law Malaysian Code on Corporate Governance 2017	17-Jul-17 28-Aug-17 22-Nov-17
6	Mr Chan Seng Fatt	I Am Ready to Manage Risks Companies Act 2016 vis-à-vis Malaysian Companies Law Malaysian Code on Corporate Governance 2017	22-Aug-17 28-Aug-17 22-Nov-17

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Board and Committees Attendance

Directors are required to allocate sufficient time to the Company in discharging their responsibilities, including joining and participating the Board and Committees' meeting.

The attendance of Board members at the Board and Board Committees meetings held during the financial year ended 31 December 2017 is as set out below:

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

Note:

BOD - Board of Directors

AC - Audit Committee

RMC - Risk Management Committee

NC - Nomination Committee

RC - Remuneration Committee

N/A – Not Applicable

II. Board Composition

4.1 In 2017, the Board comprises three (3) Independent Directors and three (3) Non-Independent Directors. This has fulfilled MCCG Practice 4.1; whereby at least half of the Board's composition comprises Independent Directors.

4.2 Dato' Dr. Freezailah bin Che Yeom was appointed to the Board as an Independent NED on 21 July 2003 and had served the Board for a cumulative term of more than nine (9) years. The Company sought shareholders' approval at the Annual General Meeting ("AGM") held on 14 June 2017 to retain him as an Independent Director.

The Board believes that Dato' Dr. Freezailah's expertise and experiences with the Company's business operations had provided benefits to the Group. The Board is of the view, that significant advantages could be gained from the long-serving Independent Directors; with their invaluable insight, detailed and in-depth knowledge of the Group.

4.3 The Board does not has a policy which limits the tenure of its independent directors to 9 years.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

- 4.4 The policies, procedures and processes for recruitments and appointments of Directors, Board or Board Committees, and Senior Management are transparent and had been set out in the TOR of the NC.

The NC identifies the set of skills and experiences required for each applicable recruitment or appointment and selects candidates to take applicable positions. Objective evaluations are conducted on their capabilities; regardless of gender or age.

Additionally, the NC keeps the Board's balance of skills, knowledge, experience and the length of service of individuals; under constant review.

- 4.5 The Board recognizes the value of appointing a female Director to the Board and believes that it would enhance the diversities of opinions and perspectives to the Board and Board Committees.

Hence, the Board has established and approved the Board Diversity Policy (which includes the gender policy) and the policy can be viewed on the Company's website.

Additionally, the Board Diversity Policy states that the Company target to identify a suitable female candidate for appointment as director by 2019.

- 4.6 Selection of potential candidates for appointment as Directors; are facilitated through recommendations from existing Directors or from external parties. The NC meets with shortlisted candidates to assess their suitability prior to any recommendations, taking into account:

- 1) The candidate's independence, especially for the appointment of an Independent NED;
- 2) The composition requirements for the Board or Committee;
- 3) The candidate's track records, skills, knowledge, expertise, experiences, professionalism, integrity, capabilities, age, gender and any other relevant factors that would contribute positively to the Board; and
- 4) Time commitments to the Company if the candidate has board representations with multiple companies.

The Board is comfortable that the skills and experiences of our current Directors comply with the requirements.

Under the leadership of the Board's Chairman, the Group believes that our Board has well-chosen, effective and competent Directors; who will continue to lead the Company in meeting corporate objectives, safeguard the Group's interest and to achieve profitable performances.

- 4.7 In 2017, the NC comprises three (3) Non-Executive Directors ("NEDs") of whom, two (2) are Independent NEDs and one (1) Non-Independent NED. The NC is chaired by Dato' Dr. Freezailah bin Che Yeom who is the Senior Independent NED of the Company.

This is in compliance with Listing Requirement; Para 15.08A (1).

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- 5.1 The Board, through the NC, will formally assess and evaluate the effectiveness of the Board, its committees, each individual director and Senior Management via the evaluation form.

The NC conducted the performance assessment for year 2017 on 27 February 2018. The areas of reviews include:

- Assessing the composition of the Board and its Committees to ascertain compliance with Listing Requirements. All members are equipped with applicable expertise to improve the quality of decision making;
- Assessing the adequacy of the information submitted by Management. The members are provided sufficient time to review and challenge information in order to make quality decisions;
- Assessing the interactions and participations by Board members when reviewing and discussing business matters;
- Reviewing the mix of skills and experiences of Board members which includes; knowledge of legal, corporate governance, financial literacy, engineering, environmental, management, marketing, and etc;
- Assessing the independence of Independent Directors; and
- Performance of Senior Management.

Subsequent to the reviews/evaluations, the result will be summarized and recommended to the Board for review and notation.

For year 2017, based on the results of assessment conducted, the Board is satisfied with the performance of the Board, Board Committees, individual directors and senior management, the level of independence demonstrated by all Independent NEDs and their abilities to act in the best interests of the Company during deliberations at the Board and Board Committee meetings.

III. **Remuneration**

- 6.1 The Board via the RC, implements the policies and procedures on the recommendation and review of the remunerations for Board members and Senior Management.

The Board believes that competitive remunerations enable the Company to attract, retain and motivate the Directors and Senior Management. The remuneration packages are aligned to corporate objectives and take into consideration the complexity of the Company's business operations with reference to an individual's responsibilities and achievements. Additionally, the Board also ensure that remunerations and incentives for Independent Directors; are not in conflict with their obligations to bring objectivity, professionalism and independence of opinions on matters discussed at Board meetings.

- 6.2 In 2017, the RC comprises of three (3) Non-Executive Directors ("NEDs") of whom; two (2) are Independent NEDs and one (1) Non-Independent NED.

The RC is chaired by Dato' Seri (Dr.) Goh Eng Toon. The revised TOR which details the authority, duties and responsibilities of the RC is made available on the Company's website.

On 27 February 2018, the Board approved the recommendations from the RC during the RC's review of Directors' fees for the NEDs and remuneration packages for EDs, after taking into consideration; results of the evaluations on performances with reference to current market developments.

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7.1 The Directors' remuneration packages for the Company and the Group for the financial year ended 2017 are as follows: -

Directors' remuneration	@ Dato Seri (Dr.) Goh Eng Toon RM	# Tan Sri Dato' Tee Tiam Lee RM	# Dato' Leong Kok Wah RM	@ Dato' Dr. Freezailah bin Che Yeom RM	@ Dato' Choong Moh Kheng RM	@ Chan Seng Fatt RM
Salary	-	926,100.00	727,656.00	-	-	-
Bonus	-	220,500.00	173,250.00	-	-	-
Fees	90,000.00	-	-	60,000.00	60,000.00	60,000.00
Meeting allowances	7,500.00	-	-	5,000.00	2,500.00	5,000.00
Benefits-In-Kind	-	84,253.97	83,582.10	-	-	-
Statutory Contribution	-	137,592.00	108,114.00	-	-	-
	97,500.00	1,368,445.97	1,092,602.10	65,000.00	62,500.00	65,000.00

@ - Received from the Company

- Received from the Group

7.2 To avoid any potential controversy within the Company while maintaining harmony amongst management and employees, besides respecting Senior Management's privacy and confidentiality of their information; the Board had decided not to disclose the details of Senior Management's remuneration packages and detailed remuneration of each member of Senior Management on a named basis as required under Practice 7.3.

Principle B: Effective Audit and Risk Management

I Audit Committee

8.1 The Board is assisted by the AC in overseeing the Group's financial reporting process while maintaining ultimate responsibility. The AC conducts suitable challenges and probes with reference to transparency, focus, independence and effectiveness of the Group's financial reporting process, internal controls, risk management and governance structures.

The AC has complied with the Para 15.10 of the Listing Requirements whereby the members of the committee must elect a chairman among themselves who is an independent director.

The AC Chairman, Mr Chan Seng Fatt is not the Chairman of the Board.

The AC Chairman is responsible to ensure the overall effectiveness and independence of the AC. The AC under the leadership of the AC Chairman will also ensure that:

- They are fully informed on all significant matters related to the Group's audit and financial statements. Prompt action will be taken to address the matters;

CORPORATE GOVERNANCE OVERVIEW STATEMENT

- They communicate their concerns, views and insights on relevant transactions and events to both internal and external auditors;
- They express their concerns on any potential impacts to the financial or audit of the Group to the external auditors;
- There is coordination between internal and external auditors.

8.2 To avoid any potential conflict of interest or possible significant influences over the audit and preparation of the Group's financial statements, MCCG Practice 8.2 requires the AC to have a policy that requires a former key audit partner to observe a cooling-off period of at least two years prior being appointed as a member of the AC.

Thus, in compliance, the Board has revised the AC's TOR and incorporated this guidance. The revised TOR is made available on the Company's website.

During the year, no existing committee's members are related to or appointed from the Group's External Auditor ("EA").

8.3 MCCG Practice 8.3 requires the AC to have policies and procedures to assess the suitability, objectivity and independence of the EA. In their annual assessments, the AC will consider:

- Competence, audit quality and resource capacity of the EA in relation to the audit;
- Nature and extent of audit and non-audit services rendered, inclusive of appropriateness of level of fees;
- Written assurance from EA confirming their independence throughout conduct of the audit including all level of professional and regulatory requirements.

Thus, in compliance, the Board has revised the AC's TOR and incorporated this guidance. The revised TOR is made available on the Company's website.

The EA, Messrs. KPMG PLT ("KPMG PLT"), has been appointed as EA since 2003, and have given written confirmation that KPMG PLT are independent in providing both audit and non-audit services, up to the date of this statement.

Based on the latest assessment, the AC is satisfied with the independence and adequacy of experience and resources of KPMG PLT. The AC recommended the re-appointment of KPMG PLT as EA for the financial year ending 31 December 2018, to the Board. On 27 February 2018, the Board approved the AC's recommendation for the re-appointment of KPMG PLT. The recommendation will be tabled for the shareholders' approval during the forthcoming 15th AGM.

8.4 The Company complies Listing Requirements Para 15.09 (1) (b), as all AC members must be Non-Executive Directors, with a majority of them being Independent Directors.

However, Salcon has yet to adopt Step-up 8.4; whereby the AC should comprise solely of Independent Directors.

8.5 The AC complies with Listing Requirements Para 15.09 (1) (c), as the AC Chairman, Mr. Chan Seng Fatt, is a Chartered Accountant of the Malaysian Institute of Accountant. Furthermore, the remaining AC members have adequate accounting and financial experiences.

During the year, all members of the Board, including the AC had attended trainings. Please refer to training summary table within Board Development section.

II **Risk Management and Internal Control**

9.1 The Group has established a sound framework on how risks are to be managed across the Group. The Board acknowledges its responsibility for ensuring the maintenance of a sound system of internal controls and risk management. Additionally, the Board had also determined the Group's level of risk tolerance and had actively identified, assess and monitor key business risks in order to safeguard the Group's shareholders investments and Group's assets.

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9.2 The Board as assisted by the RMC, had established an Enterprise-wide Risk Management system, via the Integrated Risk Management Policy (“IRMP”) which sets the TOR, features and processes of the Group’s risk management and internal control framework.

The RMC, as assisted by the Risk Management Working Group (“RMWG”), oversees the ERM system for the Group. The RMC ensures that the risk management structure is embedded and consistently implemented within the Board’s established parameters throughout the Company while ensuring compliance with regulatory requirements

The RMC is also assisted by the Internal Audit and Risk Management Department (“IARMD”) in its role as a facilitator, in the implementation of risk management i.e. coordinating and reporting (risk management function) and reviewing of risks status (internal audit function). IARMD conducts reviews and enterprise wide risk assessments on all entities of the Group on a ‘at least once a year’ basis. These risk assessments are complemented by appropriate testing on the accuracy and verification of the integrity of controls and verification of controls on applicable entities via internal audit reviews; with recommendations to overcome any weaknesses noted. These internal audit reviews will also identify any new potential risk that could affect the financial position, operational processes and goodwill of the Company. Adequate disclosures on the implementation status of the Risk Management system are also provided in this Annual Report.

The comprehensive review involves restructuring of the ERM framework and re-categorise of risks and risk factors amongst others, as per the Company’s IRMP. This comprehensive restructuring will enable the Company:

- To incorporate applicable recent and relevant Bursa Securities guidelines;
- To realign the Company’s ERM framework and comply closely to ISO 31000 standards on Risk Management Process;
- To incorporate requirements to maintain the Group as a constituent company of Bursa Malaysia’s FTSE4Good Index;
- To integrate all applicable risk categories/factors to accommodate the Company’s diversifications into property development, telecommunications, renewal energy, transportation and E-commerce based tourism, into the ERM framework that currently under review; and
- Upgrade and enhance the Company’s risk management software system to enhance assessment, evaluation and reporting on the Company’s ERM framework.

Therefore, to facilitate this on-going comprehensive enhancement exercise, the Company has temporarily suspended scheduled semi-annual reviews and enterprise wide assessments on all applicable entities in 2017. However, the Company will not let up in efforts to continue monitoring on those risks identified earlier.

Notwithstanding the above, reviews on the adequacy of internal controls on subsidiaries/projects were still conducted via internal audits reviews/exercise with recommendations to overcome any weaknesses noted.

Once the review exercise is completed, the new IRMP upgraded to Integrated Risk Management Policy and Procedures (“IRMPP”) and the revised TOR for RMC will be uploaded to the Company’s website.

9.3 In accordance to MCGG step-up 9.3, the RMC shall comprise of majority of independent directors to oversee the company’s risk management framework and policies. The RMC Chairman is Mr. Chan Seng Fatt, who is an Independent Director. The remaining four (4) members comprises the ED, the Chief Operating Officer (“COO”), the CFO and the Director of Engineering and Proposal Division.

However, Salcon has yet to adopt with Step-up 9.3; whereby the RMC should comprise of a majority of Independent Directors.

The Board opines that the composition of the RMC is adequate, as the majority of the RMC members actively participate in daily business operations. Thus, they would be able to identify potential risks and react promptly to address any risk that arises.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

- 10.1 The Board has established an in-house internal audit function under IARMD, which functionally reports directly to the AC and administratively to the COO. IARMD periodically presents reports to the AC on the results of audit assessment, including evaluation on the adequacy and effectiveness of governance, risk management and internal controls processes within the Group, via unbiased and independent validation checks on applicable entities.

Details of the internal control system and risk management framework and activities carried out by IARMD, are set out in the Statement of Risk Management and Internal Control (“SORMIC”) and Audit Committee Report of this Annual Report.

- 10.2 IARMD carried out the internal audit review in accordance with ISO 31000 standards on Risk Management Process. IARMD comprises a total of five (5) staffs, with the composition of an Assistant Manager for Internal Audit, Assistant Manager for Risk Management, two (2) Senior Executives and a clerical staff. None of the staff has any family relationship with the Directors or Company which could result in the conflict of interest and/or impairment of the objectivity and independence during the internal audit review.

Mr. Ng Ping Fong, the Assistant Manager for Internal Audit, joined the company on 18 July 2012. He holds a Bachelor of Degree (Honors) in Accounting from University of Hertfordshire and a fellowship with ACCA. He is also a professional member of the Institute of Internal Auditors Malaysia.

Principle C: Integrity in Corporate Reporting and Meaningful Relationship with shareholders

I Communication with stakeholders

- 11.1 The Board reviews and approves all quarterly and other important announcements. The Company announces its quarterly and full-year results within the mandatory period. This information is publicly released via Bursa Link or the Company’s website, on a timely basis, to ensure effective dissemination of information relating to the Group.

To ensure that communications to the public are timely, factual, accurate and complete, the Communications Policy was established to outline the principles and practices in any communications between the company with internal/external stakeholders, obligatory disclosure and media. The Policy details authorised spokesperson who are approved to discuss Company matters with news media, investment community or industry analysts.

The Company’s website also serves as a platform to allow shareholders, stakeholders or potential investors to channel any enquiries with regards to the Company. Additionally, the Company had set up an alternate channel via Facebook to reach out to a broader range of the public, shareholders and interested parties.

The Company’s Corporate Affairs Department (“CAD”) monitors applicable platforms on a daily basis and directs all enquiries to the relevant subsidiaries, divisions or departments for ensuring that all enquiries are responded to, soonest possible.

- 11.2 MCCG encourages large Companies to adopt integrated reporting, based on a globally recognized framework; so that concise communication about a company’s strategy, performance, governance and prospects could lead to value creation, while promoting integrated relationship between various operating/functional units.

Salcon will keep this guidance in view for future adherence.

II. Conduct of General Meetings

- 12.1 The AGM is the principal forum for dialogue with shareholders, who are given the opportunity to enquire and seek clarification on the operations and financial performance of the Group with the Board members.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Annual Report containing of Audited Financial Statements and the notice of AGM accompanying proxy form, are sent to shareholders at least twenty-eight (28) days before the AGM. Sufficient time is given to shareholders for them to make necessary arrangements to attend and participate in person or by corporate representative, proxy or attorney. The Notice of the AGM is also advertised in a major local newspaper.

- 12.2 The Company maintains an open and transparent channel of communication with its stakeholders, institutional investors and shareholders; so as to provide a clear and complete picture of the Group's performance. The Company believes that constructive and effective relationship is an important factor in promoting and enhancing value for our shareholders.

At the 14th AGM held on 14 June 2017 and Extraordinary General Meeting ("EGM") held on 29 August 2017, all six (6) Directors were present in person to engage directly with shareholders and/or answer questions ("Q&A") by the shareholders, corporate representatives and proxies. The Chairman encouraged shareholders to raise questions pertaining to the Company's accounts and proposed resolutions during the AGM, before putting the resolutions to vote. The Chairman also provides sufficient time for the Q&A sessions during the AGM and EGM. Time for suggestions and comments by shareholders, to be noted by Management for consideration, was also provided. The COO, CFO and EA were also present to respond to the shareholders' queries, where applicable or necessary.

- 12.3 MCCG encourages the Company to leverage on information technology for electronic voting and remote shareholders' participation, especially for those listed companies with large number of shareholders.

Currently, the Company is yet to be ready for leveraging on information technology. The Company does encourage shareholders to physically attend the AGM and it has always been held at a venue which is easily accessible. The Board is of the belief that direct interaction with shareholders, will foster closer relationships among each other as well as with the Company and Management.

Other Information Required By Bursa Securities Main Market Listing Requirements

Status of Utilisation of Proceeds

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

- i) Salcon Darco Environmental Pte Ltd
- ii) Salcon Jiangsu (HK) Limited
- iii) Salcon Fujian (HK) Limited
- iv) Salcon Zhejiang (HK) Limited
- v) Salcon Linyi (HK) Limited
- vi) Salcon Shandong (HK) Limited

Salcon had on 12th September 2013 entered into the following agreements:

- a) conditional sale and purchase agreement between Salcon and Beijing Enterprises Water Group Limited ("**BEWG**") for the proposed disposals by Salcon of the entire equity interests held in Salcon Darco Environmental Pte Ltd and Salcon Jiangsu (HK) Limited to BEWG ("SPA-A"); and
- b) conditional sale and purchase agreement between Salcon, Salcon Water (Asia) Limited, a 60%-owned subsidiary of Salcon ("**Salcon Water**") and BEWG for the proposed disposals by Salcon and Salcon Water of the entire equity interests held in Salcon Fujian (HK) Limited, Salcon Zhejiang (HK) Limited, Salcon Linyi (HK) Limited and Salcon Shandong (HK) Limited to BEWG ("SPA-B")

for a total cash consideration of RMB955.0 million (equivalent to approximately RM518.28 million) ("**Proposed Disposals**").

The Company had obtained shareholders' approval pertaining to the above Proposed Disposals at the Extraordinary General Meeting ("EGM") held on 27 November 2013.

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The Proposed Disposals of the entire issued and paid-up share capital of Salcon Darco Environmental Pte. Ltd. and Salcon Jiangsu (HK) Limited pursuant to the SPA-A were deemed completed on 23 December 2013. The Company and Salcon Water had on 25 April 2016 mutually agreed with BEWG to proceed with the completion of the proposed disposals of the entire issued and paid-up share capital of Salcon Fujian, Salcon Zhejiang and Salcon Shandong, in accordance with SPA-B. The Company and Salcon Water had also on even date mutually agreed with BEWG to terminate the proposed disposal of Salcon Linyi.

The status of the utilisation of the proceeds as at 31 March 2018 arising from the disposals in respect of SPA-A is as follows:

Purpose	Proposed Utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Future investments	230,000	(150,216)	79,784
Repayment of borrowings	97,540	(97,540)	-
Distribution to shareholders	30,000	(40,556)	(10,556)
Working capital	10,397	(10,397)	-
Defraying expenses incidental to the Proposed Disposals	1,437	(1,501)	(64)
Total	369,374	(300,210)	69,164

The Company and Salcon Water had on 26 April 2016 entered into a Share Sale and Purchase Agreement with Orient Harmony Holdings Limited for the disposal of Salcon Linyi for a total cash sale consideration of RMB98 million (equivalent to approximately RM58.94 million).

The status of the utilisation of the proceeds as at 31 March 2018 arising from the disposals is as follows:

Purpose	Proposed Utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Future investments	24,753	(24,753)	-
Working capital	10,609	(10,609)	-
Total	35,362	(35,362)	-

Salcon Development Sdn Bhd ("SDSB"), a wholly-owned subsidiary of Salcon had on 10 April 2017 entered into a conditional share sale and purchase agreement with Fortune Quest Group Ltd, a wholly-owned subsidiary of Eco World International Berhad, for the proposed disposal of 80% equity interest in Eco World-Salcon Y1 Pty Ltd (formerly known as Salcon Development (Australia) Pty Ltd) for a disposal consideration of AUD120,000.

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The status of the utilisation of the proceeds as at 31 March 2018 arising from the disposals is as follows:

Purpose	Proposed Utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Defraying expenses incidental to the Proposed Disposal	406	(406)	-
Total	406	(406)	-

Material Contracts

There were no material contracts entered into by the Company or its subsidiaries involving Directors and major shareholders for the financial year ended 31 December 2017.

Audit and Non-Audit Fee

The amount of audit fees and non-audit fees paid or payable to the Company's external auditors and a firm affiliated to the external auditors' firm by the Company and the Group for the financial year ended 31 December 2017 are as follows:

	Company (RM)	Group (RM)
Audit Fees	170,000	603,000
Non-Audit Fees	35,000	51,000
Total Fees	205,000	654,000

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE AUDITED FINANCIAL STATEMENTS

The Directors are legally required to prepare financial statements which present a true and fair view of the state of affairs of the Company and the Group and are pleased to announce that in preparing the financial statements for the financial year ended 31 December 2017, the Group has:

- ensured compliance with applicable accounting standards enforced in Malaysia;
- adopted and consistently applied appropriate accounting policies; and
- made judgements and estimates that are prudent and reasonable.

The Directors are responsible for ensuring that proper accounting records are maintained, which disclose with reasonable accuracy, the financial position of the Group and also to ensure that the financial statements comply with the Companies Act 2016. In addition, the Board is responsible for the proper safeguarding of the assets of the Group and to take reasonable steps for the prevention and detection of fraud and other irregularities.

AUDIT COMMITTEE REPORT

The Audit Committee (“AC”) presents its report that provides insights into the manner in which the AC discharges its duties for the Group in year 2017.

Composition and attendance

The AC comprises three (3) members, who are all Non-Executive Directors (“NEDs”), with two (2) being Independent NEDs and one (1) Non-Independent NED. This has met the requirements as stated in Paragraph 15.09(1)(a) and (b) of Bursa Malaysia Securities Berhad Main Market Listing Requirements (“MMLR”).

The AC members and their attendance during the year are indicated as below: -

	Name	Designation	Attendance
1	Chan Seng Fatt (Chairman)	Independent Non-Executive Director	5/5
2	Dato' Seri (Dr.) Goh Eng Toon	Non-Independent Non-Executive Director	5/5
3	Dato' Dr. Freezailah bin Che Yeom	Independent Non-Executive Director	5/5

The AC Chairman, Mr. Chan Seng Fatt is a Chartered Accountant of the Malaysian Institute of Accountant and thus, the Company has complied with Paragraph 15.09(1) (c)(i) of MMLR.

The Board of Directors (“BOD”) via the Nomination Committee reviews the composition of the AC, assesses the members’ performances and effectiveness via annual evaluation. The BOD is satisfied that the AC members had discharged their duties and responsibilities in accordance with the AC’s Terms of Reference (“TOR”) and has supported the BOD in ensuring the Company upholds appropriate Corporate Governance (“CG”) standards.

The TOR of AC has been reviewed in year 2018 and available for reference at the Company’s website, www.salcon.com.my.

Meetings

The AC held five (5) meetings in FYE 2017. The Chief Operating Officer, and Chief Financial Officer (“CFO”) and Head of Internal Audit were invited to the meetings to facilitate their direct communications and provide clarifications on identified audit issues pertaining to the Group’s activities. The External Auditors (“EA”), Messrs. KPMG PLT, were invited to participate in the meetings, where necessary.

The meetings were appropriately structured through agendas. The meeting’s materials were distributed to members at least five (5) business days in advance prior to the meetings.

Part of the AC’s responsibility is to ensure the reliability of the Company’s annual/quarterly financial results and the Company’s compliance with Malaysian Financial Reporting Standards (“MFRS”). The CFO conducts a briefing/presentation of the annual/quarterly financial statements to the AC for deliberation, and subsequent recommendation to the BOD, for approval.

During the AC meeting held in February 2017, the EA confirmed that they were provided unfettered access to information and enjoyed full cooperation from the Management throughout the course of their audit. The EA were also invited to raise any matters that they considered important, for the AC’s attention. The AC met the EA twice, without the presence of the Company’s Executive Directors and Management. During these two (2) meetings, the AC enquired about the Company Management’s co-operation with the EA, their sharing of information and the proficiency and adequacy of resources in financial reporting functions.

AUDIT COMMITTEE REPORT

Minutes of each AC meeting were recorded and tabled for confirmation during the following AC meeting, and subsequently presented to the BOD for notation. For FYE 2017, the AC had reviewed and recommended to the BOD the annual and quarterly financial results, inclusive of the declaration of first and final dividend by distribution of treasury shares on the basis of one (1) treasury share for every eighteen (18) existing shares held in the Company in respect of the financial year ended 31 December 2016.

Summary of Activities of AC

The AC's activities during the FYE 31 December 2017 comprised the following:

- On 28 February 2017, the AC reviewed and recommended to the Board the payment of a first and final dividend for the FYE 2016. The AC also met up with the EA without the presence of Executive Directors and employees, reviewed their independence and discussed on the re-appointment.
- On 4 April 2017, the AC reviewed the Audited Financial Statements of the Company and the Group for the FYE 2016, and subsequently recommended them to the BOD for approval. At the same meeting, the AC also reviewed and discussed the report from Affin Hwang Investment Bank Berhad, the Independent Advisor on the proposed disposal of 80% equity interest in Eco World-Salcon YI Pty Ltd (formerly known as Salcon Development (Australia) Pty Ltd) by Salcon Development Sdn Bhd, a wholly-owned subsidiary of the Company.
- The AC being satisfied with performance of the EA. The AC recommended to the BOD the re-appointment of Messrs KPMG PLT, as EA for the financial year ending 31 December 2017.

On 22 November 2017, the AC reviewed the Annual Audit Plan for the FYE 2017 in relation to audit services as well as on recurring non-audit services provided by the EA. The Annual Audit Plan includes the audit strategies scope, etc on the Financial Statements. The recurring non-audit services, covers annual review of the Statement on Risk Management and Internal Control ("SORMIC"). The AC having considered the nature and scope of non-audit works of the EA, were satisfied that there were no conflicts of interest or impairments to the independence and objectivity of the EA. The EA gave written assurance that they are, and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.

- On Financial Reporting, the AC reviewed the quarterly financial statements during the AC meetings and subsequently recommended these statements to the BOD for approval. The review of the fourth quarter results for FYE 2016 was conducted on 28 February 2017; and the reviews of the quarterly results of first, second and third quarters for FYE 2017, were conducted on 29 May 2017, 29 August 2017 and 22 November 2017 respectively.
- The AC had reviewed the related party transactions within the Group and provided opinion on whether they are in the best interest of the Group, fair and reasonable and not detrimental to the interest of the minority shareholders of the Company and recommended the transactions to the BOD for consideration and approval.

AUDIT COMMITTEE REPORT

Internal Audit Function

The Group's internal audit function is performed in-house by the Internal Audit & Risk Management Department ("IARMD"), which reports directly to the AC. All internal audit activities for the FYE ended 31 December 2017 were conducted by IARMD. There were no areas of the internal audit function which were outsourced. The total cost incurred by the Group's internal audit function for the year under review was approximately RM 522,000. The detail pertaining the person responsible and number of resources for the department is available in the CG statement, Practice 10.2.

During the FY under review, the internal audit activities include, inter alia, the following:-

- IARMD conducted audit review activities as per the 2017 Audit Plan which was approved by the AC on 22 November 2016.
- IARMD presented applicable Internal Audit ("IA") reports as per the activities conducted, during the scheduled AC meetings, using the following contents :-
 - The executive summaries of the audit findings indicating the status and progress;
 - Audit findings, Management responses to IARMD's findings and corrective recommendations;
 - Follow up on previous years' issues and status of remedial actions taken; and
 - The Key Risk Profile and comparison of risk assessment result for the audited risk factors.
- During the scheduled AC Meetings in FYE 2017, IARMD reported to the AC that there is no material issue / misstatement or major deficiency noted, that posed a high risk to the overall internal control system of the Group.

The scope of audit engagements in FYE 2017 covered the following: -

- Compliance to law and regulation;
 - Reliability of financial information;
 - Safeguarding of assets;
 - Attainment of objectives; and
 - Efficiency and economy implication
- On 28 February 2017, the AC reviewed and recommended the incorporation of the AC Report, the CG Statement and SORMIC, into the Company's 2016 Annual Report. The AC also reviewed the adequacy of the scope, functions, competency and resources of the Company's IARMD.
 - On 29 May 2017 and 29 August 2017, AC reviewed and discussed the IA reports for the group's activities.
 - On 22 November 2017, the AC: -
 - reviewed and approved the annual Audit Plan for FYE 2018; and
 - held a private session with the IARMD without the presence of Executive Directors and employees. IARMD was encouraged to express any matters considered pertinent for AC's attention, or limitations being imposed at the course of work.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors of Salcon Berhad (“Salcon” or “the Company”) is committed to maintain a sound and effective internal control and risk management system. Each project and department of the Company and its subsidiaries (“the Group”) has implemented its own control processes under the leadership of the Executive Members of the Board together with the Chief Operating Officer (“COO”), who are responsible for good business and regulatory governance. This statement outlines the nature and scope of the Group’s internal control and risk management in 2017.

Board Responsibilities

The Board acknowledges its responsibility for the Group’s internal control and risk management system and reviews its effectiveness, adequacy and robustness. The internal control system covers governance, risk management, financial, strategy, organisational, operational, regulatory and compliance control matters.

The Board is aware that this system is designed to manage and mitigate, rather than eliminate, the risks of not adhering to the Group’s policies, procedures and preventing in achieving goals and objectives within the risk tolerance established by the Board and Management. Therefore, the system is to provide reasonable, but not absolute, assurance against the occurrence of any material misstatement, loss or fraud.

In 2017, the adequacy and effectiveness of internal controls were reviewed by the Audit Committee (“AC”) based on the internal audits conducted by the in-house Internal Audit and Risk Management Department (“IARMD”) during the year. Audit reports comprised of audit findings, recommendations and management replies to address the issues highlighted by IARMD, were presented to the members during the AC meetings with Minutes duly recorded.

The Risk Management Committee (“RMC”) has been established since year 2006 with the purpose of providing risk oversight and ascertaining implementation of the Group’s businesses and operations. The Group’s Risk Management Framework is outlined in its Integrated Risk Management Policy and Procedures (“IRMPP”). The IRMPP is being revised for general conformity to ISO31000 standard.

Internal controls and risk-related matters which require the Board’s attention, were highlighted by the AC and RMC to the Board for its actions and necessary approvals, and decisions made by the AC and RMC were updated to the Board for its actions.

Internal Audit Function

The Company complies with Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements (“MMLR”) by setting-up an in-house IARMD. IARMD functionally reports to AC/RMC and administratively to COO, providing feedback in managing the key risks and ascertaining the adequacy and integrity of the Group’s internal control and risk management system.

The Internal Audit Function reviews key activities of the Group based on an annual audit plan approved by the AC. The plan as prepared by the IARMD, is based on the Company’s Corporate Key Risk Register which is inclusive of existing projects of the operating entities within the Group.

The AC reviews all internal audit reports and the scope of works to be carried out to ensure that the necessary level of assurance; with respect to the adequacy of internal controls and the management of key risks as required by the Board, is achieved. Follow-up reviews on previous audit issues are also carried out to ascertain that appropriate actions are taken to address internal control weaknesses.

Subsequent to the reviews, the AC shall highlight the pertinent findings to the Board for necessary actions, on a quarterly basis or as appropriate.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

Control Processes and Risks

The Group's internal control system comprises the following key processes:

1. International Organisation for Standardization ("ISO") and Occupational Health & Safety Advisory Services ("OHSAS") certifications:
 - Salcon Engineering Berhad ("SEB"), a wholly owned subsidiary of Salcon Berhad, is certified to ISO9001 - Quality Management System ("QMS"):2015 since October 2016 and to ISO14001 - Environmental Management System ("EMS"):2015 in October 2017 at both the corporate office and at project levels.
 - SEB is also certified to OHSAS18001:2007 - Occupational Safety & Health Management System ("OSHMS") since 2008.
 - As required by legislation, the Company has also established Safety and Health Committee to assist in the implementation of applicable inspections and reviews of OSHMS while emphasizing the Group's commitment to ensure and maintain a safe working environment.
 - Under ISO 9001, ISO14001 and OHSAS18001 requirements, internal quality audits are conducted annually by Quality Assurance / Quality Control ("QA/QC") and Safety, Health and Environmental ("S.H.E") department to check, measure, analyze, review and improve on the performances of SEB's certifications; on both the corporate office and applicable projects.
2. Authority and Responsibilities
 - The Board delegates certain duties and responsibilities to various Board Committees through the clearly defined Terms of Reference ("TOR"). The TORs are reviewed as and when necessary and are available at the Company's website, www.salcon.com.my.
 - The authority limit and signatory document is reviewed periodically to reflect the authority and authorization limit of the Management in all aspects of the Group's major business operations and regulatory functions.
3. Monitoring and Reporting
 - Board and Board Committee meetings are scheduled to update the Group's performance regularly. The Group's business plan, execution and financial performance are reviewed and discussed by the Board on quarterly basis. The Minutes of Meeting are duly recorded.
4. Policies and Procedures
 - The Group has set up and documented internal policies, standards and procedures to ensure compliances of internal controls and relevant laws and regulations. Common Group policies such as ISO, OHSAS and Human Resource Policies Procedures ("HRPP") are available on the Company's intranet for easy access and reference by employees.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

5. Audit

IARMD evaluates compliance of policies and procedures through internal audit reviews. IARMD discharged its responsibilities with the guidance of terms and principles as stated in the Audit Charter and reports its findings to the AC via internal audit reports. Internal audit reports will include audit findings, areas for improvement, audit recommendations, management replies and action plans.

- The surveillance and re-certification audits for ISO9001:2015, ISO14001:2015 and OHSAS18001:2007 are conducted by Bureau Veritas.
- External Auditors have been engaged to provide audit and non-audit services to the Group for the year 2017. Nature of non-audit services provided is available within the Corporate Governance Statement in this Annual Report.

6. Risk Management

- The Group has implemented an Enterprise Risk Management (“ERM”) framework to manage all relevant risks that can affect the Company’s business and operations. The ERM framework is supported by a risk governance structure; comprising of the RMC, the Risk Management Working Group (“RMWG”) and IARMD. The governance structure is tasked with the responsibilities and accountabilities for monitoring risk management.
- The RMC is established to provide oversight and assurance concerning the Group’s risk profile to the Board.
- The RMWG is established to assist the Board and the RMC to facilitate/update at business units’ level on the identification and communication of present or potential critical risks identified. The RMWG are represented by Heads of subsidiaries, divisions and departments.
- The IARMD reports directly to the AC/RMC while providing an independent assessment, and reasonable assurances of the effectiveness, adequacy and reliability; of the Group’s risk management processes and internal control system.
- There are established processes and procedures, which are detailed within the IRMPP for risks identifications, assessments, communication and monitoring. IARMD continues to review the risks and the effectiveness of risk mitigation strategies and controls at the corporate, divisional and projects levels including material joint ventures and associates.

The Group has been using Q-Radar software since 2006, to facilitate the monitoring functions and enhance the reporting and presentation structure and processes. Additionally, risk tolerances are presented via the use of a risk impact and likelihood matrix with reference to established tolerance boundaries so that risks deemed high or low, can be distinguished.

Additionally, at least once a year, IARMD would tabulate, report and brief the RMC on the performances of the risk management system. The report will generally include the following:

- 1) Executive summary of period under review;
- 2) Sources of risks with reference to corporate risk scorecard;
- 3) Status of strategic objectives and changes to risk parameters;
- 4) Risk performances of applicable divisions and subsidiaries;
- 5) Top 10 risk factors to the Group;
- 6) Areas for improvement

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

7. Performance Measurement

- Annual employees' performance appraisals are conducted to review the contributions or achievement by employees. The Company would reward the employees based on the result of the appraisals.
- QA/QC department conducts customer satisfaction survey on yearly basis in order to improve for future effectiveness and efficiency.
- Procurement department conducts performance evaluation on suppliers / sub-contractors on their product delivered or services rendered. Qualified suppliers / sub-contractors will be maintained in approved vendor / suppliers list for future work award.

8. Staff Competency

- HRPP contain recruitment, retrenchment and termination guidelines. Training and development programs are encouraged by the Company to ensure staffs are kept up-to-date with the necessary competencies to carry out their duties towards achieving the Group's objectives.

9. Conduct of Staffs

- A Code of Ethics and Conducts ("COEC") is established for the Group and is applicable to all employees, senior management and directors. The COEC defines the ethical standards and work conduct required from all the applicable categories of staffs towards the Group.
- Salcon Insider Trading Policy ("SITP") has been established to provide guidance and ascertain material non-public information is not misused.
- Salcon has a Whistle-blowing Policy ("WP") to provide a platform for staffs or any external party to report any breach or suspected breach of any law or regulation, including business principles and the Groups policies, in a safe and confidential manner. An employee who makes a report of improper conduct in good faith shall not be subject to unfair dismissal, victimization, demotion, suspension, intimidation or harassment, discrimination, any action causing injury, loss or damage or any other retaliatory actions by the Company. The AC has the overall responsibility in overseeing the implementation of the WP for the Group. The WP is available at the Company's website.

During 2017, the Company did not receive any report or incidences from whistle blowers on any possible or potential misconduct from employees, management, public or stakeholders.

- Segregation of duties is practised to avoid conflict of interests and to reduce the scope for error and fraud.

10. Insurance

- Insurance coverage and safeguarding on assets are in place to ensure the Group's assets are adequately covered against any mishap that could result in material loss. Annual renewal policy is undertaken by Management to review the coverage based on the current fixed asset register and the respective net book values. The Company seeks professional advice to assist by conducting a risk assessment on the adequacy of the intended coverage.
- The Company purchases Workman Compensation and Contractors All Risk insurance for each project. The sum insured is in accordance with the requirement stated in the Letter of Award of each project.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

Review of this statement

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guides ("AAPG") 3 (previously Recommended Practice Guide ("RPG") 5 (Revised 2015)), *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report* issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Group for the year ended 31 December 2017, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

- (a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
- (b) is factually inaccurate.

AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Conclusion

The Board opines that the internal control and risk management system in place for the year under review is sound and robust to safeguard the Group's assets, shareholders' investments and stakeholders' interest. The Board has received written confirmation and assurance from the COO and Chief Financial Officer ("CFO") that the Group's internal control and risk management system is operating adequately and effectively, in all material aspects, based on the framework adopted by the Group. This Statement is subsequently recommended by AC to the Board for approval on 4 April 2018.

FINANCIAL

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2017.

Principal activities

The Company is principally engaged in investment holding activities, whilst the principal activities of the subsidiaries are stated in Note 6 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

Subsidiaries

The details of the Company's subsidiaries are disclosed in Note 6 to the financial statements.

Results

	Group RM'000	Company RM'000
(Loss)/Profit for the year attributable to:		
Owners of the Company	(23,822)	4,325
Non-controlling interests	(6,221)	-
	<hr/>	<hr/>
	(30,043)	4,325

Reserves and provisions

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

Dividends

Since the end of the previous financial year, the amount of dividends paid by the Company and recommended by the Directors were as follows:

- i) In respect of the financial year ended 31 December 2016 as reported in the Directors' Report of that year:
- A first and final dividend comprising a share dividend of one (1) treasury share for every eighteen (18) existing ordinary shares held in the Company. The total number of treasury shares distributed was 35,663,238 shares or equivalent to RM21.90 million.

The dividend was fully credited into the depositors' securities accounts of the entitled shareholders maintained with Bursa Malaysia Depository Sdn Bhd on 12 July 2017.

- ii) In respect of the financial year ended 31 December 2017:
- A first and final single tier dividend of 1 sen per ordinary share in respect of the financial year ended 31 December 2017 was recommended by the Directors and is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Directors of the Company

Directors who served during the financial year until the date of this report are:

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

Directors of the Subsidiaries

The following is a list of Directors of the subsidiaries (excluding Directors who are also Directors of the Company) in office during the financial year until the date of this report:

Ooi Cheng Swee @ Wee Kwee Swee
Jamiluddin Amini Bin Sulaiman
Law Woo Hock
Lee Thim Loy
Low Ah Chye @ Low Beng Peow
Vergis Mathews a/l V V Mathew
Thomas Alexander Sjoberg
Liew Swee Choong
Tan Peng Kok
Cheok Yeow Kwang @ Chok Ah Soi
Lee Thiam Lai
Ong Aun Kung
Png Chiew Chuan
Tan Ban Seng
Dato' Ding Pei Chai
Soh Yoke Yan
See Che Chi
Chuah Tse Leong
Teoh Hooi Fang
Dato' Ngiam Foon
Chung Teing Lee
Tai Yong Cherng
Lee Choon Weng
Mohd Fauzilan Bin Mat Nor
Asra Bin Jaflus
Dato' Mohamad Taufik Bin Haji Omar
Motoki Kinoshita
Sajidharan Anantkrishnan
Liam Trevor Tierney (alternate Director of Sajidharan Anantkrishnan)
Ewe Tuan Hai

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Directors' interests in shares

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

	Number of ordinary shares			At 31.12.2017
	At 1.1.2017	Bought*	Sold	
The Company				
<u>Direct interest</u>				
Dato' Seri (Dr.) Goh Eng Toon	2,300,000	127,777	-	2,427,777
Tan Sri Dato' Tee Tiam Lee	38,606,400	2,144,800	-	40,751,200
Dato' Leong Kok Wah	3,600,000	200,000	-	3,800,000
Dato' Dr. Freezailah bin Che Yeom	1,750,400	97,244	-	1,847,644
Dato' Choong Moh Kheng	3,000,000	166,666	-	3,166,666
<u>Deemed interest</u>				
Dato' Seri (Dr.) Goh Eng Toon ⁽¹⁾	66,709,600	3,706,088	-	70,415,688
Tan Sri Dato' Tee Tiam Lee ⁽²⁾	45,281,034	2,515,612	-	47,796,646
Dato' Leong Kok Wah ⁽³⁾	67,009,600	3,722,754	-	70,732,354
Dato' Choong Moh Kheng ⁽⁴⁾	7,450,000	413,888	-	7,863,888

* Receipt of shares in relation to the distribution of share dividend.

- (1) (i) Deemed interested through shareholding in Naga Muhibah Sdn. Bhd. pursuant to Section 8 of the Companies Act 2016.
(ii) Deemed interested through shares held by child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn. Bhd. pursuant to Section 8 of the Companies Act 2016.
- (2) (i) Deemed interested through the shares held by child (Tee Xun Hao) pursuant to Section 59(11)(c) of the Companies Act 2016.
(ii) Deemed interested through shares held in Infra Tropika Sdn. Bhd. pursuant to Section 8 of the Companies Act 2016.
- (3) (i) Deemed interested through the shares held by children (Leong Yi Ping and Leong Yi Ming) pursuant to Section 8 of the Companies Act 2016.
(ii) Deemed interested through the shares held by spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn. Bhd. pursuant to Section 8 of the Companies Act 2016.
- (4) Deemed interested through shareholding in Pembinaan Punca Cergas Sdn. Bhd. pursuant to Section 8 of the Companies Act 2016.

The other Director holding office at 31 December 2017 did not have any interest in the shares of the Company and of its related corporation during the financial year.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than those fees and other benefits included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than those disclosed in Note 29 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Issue of shares and debentures

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

The movements in treasury shares are disclosed in Note 14 in the financial statements.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Indemnity and insurance costs

During the financial year, the total amount of indemnity insurance coverage provided and the corresponding insurance premium effected for all Directors and other officers of the Company and its subsidiaries, joint ventures and associates are RM10,000,000 and RM18,500 respectively. There were no indemnity given to or insurance effected for auditors of the Company.

Other statutory information

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

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Other statutory information (continued)

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

- i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2017 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Significant events

The significant events during the financial year are disclosed in Note 33 to the financial statements.

Subsequent events

The subsequent events after the end of the financial year are disclosed in Note 34 to the financial statements.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Auditors

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

The auditors' remuneration is disclosed in Note 21 to the financial statements.

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

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

Director

.....
Tan Sri Dato' Tee Tiam Lee

Director

Kuala Lumpur

Date: 4 April 2018

STATEMENTS OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Assets					
Property, plant and equipment	3	61,953	63,490	517	743
Intangible assets	4	21,831	21,831	-	-
Investment properties	5	8,201	8,485	-	-
Investments in subsidiaries	6	-	-	94,088	103,637
Investments in associates	7	42,726	27,224	294	294
Investments in joint ventures	8	49,190	36,231	23,500	23,500
Other investments	9	540	-	540	-
Deferred tax assets	10	3,698	3,698	-	-
Total non-current assets		188,139	160,959	118,939	128,174
Trade and other receivables	11	160,713	152,682	366,678	296,388
Inventories	12	142,054	194,719	-	-
Current tax assets		3,651	1,615	240	350
Prepayments		537	1,461	16	14
Cash and cash equivalents	13	133,811	215,941	42,954	113,244
Total current assets		440,766	566,418	409,888	409,996
Total assets		628,905	727,377	528,827	538,170
Equity					
Share capital		424,465	338,847	424,465	338,847
Reserves		10,922	76,645	(1,943)	64,120
Retained earnings		22,770	68,490	77,490	95,063
Total equity attributable to owners of the Company	14	458,157	483,982	500,012	498,030
Non-controlling interests		26,971	39,126	-	-
Total equity		485,128	523,108	500,012	498,030
Liabilities					
Loans and borrowings	15	5,741	48,062	299	505
Deferred tax liabilities	10	7,299	9,460	-	-
Total non-current liabilities		13,040	57,522	299	505
Trade and other payables	16	69,797	119,617	28,310	39,439
Loans and borrowings	15	60,887	24,988	206	196
Current tax liabilities		53	2,142	-	-
Total current liabilities		130,737	146,747	28,516	39,635
Total liabilities		143,777	204,269	28,815	40,140
Total equity and liabilities		628,905	727,377	528,827	538,170

The notes on pages 116 to 204 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Continuing operations					
Revenue	17	206,492	98,974	842	22,705
Cost of sales		(186,153)	(73,384)	-	-
Gross profit					
Other income		20,339	25,590	842	22,705
Distribution expenses		6,150	12,209	13,905	10,001
Administrative expenses		(3,574)	(3,280)	(76)	(94)
Other expenses		(63,269)	(52,971)	(20,166)	(24,831)
		(9,611)	(1,894)	(192)	(154)
Results from operating activities					
Finance income		(49,965)	(20,346)	(5,687)	7,627
Finance costs		3,594	1,614	10,371	6,220
		(4,034)	(4,820)	(28)	(38)
Operating (loss)/profit					
Share of profit of equity-accounted associates/ joint ventures, net of tax		(50,405)	(23,552)	4,656	13,809
		15,620	11,865	-	-
(Loss)/Profit before tax					
Tax expense	19	(34,785)	(11,687)	4,656	13,809
		2,707	(4,896)	(331)	(600)
(Loss)/Profit from continuing operations					
		(32,078)	(16,583)	4,325	13,209
Discontinued operation					
Profit from discontinued operation, net of tax	20	2,035	37,941	-	-
(Loss)/Profit for the year					
	21	(30,043)	21,358	4,325	13,209

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Other comprehensive (expense)/income, net of tax					
Foreign currency translation differences for foreign operations	22	(3,899)	15,810	-	-
Other comprehensive (expense)/income for the year, net of tax		(3,899)	15,810	-	-
Total comprehensive (expense)/income for the year		(33,942)	37,168	4,325	13,209
(Loss)/Profit attributable to:					
Owners of the Company		(23,822)	11,844	4,325	13,209
Non-controlling interests		(6,221)	9,514	-	-
(Loss)/Profit for the year		(30,043)	21,358	4,325	13,209
Total comprehensive (expense)/income, attributable to:					
Owners of the Company		(23,482)	13,572	4,325	13,209
Non-controlling interest		(10,460)	23,596	-	-
Total comprehensive (expense)/income for the year		(33,942)	37,168	4,325	13,209
Basic (loss)/earnings per ordinary share (sen):					
	23				
from continuing operations		(3.88)	(1.81)		
from discontinued operation		0.36	3.62		
		(3.52)	1.81		

The notes on pages 116 to 204 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

Group	Attributable to Owners of the Company		Distributable				Non-controlling interest		Total equity RM'000
	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Translation reserve RM'000	Capital reserve RM'000	Retained earnings RM'000	Total RM'000	RM'000	
At 1 January 2016	338,847	85,618	(3,499)	10,797	102,377	42,608	576,748	27,213	603,961
Foreign currency translation differences for foreign operations	-	-	-	1,728	-	-	1,728	14,082	15,810
Total other comprehensive income for the year	-	-	-	1,728	-	-	1,728	14,082	15,810
Profit for the year	-	-	-	-	-	11,844	11,844	9,514	21,358
Total comprehensive income for the year	-	-	-	1,728	-	11,844	13,572	23,596	37,168
Own shares acquired	-	-	(17,999)	-	-	-	(17,999)	-	(17,999)
Dividends to owners of the Company	-	-	-	-	-	(13,294)	(13,294)	-	(13,294)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(15,339)	(15,339)
Total transactions with owners of the Company	-	-	(17,999)	-	-	(13,294)	(31,293)	(15,339)	(46,632)
Disposal of interest in subsidiaries	-	-	-	-	(102,377)	27,332	(75,045)	3,672	(71,373)
Acquisition of subsidiaries	-	-	-	-	-	-	-	(16)	(16)
At 31 December 2016	338,847	85,618	(21,498)	12,525	-	68,490	483,982	39,126	523,108

Note 14.1

Note 14.1

Note 14.2

Note 14.3

Note 14.4

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

Group	Note	Attributable to Owners of the Company					Total equity RM'000			
		Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Translation reserve RM'000	Capital reserve RM'000		Retained earnings RM'000	Total RM'000	Non-controlling interest RM'000
At 1 January 2017		338,847	85,618	(21,498)	12,525	-	68,490	483,982	39,126	523,108
Foreign currency translation differences for foreign operations		-	-	-	340	-	-	340	(4,239)	(3,899)
Total other comprehensive income/(expense) for the year		-	-	-	340	-	(23,822)	(23,822)	(4,239)	(3,899)
Loss for the year		-	-	-	-	-	-	(23,822)	(6,221)	(30,043)
Total comprehensive income for the year		-	-	-	340	-	(23,822)	(23,482)	(10,460)	(33,942)
Contributions by and distributions to owners of the Company		-	-	-	-	-	-	-	-	-
Own shares acquired		-	-	(2,343)	-	-	-	(2,343)	-	(2,343)
Dividends to owners of the Company	24	-	-	21,898	-	-	(21,898)	-	-	-
Dividends to non-controlling interests		-	-	-	-	-	-	-	(1,369)	(1,369)
Total transactions with owners of the Company		-	-	19,555	-	-	(21,898)	(2,343)	(1,369)	(3,712)
Disposal of interest in subsidiaries		-	-	-	-	-	-	-	(183)	(183)
Acquisition of subsidiaries		-	-	-	-	-	-	-	1,105	1,105
Issuance of shares to non-controlling interest		-	-	-	-	-	-	-	5,118	5,118
Capital reduction in a subsidiary		-	-	-	-	-	-	-	(6,366)	(6,366)
Transfer in accordance with Section 618(2) of the Companies Act 2016		85,618	(85,618)	-	-	-	-	-	-	-
At 31 December 2017		424,465	-	(1,943)	12,865	-	22,770	458,157	26,971	485,128

Note 14.1 Note 14.1 Note 14.2 Note 14.3 Note 14.4

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

Company	Note	Attributable to Owners of the Company				
		Non-distributable		Treasury shares RM'000	Distributable	
		Share capital RM'000	Share premium RM'000		Retained earnings RM'000	Total equity RM'000
At 1 January 2016		338,847	85,618	(3,499)	95,148	516,114
Profit and total comprehensive income for the year		-	-	-	13,209	13,209
Contributions by and distributions to owners of the Company						
Own shares acquired		-	-	(17,999)	-	(17,999)
Dividends to owners of the Company	24	-	-	-	(13,294)	(13,294)
Total transactions with owners of the Company		-	-	(17,999)	(13,294)	(31,293)
At 31 December 2016/1 January 2017		338,847	85,618	(21,498)	95,063	498,030
Profit and total comprehensive income for the year		-	-	-	4,325	4,325
Contributions by and distributions to owners of the Company						
Own shares acquired		-	-	(2,343)	-	(2,343)
Dividends to owners of the Company	24	-	-	21,898	(21,898)	-
Total transactions with owners of the Company		-	-	19,555	(21,898)	(2,343)
Transfer in accordance with Section 618(2) of the Companies Act 2016		85,618	(85,618)	-	-	-
At 31 December 2017		424,465	-	(1,943)	77,490	500,012

Note 14.1

Note 14.1

Note 14.2

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash flows from operating activities				
(Loss)/Profit before tax				
- continuing operations	(34,785)	(11,687)	4,656	13,809
- discontinued operation	(813)	37,975	-	-
	(35,598)	26,288	4,656	13,809
<i>Adjustments for:</i>				
Depreciation of property, plant and equipment	5,458	5,716	226	226
Dividend income	-	-	(842)	(22,705)
Finance costs	4,034	4,820	28	38
Finance income	(3,594)	(1,614)	(10,371)	(6,220)
(Gain)/Loss on disposal of equity interest in subsidiaries	(8,759)	(42,057)	-	12
Impairment loss on goodwill	8,513	34	-	-
Impairment loss on other investment	135	-	135	-
Loss on disposal of investment properties	3	-	-	-
Loss on disposal of other investments	20	-	20	-
Net loss on disposal of property, plant and equipment	335	9	-	-
Property, plant and equipment written off	202	782	-	-
Reversal of impairment loss on property, plant and equipment	-	(924)	-	-
Share of profit of equity-accounted associates/joint ventures, net of tax	(15,620)	(11,865)	-	-
Unrealised foreign exchange differences	7,350	(2,865)	8,153	(3,945)
Operating (loss)/profit before changes in working capital	(37,521)	(21,676)	2,005	(18,785)
Changes in trade and other receivables and prepayments	(15,565)	480	(82,086)	(66,347)
Changes in inventories	(7,861)	(31,578)	-	-
Changes in trade and other payables	28,088	1,376	(11,129)	16,848
Cash used in operations	(32,859)	(51,398)	(91,210)	(68,284)
Tax paid	(3,579)	(5,134)	(221)	(771)
Net cash used in operating activities	(36,438)	(56,532)	(91,431)	(69,055)

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash flows from investing activities				
Acquisition of property, plant and equipment	(3,144)	(2,695)	-	-
Increase in investments in joint ventures	-	(4,667)	-	-
Acquisition of other investments	(1,350)	-	(1,350)	-
Acquisition of subsidiaries, net of cash acquired	(9,446)	-	-	-
Deemed acquisition of an associate, net of cash acquired	(450)	-	-	-
Subscription of shares in an associate	-	(245)	-	(245)
Subscription of shares in a subsidiary	-	-	-	(5,420)
Subscription of shares in a joint venture	(500)	-	-	-
Subscription of preference shares in an associate	(16,706)	-	-	-
Dividend received from:				
- Associate	4,816	4,320	-	-
- Subsidiaries	-	-	842	22,705
Interest received	3,594	1,614	10,371	6,220
Net cash (outflow)/inflow from disposal of subsidiaries, net of cash and cash equivalents disposed of (Note 20)	(2,810)	36,074	-	-
Proceeds from disposal of property, plant and equipment	433	76	-	-
Capital reduction in a subsidiary	(6,366)	-	9,549	-
Proceeds from disposal of other investments	655	-	655	-
Net cash (used in)/from investing activities	(31,274)	34,477	20,067	23,260
Cash flows from financing activities				
Dividends paid to non-controlling interests	(1,369)	(15,339)	-	-
Dividends paid to owners of the Company	-	(13,294)	-	(13,294)
Drawdown from borrowings	11,389	4,000	-	-
Interest paid	(4,034)	(4,820)	(28)	(38)
Issuance of shares to non-controlling interest	5,118	-	-	-
Repayment of finance lease liabilities	(712)	(4,144)	(196)	(187)
Repayment of borrowings	(23,438)	(9,873)	-	-
Repurchase of treasury shares	(2,343)	(17,999)	(2,343)	(17,999)
Uplift of pledged fixed deposit	966	-	-	-
Net cash used in financing activities	(14,423)	(61,469)	(2,567)	(31,518)
Net decrease in cash and cash equivalents	(82,135)	(83,524)	(73,931)	(77,313)
Cash and cash equivalents at beginning of the year	214,748	276,649	113,244	190,557
Effect of exchange rate fluctuations on cash held	(3,640)	21,623	3,641	-
Cash and cash equivalents at end of the year	128,973	214,748	42,954	113,244

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

Cash and cash equivalents

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

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deposits placed with licensed banks	13	85,338	158,802	26,469	101,942
Cash and bank balances	13	48,473	57,139	16,485	11,302
		133,811	215,941	42,954	113,244
Bank overdrafts	15	(4,803)	(192)	-	-
Pledged deposits	13	(35)	(1,001)	-	-
		128,973	214,748	42,954	113,244

Acquisition of property, plant and equipment

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM4,872,000 (2016: RM7,770,000), of which RM1,728,000 (2016: RM5,075,000) were acquired by means of finance leases.

NOTES TO THE FINANCIAL STATEMENTS

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

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

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the “Group” and individually referred to as “Group entities”) and the Group’s interests in associates and joint ventures. The financial statements of the Company as at and for the financial year ended 31 December 2017 do not include other entities.

The Company is principally engaged in investment holding activities, whilst the principal activities of the subsidiaries are stated in Note 6 to the financial statements.

These financial statements were authorised for issue by the Board of Directors on 4 April 2018.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

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

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)**
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions**
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts**
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Plan Amendment, Curtailment or Settlement***
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

- from the annual period beginning on 1 January 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018, except for those marked with “**” which are not applicable to the Group.
- from the annual period beginning on 1 January 2019 for those accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019, except for that marked with “***” which is not applicable to the Group.

The Group does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Group.

The initial application of the accounting standards, amendments and interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group except as mentioned below:

(i) MFRS 15, Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

(i) MFRS 15, *Revenue from Contracts with Customers* (continued)

Cumulative Effect Transition Approach

The Group has assessed the estimated impact that the initial application of MFRS 15 will have on its consolidated financial statements as at 1 January 2018. The Group does not expect the initial application of the standard to have any material impact to these financial statements of the Group, as below:

	As reported at 31 December 2017 RM'000	Estimated adjustments due to adoption of MFRS 15 RM'000	Estimated adjusted opening balance at 1 January 2018 RM'000
Group			
Retained earnings	22,770	-	22,770
<hr/>			
Company			
Retained earnings	77,490	-	77,490
<hr/>			

The new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

(ii) MFRS 9, *Financial Instruments*

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

Based on the assessments on MFRS 9, the Group does not expect the initial applications of these standards, to have any material impact to these financial statements of the Group.

The new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation (continued)**(a) Statement of compliance (continued)****(iii) MFRS 16, *Leases***

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 16.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

- Note 2(p)(iii) – revenue from construction contracts
- Note 4 - measurement of the recoverable amounts of cash generating units
- Note 5 - valuation of investment properties
- Note 10 - recognition of deferred tax assets on unutilised tax losses

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

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

(ii) Business combinations

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

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

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

(iii) Acquisitions of non-controlling interests

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(a) Basis of consolidation (continued)****(iv) Loss of control**

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

(v) Associates

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(vi) Joint arrangements

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

Joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as "joint operation" when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation.
- A joint arrangement is classified as "joint venture" when the Group or the Company has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method. Investments in joint ventures are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

(vii) Non-controlling interests

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

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

(viii) Transactions eliminated on consolidation

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(b) Foreign currency****(i) Foreign currency transactions**

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(c) Financial instruments

(i) Initial recognition and measurement

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

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

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

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

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

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

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

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

(b) Loans and receivables

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

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

(c) Available-for-sale financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(c) Financial instruments (continued)****(ii) Financial instrument categories and subsequent measurement (continued)*****Financial assets (continued)******(c) Available-for-sale financial assets (continued)***

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

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

Financial liabilities

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

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

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

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

(iii) Financial guarantee contracts

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

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

(ii) Subsequent costs

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(d) Property, plant and equipment (continued)****(iii) Depreciation**

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

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

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

- leasehold land 99 years
- buildings 30 - 50 years
- plant and machinery 5 - 50 years
- motor vehicles 5 - 10 years
- furniture and fittings 5 - 12 years
- office equipment 5 - 12 years

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

(e) Leased assets**(i) Finance lease**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(e) Leased assets (continued)

(ii) Operating lease

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

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

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

(f) Intangible assets

(i) Goodwill

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

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Expenditure on development activities, whereby the application of research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised include the costs of materials, direct labour and overheads costs that are directly attributable to preparing the asset for its intended use. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

(iii) Land use rights

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(f) Intangible assets (continued)****(iv) Amortisation**

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

Amortisation of land use right are recognised in profit or loss on a straight-line basis over the estimated useful lives of the assets.

The estimated useful life is as follows:

- land use rights 67 ½ years

The useful life is reviewed at the end of each reporting period and adjusted, if appropriate.

(g) Investment properties**(i) Investment properties carried at fair value**

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

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

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

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

(ii) Reclassification to/from investment property

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(h) Inventories

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

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

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

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

Development costs comprises all costs directly attributable to property development activities or that can be allocated on a reasonable basis to these activities. Upon completion of development, unsold completed development properties are transferred to completed properties held for sale.

The cost of completed properties held for sale consists of costs associated with the acquisition of land, direct costs and appropriate proportions of common costs attributable to developing the properties to completion.

(i) Non-current assets held for sale

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(j) Construction work-in-progress**

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

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

(k) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Group and the Company in management of their short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(l) Impairment**(i) Financial assets**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(l) Impairment (continued)

(i) Financial assets (continued)

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

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

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

(ii) Other assets

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(l) Impairment (continued)****(ii) Other assets (continued)**

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

(m) Equity instruments

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

(i) Issue expenses

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

(ii) Ordinary shares

Ordinary shares are classified as equity.

(iii) Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the considerations paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares in the statement of changes in equity.

When treasury shares are sold or reissued subsequently, the difference between the sales considerations net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity.

(iv) Distribution of assets to owners of the Company

The Group measures a liability to distribute assets as a dividend to the owners of the Company at the fair value of the assets to be distributed. The carrying amount of the dividend is remeasured at each reporting period and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(n) Employee benefits

(i) Short term employee benefits

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

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

(ii) State plans

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

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense or income on the net defined liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments.

Net interest expense and other expenses relating to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(n) Employee benefits (continued)****(iv) Share-based payment transactions**

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

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

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

(o) Provisions

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

Contingent liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(p) Revenue and other income

(i) Goods sold

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

(ii) Services

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

(iii) Construction contracts

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

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

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

(iv) Property development

Revenue from property development activity is recognised based on the completion method.

(v) Rental income

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(p) Revenue and other income (continued)****(vi) Dividend income**

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

(vii) Interest income

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

(q) Borrowing costs

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

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

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

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

(r) Income tax

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(r) Income tax (continued)

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

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

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

(s) Discontinued operations

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

(t) Earnings per ordinary share

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(u) Operating segments**

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

(v) Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

NOTES TO THE FINANCIAL STATEMENTS

3. Property, plant and equipment

Group Cost	Land RM'000	Freehold buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Capital work-in- progress RM'000	Total RM'000
At 1 January 2016	733	4,391	55,178	29,842	4,101	-	94,245
Additions	-	15	1,131	252	265	6,107	7,770
Disposals	-	-	(30)	(200)	(283)	-	(513)
Write-off	-	-	(948)	-	(15)	-	(963)
Effect of movements in exchange rates	-	-	(4,723)	2	(1)	-	(4,722)
At 31 December 2016/ 1 January 2017	733	4,406	50,608	29,896	4,067	6,107	95,817
Acquisition through business combinations	-	-	-	-	2,038	-	2,038
Additions	-	-	22	410	2,518	1,922	4,872
Transfer	-	-	-	3,451	-	(3,451)	-
Disposals	-	-	(59)	(2,508)	-	-	(2,567)
Derecognition through disposal of subsidiaries	-	-	-	-	(1,685)	-	(1,685)
Write-off	-	-	(205)	(83)	(160)	(37)	(485)
Effect of movements in exchange rates	-	-	(402)	(6)	(8)	-	(416)
At 31 December 2017	733	4,406	49,964	31,160	6,770	4,541	97,574

NOTES TO THE FINANCIAL STATEMENTS

3. Property, plant and equipment (continued)

Group Depreciation and impairment loss	Land RM'000	Freehold buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Capital work-in- progress RM'000	Total RM'000
At 1 January 2016							
Accumulated depreciation	-	211	5,927	13,476	3,527	-	23,141
Accumulated impairment loss	-	-	3,157	-	-	-	3,157
Depreciation for the year	-	211	9,084	13,476	3,527	-	26,298
Reversal of impairment loss	-	45	2,342	3,036	293	-	5,716
Disposals	-	-	(924)	-	-	-	(924)
Write-off	-	-	(5)	(140)	(283)	-	(428)
Effect of movements in exchange rates	-	-	(167)	-	(14)	-	(181)
At 31 December 2016/ 1 January 2017	-	-	1,844	2	-	-	1,846
At 31 December 2017							
Accumulated depreciation	-	256	9,941	16,374	3,523	-	30,094
Accumulated impairment loss	-	-	2,233	-	-	-	2,233
Depreciation for the year	-	256	12,174	16,374	3,523	-	32,327
Disposals	-	44	1,948	2,893	573	-	5,458
Write-off	-	-	(11)	(1,788)	-	-	(1,799)
Effect of movements in exchange rates	-	-	(40)	(83)	(160)	-	(283)
At 31 December 2017	-	-	(71)	(7)	(4)	-	(82)
At 31 December 2017							
Accumulated depreciation	-	300	11,767	17,389	3,932	-	33,388
Accumulated impairment loss	-	-	2,233	-	-	-	2,233
	-	300	14,000	17,389	3,932	-	35,621

NOTES TO THE FINANCIAL STATEMENTS

3. Property, plant and equipment (continued)

Group Depreciation and impairment loss (continued)	Land RM'000	Freehold buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Capital work-in- progress RM'000	Total RM'000
Carrying amounts							
At 1 January 2016	733	4,180	46,094	16,366	574	-	67,947
At 31 December 2016/ 1 January 2017	733	4,150	38,434	13,522	544	6,107	63,490
At 31 December 2017	733	4,106	35,964	13,771	2,838	4,541	61,953
Company Cost							Motor vehicles RM'000
At 1 January 2016/31 December 2016/1 January 2017/31 December 2017							1,130
Depreciation							
At 1 January 2016							161
Depreciation for the year							226
At 31 December 2016/1 January 2017							387
Depreciation for the year							226
At 31 December 2017							613
Carrying amounts							
At 1 January 2016							969
At 31 December 2016/At 1 January 2017							743
At 31 December 2017							517

NOTES TO THE FINANCIAL STATEMENTS

3. Property, plant and equipment (continued)**3.1 Assets under finance lease**

Included in property, plant and equipment of the Group and the Company are motor vehicles and plant and machinery acquired under finance lease agreements with net book value of RM8,552,000 (2016: RM4,668,000) and RM517,000 (2016: RM743,000) respectively.

3.2 Pledged assets

Included in the net book value of freehold buildings are amounting of RM1,574,000 (2016: RM1,609,000) charged to a licensed bank for facility granted to the Group.

4. Intangible assets

Group	Note	Goodwill RM'000	Land use rights RM'000	Total RM'000
1 January 2016/31 December 2016/ 1 January 2017		3,683	18,148	21,831
Acquired through business combination		8,513	-	8,513
Impairment loss		(8,513)	-	(8,513)
At 31 December 2017		3,683	18,148	21,831

Goodwill**Impairment testing for cash-generating units containing goodwill**

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

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

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

- Based on past experience and actual operating results attained in both 2016 and 2017, 5 years cash flow projections were prepared. An average growth rate of 5 percent (2016: 5 percent) was incorporated into the projections.
- A pre-tax discount rate of 12 percent (2016: 10 percent) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the average of the Group's working cost of capital adjusted to the risk of the underlying assets.

NOTES TO THE FINANCIAL STATEMENTS

4. Intangible assets (continued)

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

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

- (i) An increase of 100 basis point in the discount rate used would not result in impairment losses.
- (ii) A 10% decrease in future planned revenue would not result in impairment losses.

Land use rights

Land use rights represent the right acquired by a group entity over a parcel of land for a duration until year 2082. The Group intends to utilise the land for mixed development project. Hence, amortisation is not required as it would be subsequently capitalised when the development commences. Had amortisation been provided on the land use rights during the financial year, the carrying amount would have reduced by RM1,052,000 (2016: RM789,000).

5. Investment properties

	Group	
	2017	2016
	RM'000	RM'000
At 1 January	8,485	8,485
Disposals	(284)	-
At 31 December	8,201	8,485

Included in the above are:

	Group	
	2017	2016
	RM'000	RM'000
At fair value		
Freehold land	319	319
Freehold land and buildings	550	550
Leasehold land and buildings with unexpired lease period of more than 50 years	7,332	7,616
	8,201	8,485

NOTES TO THE FINANCIAL STATEMENTS

5. Investment properties (continued)

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

	Group	
	2017 RM'000	2016 RM'000
Direct operating expenses:		
- income generating investment properties	7	6

5.1 Fair value information

Fair value of investment properties are categorised as follows:

Group	2017		2016	
	Level 3 RM'000	Total RM'000	Level 3 RM'000	Total RM'000
Land	319	319	319	319
Buildings	7,882	7,882	8,166	8,166
	8,201	8,201	8,485	8,485

Level 3 fair value

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

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Description of valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Sales comparison approach: Sales price of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.	Price per square foot (RM90 to RM470)	The estimated fair value would increase/ (decrease) if the price per square foot is higher/(lower).

NOTES TO THE FINANCIAL STATEMENTS

5. Investment properties (continued)

5.1 Fair value information (continued)

Valuation processes applied by the Group for Level 3 fair value

The fair value of investment properties is determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The valuation company provides the fair value of the Group's investment property portfolio and changes in Level 3 fair values are analysed every year.

6. Investments in subsidiaries

	Company	
	2017 RM'000	2016 RM'000
At cost		
Shares	93,678	103,227
Preference shares	7,267	7,267
Less: Impairment losses	(6,857)	(6,857)
	94,088	103,637

Details of the subsidiaries are as follows:

Name of entity	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest	
			2017 %	2016 %
Salcon Engineering Berhad	Malaysia	- Design, construction, operation and maintenance of municipal potable water, sewage and wastewater facilities; - Provision of mechanical and electrical engineering services for general industries; and - Investment holding	100	100
Salcon Water (Asia) Limited *	Hong Kong	Investment holding	60	60
Integrated Water Services (M) Sdn. Bhd.	Malaysia	Operation and maintenance of a water treatment plant	51	51

NOTES TO THE FINANCIAL STATEMENTS

6. Investments in subsidiaries (continued)

Name of entity	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest	
			2017 %	2016 %
Salcon Changzhou (HK) Limited *	Hong Kong	Investment holding	100	100
Salcon Xinlian Group Limited (f.k.a. Salcon Water International Limited) *	Hong Kong	Investment holding	51	100
Salcon Capital Sdn. Bhd. ^	Malaysia	Investment holding	100	100
Salcon Power (HK) Limited +	Hong Kong	Sales of solar power products and solar energy	100	100
Salcon Water (HK) Limited *	Hong Kong	Dormant	100	100
Salcon Development Sdn. Bhd.	Malaysia	Investment holding	100	100
Kencana Kesuma Sdn. Bhd. ^	Malaysia	Dormant	70	70
Salcon Utilities Sdn. Bhd. ^	Malaysia	Dormant	70	70
Satria Megajuta Sdn. Bhd. ^	Malaysia	Dormant	100	100
Salcon Petroleum Services (Labuan) Limited	Malaysia	Provision of petroleum related services	100	100
Salcon Xinlian Sdn. Bhd. (f.k.a. Anggerik Megajaya Sdn. Bhd.)^	Malaysia	Investment holding	51	-
Subsidiaries of Salcon Engineering Berhad:				
Salcon-Centrimax Engineering Sdn. Bhd. ^	Malaysia	Dormant	100	100
Precise Metal Sdn. Bhd. ^	Malaysia	Dormant	100	100
Salcon Power Sdn. Bhd. ^	Malaysia	Investment holding	100	100
Salcon Petroleum Services (Asia Pacific) Sdn. Bhd.	Malaysia	Provision of petroleum related services	100	100

NOTES TO THE FINANCIAL STATEMENTS

6. Investments in subsidiaries (continued)

Name of entity	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest	
			2017 %	2016 %
<i>Subsidiaries of Salcon Engineering Berhad (continued):</i>				
Salcon Environmental Services Sdn. Bhd. ^	Malaysia	Dormant	100	100
Envitech Sdn. Bhd.	Malaysia	Design, building, operation and maintenance of wastewater and sewage treatment plants	60	60
Glitteria Sdn. Bhd. @ ^	Malaysia	Dormant	50	50
Bumi Tiga Enterprise Sdn. Bhd. ^	Malaysia	Investment holding	100	100
JTT Advisory Sdn. Bhd. (f.k.a. Salcon Corporation Sdn. Bhd.)	Malaysia	Dormant	-	100
Salcon (Perak) Sdn.Bhd. @ ^	Malaysia	Dormant	40	40
Salcon ELU Sdn. Bhd. (f.k.a. Tanjung Jutaria Sdn. Bhd.) ^	Malaysia	Investment holding	100	100
Salcon (Sarawak) Sdn. Bhd. ^	Malaysia	Dormant	100	100
Salcon Engineering Vietnam Company Limited *	Vietnam	Dormant	100	100
Salcon Engineering (India) Pte. Ltd. *	India	Dormant	100	100
<i>Subsidiaries of Bumi Tiga Enterprise Sdn. Bhd:</i>				
Skeel Engineering Sdn. Bhd. ^	Malaysia	Dormant	100	100
Salcon Building Services Sdn. Bhd. ^	Malaysia	Dormant	100	100

NOTES TO THE FINANCIAL STATEMENTS

6. Investments in subsidiaries (continued)

Name of entity	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest	
			2017 %	2016 %
<i>Subsidiary of Salcon Water (Asia) Limited:</i>				
Salcon Services (HK) Limited*	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary	60	60
<i>Subsidiary of Salcon Services (HK) Limited:</i>				
Salcon Alliance Corporate Management & Consultancy (Shanghai) Pte. Ltd. *	People's Republic of China	Consultancy services for investment, operation and strategy business	60	60
<i>Subsidiary of Salcon Changzhou (HK) Limited:</i>				
Changzhou Salcon Wastewater Treatment Company Limited *	People's Republic of China	Dormant	100	100
<i>Subsidiary of Salcon Power Sdn. Bhd.:</i>				
Salcon Green Energy (UK) Ltd. *	United Kingdom	Dormant	100	100
<i>Subsidiary of Salcon Capital Sdn. Bhd.:</i>				
Eco-Coach & Tours (M) Sdn. Bhd.	Malaysia	Transportation services	51	51
<i>Subsidiary of Salcon Xinlian Group Limited (formerly known as Salcon Water International Limited):</i>				
Salcon Investment Consultation (Shanghai) Company Limited *	People's Republic of China	Consultancy services for investment, operation and strategy business.	51	100

NOTES TO THE FINANCIAL STATEMENTS

6. Investments in subsidiaries (continued)

Name of entity	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest	
			2017 %	2016 %
Subsidiary of Salcon Xinlian Group Limited (formerly known as Salcon Water International Limited) (continued):				
Circlac Interactive Tourism Sdn. Bhd. #	Malaysia	E-commerce travel and tourism	33	65
Beijing Xinlian Yitong Technology Co. Ltd *	People's Republic of China	Online tourism and marketing services	51	-
Circlac Sdn. Bhd. (f.k.a. Baiduri Nyaman Sdn. Bhd.) ^ #	Malaysia	Domain of mobile commerce	33	-
SignCharge Sdn. Bhd. ^ #	Malaysia	Technology startup in the business of building mobile identity infrastructure for the banking and mobile payment industry	33	-
Subsidiary of Salcon Petroleum Services (Asia Pacific) Sdn. Bhd.:				
JTT Advisory Sdn. Bhd. (f.k.a. Salcon Corporation Sdn Bhd)	Malaysia	Promotional services	100	-
Subsidiary of Beijing Xinlian Yitong Technology Co. Ltd.:				
Shanghai Shanmao E-commerce Co. Ltd * #	People's Republic of China	Travel e-commerce services	26	-
Subsidiary of Salcon ELU Sdn. Bhd. (formerly known as Tanjung Jutaria Sdn. Bhd.):				
Rayvn AS +	Norway	Developing and selling a web-based software solution for crisis management	51	-

NOTES TO THE FINANCIAL STATEMENTS

6. Investments in subsidiaries (continued)

Name of entity	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest	
			2017 %	2016 %
Subsidiary of Rayvn AS:				
Rayvn U.S Inc *	United States	Developing and selling a web-based software solution for crisis management	51	-
Subsidiaries of Salcon Development Sdn. Bhd.:				
Azitin Venture Sdn. Bhd. @	Malaysia	Property development	50	50
Prestasi Kemas Sdn. Bhd.	Malaysia	Property development	70	70
Nusantara Megajuta Sdn. Bhd. @	Malaysia	Property development	50	50
Eco World - Salcon Y1 Pty. Ltd. (f.k.a. Salcon Development (Australia) Pty. Ltd. Ω	Australia	Property development	-	100

Subsidiary of Eco-Coach & Tours (M) Sdn. Bhd.:

Eco Tours Asia Sdn. Bhd.	Malaysia	Transportation services	51	51
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+ Audited by other member firms of KPMG International.

^ Audited by other firms of accountants.

@ Although the Group owns 50% or less than 50% of the voting power of the Group Entities, the Group regards them as subsidiaries as it is able to govern the financial and operating policies of the companies by virtue of shareholders agreements entered into with the other investors of these Group Entities. Consequently, the Group consolidates its investments in these companies.

Although the effective ownership interest and voting interest is less than 50%, the Group controls the Group Entities by virtue of its majority ownership through its subsidiaries.

* The financial statements of these subsidiaries were not audited and these subsidiaries were consolidated based on management financial statements.

Ω The Group disposed 80% of equity interest in Eco World-Salcon Y1 Pty Ltd ("EWS") (f.k.a. Salcon Development (Australia) Pty. Ltd.) during the financial year. As at year end, the Group regarded EWS as associate as disclosed in Note 7.

NOTES TO THE FINANCIAL STATEMENTS

6. Investments in subsidiaries (continued)

6.1 Non-controlling interest in subsidiaries

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

	Envitech Sdn. Bhd. RM'000	Salcon Water (Asia) Limited RM'000	Salcon Xinlian Group Limited RM'000
2017			
NCI percentage of ownership interest and voting interest	40%	40%	49%
Carrying amount of NCI	19,540	4,523	4,583
Profit allocated to NCI	716	3	(3,454)
Summarised financial information before intra-group elimination			
As at 31 December			
Non-current assets	11,974	-	7,906
Current assets	46,987	13,638	5,360
Non-current liabilities	(458)	-	-
Current liabilities	(9,654)	(2,330)	(3,913)
Net assets	48,849	11,308	9,353
Year ended 31 December			
Revenue	45,027	-	219
Profit/(loss) for the year	1,791	7	(5,497)
Total comprehensive income/(expense)	1,791	7	(5,497)
Cash flows (used in)/generated from operating activities	(2,408)	(12,892)	6,884
Cash flows used in investing activities	(462)	(5,077)	(6,523)
Cash flows used in financing activities	(1,499)	-	(69)
Net (decrease)/increase in cash and cash equivalents	(4,369)	(17,969)	292
Dividends paid to NCI	560	-	-

NOTES TO THE FINANCIAL STATEMENTS

6. Investments in subsidiaries (continued)

6.1 Non-controlling interest in subsidiaries (continued)

	Salcon Water (Asia) Limited RM'000	Envitech Sdn. Bhd. RM'000
2016		
NCI percentage of ownership interest and voting interest	40%	40%
Carrying amount of NCI	13,764	19,383
<hr/>		
Profit allocated to NCI	15,532	1,133
<hr/>		
Summarised financial information before intra-group elimination		
As at 31 December		
Non-current assets	4	12,102
Current assets	38,521	48,224
Non-current liabilities	-	(392)
Current liabilities	(4,114)	(11,475)
<hr/>		
Net assets	34,411	48,459
<hr/>		
Year ended 31 December		
Revenue	-	53,414
Profit for the year	38,829	2,833
Total comprehensive income	38,829	2,833
<hr/>		
Cash flows (used in)/generated from operating activities	(1,317)	3,609
Cash flows generated from/(used in) investing activities	38,038	(30)
Cash flows used in financing activities	(35,478)	(1,560)
<hr/>		
Net increase in cash and cash equivalents	1,243	2,019
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Dividends paid to NCI	14,191	560
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NOTES TO THE FINANCIAL STATEMENTS

7. Investments in associates

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At cost				
Shares	12,544	12,094	294	294
Preference shares	26,706	10,000	-	-
Share of post-acquisition reserves	3,476	5,130	-	-
	42,726	27,224	294	294

Details of the associates are as follows:

Name of entity	Principal place of business/ Country of incorporation	Nature of the relationship	Effective ownership interest and voting interest	
			2017 %	2016 %
Salcon Petroleum Services Sdn. Bhd. ("SPS")	Malaysia	Service provider and agent for representing overseas oil & gas services companies in Malaysia.	49	49
Associates of Salcon Engineering Berhad:				
Emas Utilities Corporation Sdn. Bhd. ("EUC")	Malaysia	Investment holding company with 90% equity interest in Binh An Water Corporation Ltd., who engaged in production and supply of treated water in Vietnam.	40	40
Associates of Salcon Development Sdn.Bhd.:				
Eco World - Salcon Y1 Pty. Ltd. (f.k.a. Salcon Development (Australia) Pty. Ltd.)	Australia	Property development	20	-
Associates of Circlis Interactive Sdn. Bhd.:				
Wisdom Sports (M) Sdn. Bhd. (f.k.a. Enrich Signature Sdn. Bhd.)	Malaysia	Sports tourism	15	-

The following table summarises the financial information of the Group's material associate, adjusted for any differences in accounting policies and reconciles the information to the carrying amount of the Group's interest in the associate.

NOTES TO THE FINANCIAL STATEMENTS

7. Investments in associates (continued)

Group	EUC		
	2017 RM'000	2016 RM'000	
Summarised financial information as at 31 December			
Non-current assets	10,402	18,954	
Current assets	45,719	42,461	
Current liabilities	(1,058)	(1,005)	
Net assets	55,063	60,410	
Year ended 31 December			
Profit for the year	13,422	12,166	
Other comprehensive (expense)/income	(5,431)	1,822	
Total comprehensive income	7,991	13,988	
Included in the total comprehensive income is:			
Revenue	30,880	29,860	
2017			
Reconciliation of net assets/(liabilities) to carrying amount as at 31 December			
Group's share of net assets/(liabilities)	22,026	11,320	33,346
Carrying amount in the statement of financial position	22,026	11,320	33,346
Group's share of results for the year ended 31 December			
Group's share of profit or loss from continuing operations	4,827	(1,665)	3,162
Other information			
Dividends received by the Group	4,816	-	4,816

NOTES TO THE FINANCIAL STATEMENTS

7. Investments in associates (continued)

Group	EUC RM'000	Other immaterial associate RM'000	Total RM'000
2016			
Reconciliation of net assets/(liabilities) to carrying amount as at 31 December			
Group's share of net assets/(liabilities)	24,164	(252)	23,912
Carrying amount in the statement of financial position	24,164	(252)	23,912
Group's share of results for the year ended 31 December			
Group's share of profit or loss from continuing operations	4,350	(317)	4,033
Other information			
Dividends received by the Group	4,320	-	4,320

8. Investments in joint ventures

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At cost				
Shares	29,063	28,563	23,500	23,500
Share of post-acquisition reserves	20,127	7,668	-	-
	49,190	36,231	23,500	23,500

Details of joint ventures are as follows:

Name of joint venture	Principle activities	Note	Proportion of ownership interest	
			2017 %	2016 %
Volksbahn Technologies Sdn. Bhd.	Provision of management, technology and service consulting	8.1	50 plus 2 shares	50 plus 2 shares

NOTES TO THE FINANCIAL STATEMENTS

8. Investments in joint ventures (continued)

Details of joint ventures are as follows: (continued)

Name of joint venture	Principle activities	Note	Proportion of ownership interest	
			2017 %	2016 %
Joint ventures of Salcon Engineering Berhad:				
Salcon MNCB AZSB JV Sdn. Bhd.	Engineering and construction	8.2	36	36
Salcon MMCES AZSB JV Sdn. Bhd.	Engineering and construction	8.3	50	50
Salcon Loh & Loh JV Sdn. Bhd.	Engineering and construction	8.4	50	50
Joint venture of Envitech Sdn. Bhd.:				
WET Envitech Sdn. Bhd.	Engineering and construction	8.5	30	30

8.1 On 7 May 2014, the Group has acquired 50% plus one ordinary share, representing 200,001 ordinary shares each in Volksbahn Technologies Sdn. Bhd. ("VTSB") for a total cash consideration of RM23.5 million. VTSB had, on 22 June 2014, allotted 400,001 bonus shares to its shareholders. As a result, the Group was entitled to 200,001 shares in VTSB of which in total, the Group has had 400,002 shares representing 50% plus 2 ordinary shares in VTSB. Pursuant to the terms and nature of the shareholders agreement, the Group's investment in VTSB constitute a joint arrangement as the entity is jointly controlled by the Group and the other shareholder.

8.2 On 8 April 2014, the Group entered into a joint arrangement with MMC Corporation Berhad ("MNCB") and Ahmad Zaki Sdn. Bhd. ("AZSB"), and together, they have incorporated Salcon MNCB AZSB JV Sdn. Bhd. ("L1") on 29 September 2014.

8.3 On 23 December 2014, the Group entered into another joint arrangement with MMC Engineering Services Sdn. Bhd. ("MMCES") and AZSB to form Salcon MMCES AZSB JV Sdn. Bhd. ("L2"). On 30 September 2016, this joint venture has come to a novation agreement whereby the Group further acquire 14% shares in L2 resulting the Group has effective interest of 50% in L2 thereon.

Both Salcon MNCB AZSB JV Sdn. Bhd. and Salcon MMCES AZSB JV Sdn. Bhd. are set up to undertake the Langat 2 water treatment plant project.

8.4 On 30 December 2014, the Group entered into another joint arrangement with Loh & Loh Construction Sdn. Bhd. to form Salcon Loh & Loh JV Sdn. Bhd. ("SLL").

8.5 On 23 January 2015, the Group entered into another joint arrangement with Water Engineering Technology Sdn. Bhd. to form WET Envitech Sdn. Bhd. The paid up capital of the joint arrangement is RM2, divided equally to the shareholders. On 23 May 2017, the paid up capital has been increased by RM999,998 to RM1,000,000, divided equally to the shareholders.

The following table summarises the financial information of the Group's material joint ventures, adjusted for any differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interests in joint ventures, which are accounted for using the equity method.

NOTES TO THE FINANCIAL STATEMENTS

8. Investments in joint ventures (continued)

	L1		L2		SLL	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Summarised financial information						
As at 31 December						
Current assets	222,769	321,782	228,685	258,770	121,780	50,823
Current liabilities	(221,930)	(320,936)	(195,053)	(233,757)	(102,224)	(39,865)
Cash and cash equivalents	22,118	14,517	9,187	1,845	2,020	22,244
Year ended 31 December						
(Loss)/Profit from continuing operations	(7)	194	8,672	12,850	8,598	10,987
Total comprehensive (expense)/income	(7)	194	8,672	12,850	8,598	10,987
Included in the total comprehensive income/(expense) are:						
Revenue	171,861	322,307	169,841	318,192	152,692	125,788
Interest income	709	830	286	94	394	420
Interest expense	(678)	(778)	(709)	(830)	-	-
(Tax expense)/Overprovision of tax expense	(1)	122	(2,806)	(4,988)	(2,731)	(3,453)
2017						
Reconciliation of net assets to carrying amount as at 31 December						
Group's share of net assets		302	16,842	9,778	3,265	30,187
Carrying amount in the statement of financial position		302	16,842	9,778	3,265	30,187
Group's share of results for the year ended 31 December						
Group's share of profit/(expense) from continuing operations		(2)	7,418	4,299	744	12,459
Group's share of total comprehensive income/(expense)		(2)	7,418	4,299	744	12,459

NOTES TO THE FINANCIAL STATEMENTS

8. Investments in joint ventures (continued)

	L1 RM'000	L2 RM'000	SLL RM'000	Other immaterial joint ventures RM'000	Total RM'000
2016					
Reconciliation of net assets to carrying amount as at 31 December					
Group's share of net assets	305	12,506	5,479	2,221	20,511
Carrying amount in the statement of financial position	305	12,506	5,479	2,221	20,511
Group's share of results for the year ended 31 December					
Group's share of profit/(expense) from continuing operations	70	5,031	5,494	(2,763)	7,832
Group's share of total comprehensive income/(expense)	70	5,031	5,494	(2,763)	7,832

9. Other investments

Group	Shares RM'000	Other investment RM'000	Total RM'000
2017			
Non-current			
Available-for-sale financial assets	675	-	675
Less: Impairment loss	(135)	-	(135)
	540	-	540
2016			
Non-current			
Available-for-sale financial assets	175	4,640	4,815
Less: Impairment loss	(175)	(4,640)	(4,815)
	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

9. Other investments (continued)

Company	Shares RM'000	Other investment RM'000	Total RM'000
2017			
Non-current			
Available-for-sale financial assets	675	-	675
Less: Impairment loss	(135)	-	(135)
	540	-	540
2016			
Non-current			
Available-for-sale financial assets	-	4,500	4,500
Less: Impairment loss	-	(4,500)	(4,500)
	-	-	-

During the financial year, the available-for-sale financial asset of the Group and of the Company amounting to RM 4,815,000 and RM4,500,000 (2016: nil) respectively was written off against the impairment loss.

10. Deferred tax assets and liabilities

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Land use rights	-	-	(4,537)	(4,537)	(4,537)	(4,537)
Property, plant and equipment	10	10	(2,042)	(1,744)	(2,032)	(1,734)
Other items	-	-	(923)	(3,382)	(923)	(3,382)
Tax losses carry-forward	3,516	3,516	-	-	3,516	3,516
Unabsorbed capital allowances	375	375	-	-	375	375
Tax assets/(liabilities)	3,901	3,901	(7,502)	(9,663)	(3,601)	(5,762)
Set off of tax	(203)	(203)	203	203	-	-
Net tax assets/(liabilities)	3,698	3,698	(7,299)	(9,460)	(3,601)	(5,762)

NOTES TO THE FINANCIAL STATEMENTS

10. Deferred tax assets and liabilities (continued)

In recognising the deferred tax assets attributable to unutilised tax losses carry-forwards, the Directors made an assumption that there will not be any substantial change (more than 50%) in the shareholders before these assets are utilised. If there is substantial change in the shareholders, unutilised tax losses carry-forwards amounting to approximately RM14.6 million (2016: RM14.6 million) will not be available to the Group, resulting in a decrease in deferred tax assets of RM3.5 million (2016: RM3.5 million).

Movement in temporary differences during the financial year are as follows:

Group	Recognised		Recognised		Derecognition	At 31.12.2017 RM'000
	At 1.1.2016 RM'000	in profit or loss (Note 19) RM'000	At 31.12.2016/ 1.1.2017 RM'000	in profit or loss (Note 19) RM'000	through disposal of subsidiary (Note 20) RM'000	
Land use rights	(4,537)	-	(4,537)	-	-	(4,537)
Property, plant and equipment	(2,387)	653	(1,734)	(298)	-	(2,032)
Provisions	108	(108)	-	-	-	-
Other items	(3,375)	(7)	(3,382)	5,307	(2,848)	(923)
Tax losses carry forward	3,516	-	3,516	-	-	3,516
Unabsorbed capital allowances	375	-	375	-	-	375
	(6,300)	538	(5,762)	5,009	(2,848)	(3,601)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Other deductible temporary differences	4,866	231	-	-
Unabsorbed capital allowances	1,322	978	20	40
Unutilised tax losses	5,288	13,956	-	-
	11,476	15,165	20	40

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

NOTES TO THE FINANCIAL STATEMENTS

11. Trade and other receivables

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Trade					
Trade receivables	11.1	55,043	54,384	-	-
Amount due from contract customers	11.2	49,788	48,134	-	-
		104,831	102,518	-	-
Non-trade					
Amounts due from associates	11.3	2,196	1,239	1,233	745
Amounts due from joint ventures	11.4	27,869	21,313	5,354	2,111
Amounts due from subsidiaries	11.5	-	-	359,622	292,291
Other receivables	11.6	23,800	1,760	469	1,241
Deposits		2,017	25,852	-	-
		55,882	50,164	366,678	296,388
		160,713	152,682	366,678	296,388

11.1 Included in trade receivables of the Group are retention sums amounting to RM12,521,000 (2016: RM10,136,000) relating to construction work-in-progress. Retentions are unsecured, interest-free and are expected to be due for collection as follows:

	Group	
	2017 RM'000	2016 RM'000
Within 1 year	1,352	1,127
1 - 2 years	2,379	3,209
2 - 3 years	3,778	2,185
3 - 4 years	2,536	1,416
4 - 5 years	2,476	2,199
	12,521	10,136

NOTES TO THE FINANCIAL STATEMENTS

11. Trade and other receivables (continued)

11.2 Amount due from contract customers

	Note	Group	
		2017 RM'000	2016 RM'000
Aggregate costs incurred to date		467,035	583,396
Add: Attributable profit		61,282	62,219
		528,317	645,615
Less: Progress billings		(478,725)	(598,007)
		49,592	47,608
Amount due to contract customers	16	196	526
Amount due from contract customers		49,788	48,134

Included in aggregate costs incurred during the year are personnel expenses and hiring of equipment amounting to RM2,924,000 (2016: RM2,044,000) and RM40,000 (2016: RM93,000) respectively.

- 11.3 The amounts due from associates of the Group and of the Company are unsecured, interest free and repayable on demand except for an amount of RM1.2 million (2016: nil) which bears interest of 7.65% (2016: nil) per annum.
- 11.4 The amounts due from joint ventures of the Group and of the Company are unsecured, interest free and repayable on demand except for an amount of RM19.1 million (2016: RM2.1 million) and RM5.3 million (2016: RM2.1 million) which bears interest of 6.65% to 7.65% (2016: 7.65%) per annum, respectively.
- 11.5 The amounts due from subsidiaries are unsecured, interest free and repayable upon demand except for amounts of RM318.1 million (2016: RM223.7 million) which bear interest ranging from 2% to 7.65% (2016: 2% to 8.35%) per annum.
- 11.6 Included in other receivables of the Group are allowance for impairment losses made against doubtful receivables was RM1,601,000 (2016: RM682,000).

NOTES TO THE FINANCIAL STATEMENTS

12. Inventories

	Note	Group	
		2017 RM'000	2016 RM'000
At cost:			
Spares		7	241
Consumables		27	107
Raw materials		102	106
Completed properties held for sale		33,087	-
Properties under development	12.1	108,831	194,265
		142,054	194,719

12.1 Properties under development comprises:

Land held for property development	108,615	120,872
Development costs	216	73,393
	108,831	194,265

Included in development costs was interest expense capitalised amounting to nil (2016: RM4,476,000). The land held for property development with carrying amount of RM108,615,000 (2016: RM120,872,000) is charged to the financial institution for the facilities granted to Group entities (Note 15.1).

13. Cash and cash equivalents

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deposits with licensed banks				
- Malaysia	59,079	29,255	210	8,484
- Outside Malaysia	26,259	129,547	26,259	93,458
	85,338	158,802	26,469	101,942
Cash and bank balances				
- Malaysia	23,177	22,199	2,451	2,302
- Outside Malaysia	25,296	34,940	14,034	9,000
	48,473	57,139	16,485	11,302
	133,811	215,941	42,954	113,244

Included in the deposits with licensed banks of the Group is amount of RM35,000 (2016: RM1,001,000) pledged for facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

14. Capital and reserves**14.1 Share capital**

	Group and Company			
	Amount 2017 RM'000	Number of shares 2017 '000	Amount 2016 RM'000	Number of shares 2016 '000
Ordinary shares				
Issued and fully paid:				
At 1 January	338,847	677,694	338,847	677,694
Transfer from share premium in accordance with Section 618(2) of the Companies Act 2016 (Note a)	85,618	-	-	-
At 31 December	424,465	677,694	338,847	677,694

- (a) In accordance with Section 618 of Companies Act 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has twenty-four months upon the commencement of Companies Act 2016 on 31 January 2017 to utilise the credit.
- (b) Included in share capital is share premium amounting to RM85,618,000 that is available to be utilised in accordance with Section 618(3) of Companies Act 2016 on or before 30 January 2019 (24 months from commencement of Section 74).

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets. In respect of the treasury shares that are held by the Group, all rights are suspended until those shares are reissued.

14.2 Treasury shares

The Company repurchased 4,653,300 (2016: 30,009,300) ordinary shares of its issued share capital from the open market, at an average costs of RM0.50 (2016: RM0.59) per share. The total consideration paid for the share buy-back including transaction costs during the current financial period to date amounted to RM2.34 million (2016: RM17.99 million) and were financed by internally generated funds. The shares bought back are being held as treasury shares in accordance with Section 127(4)(b) of the Companies Act 2016.

During the financial year ended 31 December 2017, the Company distributed 35,663,238 (2016: nil) treasury shares to entitled shareholders as share dividend. At the end of the year, the number of treasury shares held was 4,000,062 (2016: 35,010,000) shares.

14.3 Translation reserve

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

NOTES TO THE FINANCIAL STATEMENTS

14. Capital and reserves (continued)

14.4 Capital reserve

Capital reserve comprises amount received from local government for the incidental infrastructure development activities undertaken by a Group entity. The receipts are capital in nature pursuant to the Directive issued by the Authority.

15. Loans and borrowings

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Non-current					
Term loans (secured)	15.1	658	43,547	-	-
Finance lease liabilities	15.2	5,083	4,515	299	505
		5,741	48,062	299	505
Current					
Bank overdrafts (unsecured)		4,803	192	-	-
Bankers' acceptances (unsecured)		3,389	-	-	-
Revolving credits (unsecured)		8,000	-	-	-
Term loans (secured)	15.1	42,897	23,446	-	-
Finance lease liabilities	15.2	1,798	1,350	206	196
		60,887	24,988	206	196
		66,628	73,050	505	701

15.1 Term loans

Secured term loans are secured via the following:

- Legal charge over the freehold buildings owned by a Group entity with carrying amount of RM1,574,000 (Note 3.2).
- 1st party 2nd legal charge over the land owned by a Group entity with carrying amount of RM108,615,000 (Note 12.1).

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

NOTES TO THE FINANCIAL STATEMENTS

15. Loans and borrowings (continued)

15.1 Term loans (continued)

The repayment term of the term loans are as follows:

	Under 1 year RM'000 2017	1 to 5 years RM'000 2017	More than 5 years RM'000 2017	Under 1 year RM'000 2016	1 to 5 years RM'000 2016	More than 5 years RM'000 2016
Group						
Term loan (secured)	42,897	510	148	23,446	43,261	286

15.2 Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments RM'000 2017	Interest RM'000 2017	Present value of minimum lease payments RM'000 2017	Future minimum lease payments RM'000 2016	Interest RM'000 2016	Present value of minimum lease payments RM'000 2016
Group						
Less than one year	2,129	(331)	1,798	1,642	(292)	1,350
Between one and five years	5,565	(482)	5,083	4,981	(466)	4,515
	7,694	(813)	6,881	6,623	(758)	5,865
Company						
Less than one year	224	(18)	206	224	(28)	196
Between one and five years	309	(10)	299	533	(28)	505
	533	(28)	505	757	(56)	701

NOTES TO THE FINANCIAL STATEMENTS

15. Loans and borrowings (continued)

15.3 Reconciliation of movement of liabilities to cash flows arising from financing activities

	Finance lease liabilities RM'000	Term loan RM'000	Others RM'000
Group			
Balance at beginning of the year	5,865	66,993	-
Drawdown of other borrowings	-	-	11,389
Repayment of borrowings	-	(23,438)	-
Acquisition of property, plant and equipment through finance lease liabilities	1,728	-	-
Repayment of finance lease liabilities	(712)	-	-
Balance at end of the year	6,881	43,555	11,389

16. Trade and other payables

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Trade					
Trade payables		19,994	70,689	-	-
Accrued expenses		20,882	23,563	-	-
Amount due to contract customers	11.2	196	526	-	-
		41,072	94,778	-	-
Non-trade					
Amounts due to associates	16.1	537	355	-	-
Amounts due to subsidiaries	16.2	-	-	27,208	32,086
Other payables	16.3	26,826	23,228	969	6,449
Accrued expenses		1,362	1,256	133	904
		28,725	24,839	28,310	39,439
		69,797	119,617	28,310	39,439

16.1 The amounts due to associates are unsecured, interest free and repayable upon demand.

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

NOTES TO THE FINANCIAL STATEMENTS

16. Trade and other payables (continued)

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

- i) RM13.5 million (2016: RM12.7 million) being amount due to Non-controlling Interest of a subsidiary for business operation funding. The amount is unsecured, bearing interest of 8.35% (2016: 8.35%) per annum and repayable upon demand.
- ii) RM560,000 (2016: RM560,000) being dividend payable by a subsidiary to Non-controlling Interest.

17. Revenue

Group	Continuing operations		Discontinued operation (Note 20)		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Sales	4,888	608	1	-	4,889	608
Services	17,044	15,266	-	-	17,044	15,266
Construction	83,860	83,100	-	-	83,860	83,100
Property development	100,700	-	-	-	100,700	-
Operating concession revenue	-	-	-	27,079	-	27,079
	206,492	98,974	1	27,079	206,493	126,053
Company						
Dividends	842	22,705	-	-	842	22,705

18. Key management personnel compensation

The key management personnel compensation is as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Directors:				
- Fees	5,218	5,423	270	270
- Remuneration	6,600	6,398	-	-
- Other short term employee benefits (including estimated monetary value of benefit-in-kind)	318	313	20	20
	12,136	12,134	290	290

NOTES TO THE FINANCIAL STATEMENTS

19. Tax expense

Recognised in profit or loss

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Income tax expense on continuing operations	(2,707)	4,896	331	600
Income tax expense on discontinued operation	(2,848)	34	-	-
Share of tax of equity-accounted associates/joint ventures	2,769	4,178	-	-
Total income tax expense	(2,786)	9,108	331	600
Major components of income tax expense include:				
Current tax expense				
Malaysian - current year	1,537	4,541	264	1,071
- prior year	(2,099)	1,074	67	(471)
Overseas - prior year	16	(147)	-	-
Total current tax recognised in profit or loss	(546)	5,468	331	600
Deferred tax expense				
Origination and reversal of temporary differences	(5,045)	370	-	-
Under/(Over) provision in prior year	36	(908)	-	-
Total deferred tax recognised in profit or loss	(5,009)	(538)	-	-
Share of tax of equity-accounted associates/joint ventures	2,769	4,178	-	-
Total tax expense	(2,786)	9,108	331	600
Reconciliation of tax expense				
(Loss)/Profit for the year	(30,043)	21,358	4,325	13,209
Total tax expense	(2,786)	9,108	331	600
(Loss)/Profit excluding tax	(32,829)	30,466	4,656	13,809
Income tax calculated using Malaysian tax rate of 24%	(7,879)	7,312	1,117	3,314
Effect of tax rates in foreign jurisdictions	177	497	-	-
Non-deductible expenses	8,657	2,930	3,300	5,606
Tax exempt income	(809)	(2,933)	(202)	(5,449)
Non-taxable income	-	-	(3,946)	(2,400)
Effect of deferred tax assets not recognised	-	1,136	-	-
Effect of deferred tax assets previously not recognised	(885)	-	(5)	-
Under/(Over) provision in prior years	(739)	8,942	264	1,071
	(2,047)	166	67	(471)
	(2,786)	9,108	331	600

NOTES TO THE FINANCIAL STATEMENTS

20. Discontinued operation

During the year, the disposal of Eco World-Salcon Y1 Pty Ltd, Wisdom Sports (M) Sdn. Bhd. and Juviter Group Sdn. Bhd. had been completed during the financial year.

In 2016, the disposal of Salcon Linyi (HK) Limited was completed in April 2016.

Profit attributable to the discontinued operation was as follows:

	Note	Group	
		2017 RM'000	2016 RM'000
Revenue	17	1	27,079
Expenses		(6,725)	(31,195)
Results from operating activities, net of tax		(6,724)	(4,116)
Gain on sale of discontinued operations		8,759	42,057
Profit for the year		2,035	37,941
Included in results from operating activities are:			
Depreciation of property, plant and equipment		690	129
Amortisation of intangible assets		-	1,333
Finance income		9	14
Finance cost		656	82
Cash flows from discontinued operation			
Net cash used in operating activities		(79,505)	(8,333)
Net cash used in investing activities		(1,676)	(3,006)
Net cash from/(used in) financing activities		82,850	(3,825)
Effect on cash flows		1,669	(15,164)

NOTES TO THE FINANCIAL STATEMENTS

20. Discontinued operation (continued)

Effect of disposal on the financial position of the Group

	2017 RM'000	2016 RM'000
Property, plant and equipment	1,685	1,474
Deferred tax assets	2,848	-
Intangible assets	-	128,769
Trade and other receivables	1,390	26,184
Inventories	144,032	4,659
Cash and cash equivalents	3,217	17,382
Trade and other payables	(77,909)	(85,147)
Current tax liabilities	-	(251)
Borrowings	(83,506)	(14,152)
Effect of foreign currency difference	74	4,215
Capital reserve	-	(74,036)
Non-controlling interest	(183)	2,302
Net assets and liabilities	(8,352)	11,399
Gain on sale of discontinued operations	8,759	42,057
Consideration received, satisfied in cash	407	53,456
Cash and cash equivalent disposed of	(3,217)	(17,382)
Net cash (outflow)/inflow	(2,810)	36,074

21. (Loss)/Profit for the year

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(Loss)/Profit for the year is arrived at after charging:				
Auditors' remuneration:				
- Audit fees				
- Current year				
KPMG Malaysia	412	411	170	170
Overseas affiliates of KPMG Malaysia	156	140	-	68
Other auditors	30	24	-	-
- Underprovision in prior year				
KPMG Malaysia	5	-	-	-
- Non-audit fees				
- KPMG Malaysia	51	58	35	50
Depreciation of property, plant and equipment	5,458	5,716	226	226
Finance cost on:				
- Bank overdraft	21	14	-	-
- Loans	3,456	4,518	-	-
- Other borrowings	557	288	28	38

NOTES TO THE FINANCIAL STATEMENTS

21. (Loss)/Profit for the year (continued)

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(Loss)/Profit for the year is arrived at after charging: (continued)				
Impairment losses:				
- Other investments	135	-	135	-
- Trade receivables	962	1,641	-	-
- Goodwill	8,513	34	-	-
Loss on disposal of investment property	3	-	-	-
Loss on disposal of other investment	20	-	20	-
Loss on disposal of property, plant and equipment	585	59	-	-
Loss on disposal of subsidiary	-	-	-	12
Personnel expenses (including key management personnel):				
- Contributions to Employees Provident Fund	2,868	2,857	437	950
- Wages, salaries and others	36,162	48,299	3,970	8,202
Property, plant and equipment written off	202	782	-	-
Realised loss on foreign exchange	54	63	74	450
Rental expense	2,426	1,475	-	-
Unrealised loss on foreign exchange	8,873	4,392	14,743	5,827
and after crediting:				
Dividend income from subsidiaries	-	-	842	22,705
Gain on disposal of equity interest in subsidiaries	8,759	42,057	-	-
Gain on disposal of property, plant and equipment	250	50	-	-
Finance income:				
- Subsidiaries	-	-	9,498	5,355
- Others	3,594	1,614	873	865
Impairment losses no longer required:				
- Property, plant and equipment	-	924	-	-
- Trade receivables	119	164	-	-
Realised gain on foreign exchange	40	307	10,961	230
Rental income on premises	25	230	-	-
Unrealised gain on foreign exchange	1,523	7,257	2,944	9,772

NOTES TO THE FINANCIAL STATEMENTS

22. Other comprehensive (expense)/income

Group	Before tax RM'000	Tax RM'000	Net of tax RM'000
2017			
Foreign currency translation differences for foreign operations			
- Loss arising during the year	(3,899)	-	(3,899)
2016			
Foreign currency translation differences for foreign operations			
- Gain arising during the year	15,810	-	15,810

23. (Loss)/Earnings per ordinary share

Basic (loss)/earnings per ordinary share

The calculation of basic (loss)/earnings per ordinary share at 31 December 2017 was based on the (loss)/profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

(Loss)/Profit attributable to ordinary shareholders

Group	Continuing operations RM'000	Discontinued operation RM'000	Total RM'000
2017			
(Loss)/Profit attributable to ordinary shareholders	(26,223)	2,401	(23,822)
2016			
(Loss)/Profit attributable to ordinary shareholders	(11,907)	23,751	11,844

	Group	
	2017 '000	2016 '000
Weighted average number of ordinary shares at 31 December	676,167	655,735

NOTES TO THE FINANCIAL STATEMENTS

23. (Loss)/Earnings per ordinary share (continued)**Basic (loss)/earnings per ordinary shares (continued)**

	2017	2016
	Sen	Sen
From continuing operations	(3.88)	(1.81)
From discontinued operation	0.36	3.62
Basic (loss)/earnings per ordinary share	(3.52)	1.81

Diluted (loss)/earnings per ordinary share

The potential ordinary shares are anti-dilutive in nature as it reduces the loss per ordinary shares upon the satisfaction of specified conditions. Accordingly, the diluted loss per ordinary share is not presented.

24. Dividends

Dividends recognised by the Company:

	Total amount RM'000	Date of payment
2017		
First and final share dividend of one (1) treasury share for every eighteen (18) existing ordinary shares held	21,898	12 July 2017

	Sen per share	Total amount RM'000	Date of payment
2016			
First and final 2015 ordinary (single tier)	2.0	13,294	15 June 2016

After the end of the reporting period, the following first and final dividend were proposed by the Directors. These dividends will be recognised in subsequent financial period upon approval by the owners of the Company at the forthcoming Annual General Meeting.

	Sen per share
First and final 2017 ordinary (single tier)	1.0

NOTES TO THE FINANCIAL STATEMENTS

25. Operating segments

The Group has four reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chief Operating Decision Maker ("CODM") (i.e. the Group's Chief Operating Officer) reviews internal management reports at least on a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Segment 1: Includes constructions.
- Segment 2: Includes concessions.
- Segment 3: Includes trading and services.
- Segment 4: Includes property development.

The sales and services are aggregated to form a reportable segment as trading and services due to similar nature and economic characteristics. The nature, processes and accounting treatment of the trading and services industry are similar.

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

Performance is measured based on segment profit before tax, interest, depreciation and amortisation, as included in the internal management reports that are reviewed by the CODM. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Segment assets

The total of segment asset is measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by the CODM. Segment total asset is used to measure the return of assets of each segment.

Segment liabilities

Segment liabilities information is neither included in the internal management reports nor provided regularly to the CODM. Hence, no disclosure is made on segment liability.

NOTES TO THE FINANCIAL STATEMENTS

25. Operating segments (continued)

Segment capital expenditure

Segment capital expenditure is the total cost incurred during the financial year to acquire assets other than goodwill.

Group 2017	Constructions RM'000	Concessions RM'000	Trading and Services RM'000	Property Development RM'000	Total Continuing Operations RM'000	Discontinued Operation RM'000	Total RM'000
Segment profit/(loss)	(4,033)	6,262	(16,219)	(5,855)	(19,845)	523	(19,322)

*Included in the
measure of segment
profit/(loss) are:*

Revenue from external customers	83,860	1,571	20,361	100,700	206,492	1	206,493
Share of profit of associate	-	4,827	(486)	(1,179)	3,162	-	3,162
Share of profit of joint ventures	13,642	-	(1,183)	-	12,459	-	12,459

*Not included in the
measure of segment
profit/(loss) but
provided to CODM:*

Depreciation and amortisation	(899)	-	(4,558)	(1)	(5,458)	690	(4,768)
Finance costs	(148)	-	(379)	(3,507)	(4,034)	(656)	(4,690)
Finance income	2,753	9	478	354	3,594	9	3,603
Tax expense	60	4	(620)	3,263	2,707	2,848	5,555

NOTES TO THE FINANCIAL STATEMENTS

25. Operating segments (continued)

Group 2017	Constructions RM'000	Concessions RM'000	Trading and Services RM'000	Property Development RM'000	Total Continuing Operations RM'000	Discontinued Operation RM'000	Total RM'000
Segment assets	268,827	25,888	113,654	220,536	628,905	-	628,905

*Included in the
measure of segment
assets are:*

Investment in associates	-	27,488	(289)	15,527	42,726	-	42,726
Investment in joint ventures	33,235	-	15,955	-	49,190	-	49,190
Additions to non-current assets other than financial instruments and deferred tax assets	509	-	2,678	-	3,187	1,685	4,872

2016

Segment profit/(loss)	6,547	5,821	(3,034)	(4,940)	4,394	39,505	43,899
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*Included in the
measure of segment
profit/(loss) are:*

Revenue from external customers	83,100	1,525	14,349	-	98,974	27,079	126,053
Write-down of inventories	-	-	-	-	-	-	-
Reversal of impairment of property, plant and equipment	-	-	(924)	-	(924)	-	(924)
Impairment of intangible assets	-	-	-	-	-	-	-
Share of profit of associate	-	4,350	(317)	-	4,033	-	4,033
Share of profit of joint ventures	10,316	-	(2,484)	-	7,832	-	7,832

NOTES TO THE FINANCIAL STATEMENTS

25. Operating segments (continued)

Group 2016	Constructions RM'000	Concessions RM'000	Trading and Services RM'000	Property Development RM'000	Total Continuing Operations RM'000	Discontinued Operation RM'000	Total RM'000
<i>Not included in the measure of segment profit/(loss) but provided to CODM:</i>							
Depreciation and amortisation	(981)	-	(4,665)	(70)	(5,716)	(1,462)	(7,178)
Finance costs	(82)	-	(274)	(4,464)	(4,820)	(82)	(4,902)
Finance income	1,231	4	353	26	1,614	14	1,628
Tax expense	(2,757)	(9)	(95)	(2,035)	(4,896)	(34)	(4,930)
Segment assets	332,448	28,120	145,995	220,814	727,377	-	727,377
<i>Included in the measure of segment assets are:</i>							
Investment in an associate	-	27,477	(253)	-	27,224	-	27,224
Investment in joint ventures	19,094	-	17,137	-	36,231	-	36,231
Additions to non-current assets other than financial instruments and deferred tax assets	498	-	7,271	1	7,770	111	7,881

NOTES TO THE FINANCIAL STATEMENTS

25. Operating segments (continued)

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

	Group	
	2017 RM'000	2016 RM'000
Profit or loss		
Total profit or loss for reportable segments	(19,845)	4,394
Depreciation and amortisation	(5,458)	(5,716)
Finance costs	(4,034)	(4,820)
Finance income	3,594	1,614
Unrealised and realised foreign exchange differences	(7,364)	2,865
Unallocated expenses:		
Corporate expenses	(1,678)	(10,024)
Others	-	-
Consolidated loss before tax from continuing operations	(34,785)	(11,687)
Profit from discontinued operation, net of tax	2,035	37,941
Consolidated (loss)/profit before tax	(32,750)	26,254

Geographical segments

The constructions, concessions, trading and services and property development are managed on a worldwide basis, but operations are in Malaysia, the United Kingdom, Norway, China, Sri Lanka, Vietnam and other countries.

NOTES TO THE FINANCIAL STATEMENTS

25. Operating segments (continued)

Geographical segments (continued)

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers. Segment assets are based on the geographical location of the assets. The amounts of non-current assets do not include financial instruments (including investments in associates and joint ventures) and deferred tax assets.

Group	Geographical information			
	Revenue	Non-current assets	Revenue	Non-current assets
	2017 RM'000	2017 RM'000	2016 RM'000	2016 RM'000
Malaysia	198,406	54,277	89,471	53,194
The United Kingdom	3,441	35,930	813	40,606
Norway	1,309	1,772	-	-
Vietnam	-	-	207	-
China	138	6	-	6
Sri Lanka	-	-	8,483	-
Other countries	3,198	-	-	-
	206,492	91,985	98,974	93,806
Discontinued operation	1	-	27,079	-
	206,493	91,985	126,053	93,806

Major customers

The Group did not specifically rely on concentrated customers as majority of the revenue of the Group are contract based. The following are major customers with revenue equal or more than 10% of the Group's total revenue:

All common control of Companies:	Revenue		Segment
	2017 RM'000	2016 RM'000	
- Customer A	1,279	22,655	Constructions
- Customer B	2,200	16,500	Constructions
- Customer C	1,464	11,581	Constructions
- Customer D	21,767	-	Constructions

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments

26.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

- (a) Loans and receivables ("L&R");
 (b) Financial liabilities measured at amortised cost ("FL"); and
 (c) Available-for-sale financial assets ("AFS").

	Carrying amount 2017 RM'000	L&R/ (FL) 2017 RM'000	AFS 2017 RM'000	Carrying amount 2016 RM'000	L&R/ (FL) 2016 RM'000
Financial assets					
Group					
Other investments	540	-	540	-	-
Trade and other receivables	160,713	160,713	-	152,682	152,682
Cash and cash equivalents	133,811	133,811	-	215,941	215,941
	295,064	294,524	540	368,623	368,623
Company					
Other investments	540	-	540	-	-
Trade and other receivables	366,678	366,678	-	296,388	296,388
Cash and cash equivalents	42,954	42,954	-	113,244	113,244
	410,172	409,632	540	409,632	409,632
Financial liabilities					
Group					
Loans and borrowings	(66,628)	(66,628)	-	(73,050)	(73,050)
Trade and other payables	(69,797)	(69,797)	-	(119,617)	(119,617)
	(136,425)	(136,425)	-	(192,667)	(192,667)
Company					
Loans and borrowings	(505)	(505)	-	(701)	(701)
Trade and other payables	(28,310)	(28,310)	-	(39,439)	(39,439)
	(28,815)	(28,815)	-	(40,140)	(40,140)

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments (continued)**26.2 Net gains and losses arising from financial instruments**

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Net (losses)/gains on:				
Available-for-sale financial assets	(155)	-	(155)	-
Loans and receivables	5,276	9,342	24,276	10,867
Financial liabilities measured at amortised cost	(13,923)	(10,916)	(14,845)	(6,315)
	(8,802)	(1,574)	9,276	4,552

26.3 Financial risk management

The Group and the Company have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

26.4 Credit risk

Credit risk is the risk of a financial loss to the Group and the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers. The Company's exposure to credit risk arises principally from advances to subsidiaries and financial guarantees given to banks for credit facilities granted to the subsidiaries.

Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers requiring credit over a certain amount.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statements of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 60 days, which are deemed to have higher credit risk, are monitored individually.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments (continued)

26.4 Credit risk (continued)

Receivables (continued)

Exposure to credit risk, credit quality and collateral (continued)

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

	Group	
	2017 RM'000	2016 RM'000
Domestic	120,316	91,996
Sri Lanka	5,992	2,202
Vietnam	934	3,601
China	20,880	4,202
India	4,757	11,149
United Kingdom	6,160	12,427
Australia	-	24,638
Others	1,674	2,467
	<hr/>	<hr/>
	160,713	152,682

At date of statements of financial position, there were no significant concentrations of credit risk.

Impairment losses

The Group maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

Group	Gross RM'000	Individual impairment RM'000	Net RM'000
2017			
Not past due	64,741	-	69,741
Past due 1 - 30 days	13,533	-	13,533
Past due 31 - 120 days	12,402	-	12,402
Past due more than 120 days	17,712	(8,557)	9,155
	<hr/>	<hr/>	<hr/>
	113,388	(8,557)	104,831

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments (continued)**26.4 Credit risk (continued)****Receivables (continued)***Impairment losses (continued)*

Group	Gross RM'000	Individual impairment RM'000	Net RM'000
2016			
Not past due	82,271	-	82,271
Past due 1 - 30 days	6,475	-	6,475
Past due 31 - 120 days	3,555	-	3,555
Past due more than 120 days	19,884	(9,667)	10,217
	112,185	(9,667)	102,518

Although certain trade receivables have become past due and exceeded the credit terms granted to them, the Directors are reasonably confident that all debts can be recovered within the next 12 months.

The movements in the allowance for impairment losses of trade receivables during the financial year were:

	Group	
	2017 RM'000	2016 RM'000
At 1 January	(9,667)	(18,119)
Impairment loss recognised	(962)	(1,641)
Impairment loss written off	1,953	9,929
Impairment loss reversed	119	164
At 31 December	(8,557)	(9,667)

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

Inter company balances*Risk management objectives, policies and processes for managing the risk*

The Company provides unsecured advances to subsidiaries. The Company monitors the results of the subsidiaries regularly.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments (continued)

26.4 Credit risk (continued)

Inter company balances (continued)

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their respective carrying amounts in the statements of financial position.

Impairment losses

As at the end of the reporting period, there was no indication that the advances to the subsidiaries are not recoverable. The Company does not specifically monitor the ageing of the advances to the subsidiaries. Nevertheless, these advances have been overdue for less than a year.

Financial guarantees

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries. The Company monitors on an ongoing basis the results of the subsidiaries and repayments made by the subsidiaries.

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounts to RM99,568,000 (2016: RM105,950,000) representing the outstanding banking facilities of the subsidiaries that was supported by the financial guarantee issued by the Company as at end of the reporting period.

As at end of the reporting period, there was no indication that any subsidiary would default on their repayments.

The financial guarantees have not been recognised since the fair value on initial recognition were not material.

26.5 Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet their financial obligations as and when they fall due. The Group's and the Company's exposure to liquidity risk arise principally from their various payables, loans and borrowings.

The Group and the Company maintain a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that they will have sufficient liquidity to meet their liabilities when they fall due.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments (continued)

26.5 Liquidity risk (continued)

Maturity analysis

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

2017	Carrying amount RM'000	Contractual interest rate	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Group							
<i>Non-derivative financial liabilities</i>							
Term loans (secured)	43,555	5.92-8.97%	46,210	45,452	301	457	-
Bank overdraft (unsecured)	4,803	8.15-9.15%	4,803	4,803	-	-	-
Finance lease liabilities	6,881	2.29-6.18%	7,694	2,129	3,972	1,593	-
Bankers' acceptance (unsecured)	3,389	-	3,389	3,389	-	-	-
Revolving credits (unsecured)	8,000	-	8,000	8,000	-	-	-
Trade and other payables	56,297	-	56,297	56,297	-	-	-
Other payables	13,500	8.35%	13,500	13,500	-	-	-
	136,425		139,893	133,570	4,273	2,050	-
Company							
<i>Non-derivative financial liabilities</i>							
Finance lease liabilities	505	4.66%	533	224	309	-	-
Financial guarantees	-	-	99,568	99,568	-	-	-
Trade and other payables	28,310	-	28,310	28,310	-	-	-
	28,815		128,411	128,102	309	-	-

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments (continued)

26.5 Liquidity risk (continued)

Maturity analysis (continued)

2016	Carrying amount RM'000	Contractual interest rate	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Group							
<i>Non-derivative financial liabilities</i>							
Term loans (secured)	66,993	5.92-8.97%	75,818	28,467	26,512	20,695	144
Bank overdraft (unsecured)	192	8.15-9.15%	192	192	-	-	-
Finance lease liabilities	5,865	4.66-6.45%	6,623	1,642	3,020	1,961	-
Trade and other payables	106,917	-	106,917	106,917	-	-	-
Other payables	12,700	8.35%	12,700	12,700	-	-	-
	192,667		202,250	149,918	29,532	22,656	144
Company							
<i>Non-derivative financial liabilities</i>							
Finance lease liabilities	701	4.66%	757	224	224	309	-
Financial guarantees	-	-	105,950	105,950	-	-	-
Trade and other payables	39,439	-	39,439	39,439	-	-	-
	40,140		146,146	145,613	224	309	-

26.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices that will affect the Group's financial position or cash flows.

As at the end of the reporting period, the Group is not exposed to other price risks.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments (continued)

26.6 Market risk (continued)

26.6.1 Currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily Singapore Dollar ("SGD"), United States Dollar ("USD"), Sri Lanka Rupee ("LKR"), Indian Rupee ("INR") and Great Britain Pound ("GBP").

Risk management objectives, policies and processes for managing the risk

The Group ensure that the net exposure is kept to an acceptable level by monitoring the fluctuation of the foreign currencies.

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the functional currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

2017	Denominated in				
	SGD RM'000	USD RM'000	LKR RM'000	INR RM'000	GBP RM'000
Group					
Trade receivables	-	143	-	153	5,898
Cash and cash equivalents	33,275	9,357	5,703	54	3,155
Trade payables	-	-	(255)	(17)	(51)
Amount due from contract customers	-	-	-	4,024	-
Net exposure	33,275	9,500	5,448	4,214	9,002
2016					
Group					
Trade receivables	-	-	287	159	12,330
Cash and cash equivalents	4	69,828	10,066	355	1,507
Trade payables	-	-	(828)	-	(122)
Amount due from contract customers	-	-	-	9,648	-
Net exposure	4	69,828	9,525	10,162	13,715

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments (continued)**26.6 Market risk (continued)****26.6.1 Currency risk (continued)**

Currency risk sensitivity analysis

Foreign currency risk arises from Group entities which have Ringgit Malaysia as functional currency. The exposure to currency risk of Group entities which do not have a Ringgit Malaysia functional currency is not material and hence, sensitivity analysis is not performed.

A 10 percent strengthening of the RM against the following currencies at the end of the reporting period would have increased/(decreased) equity and post-tax profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remained constant.

	Equity		Profit or loss	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
SGD	2,529	1	2,529	1
USD	525	5,237	722	5,307
LKR	418	3,570	414	724
INR	321	780	320	780
GBP	(545)	957	684	1,042
	3,248	10,545	4,669	7,854

A 10 percent weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect to the amounts shown on the above currencies, on the basis that all other variables remain constant.

26.6.2 Interest rate risk

The Group's and the Company's investments in fixed rate debt securities and its fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's and the Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

The Group and the Company borrowed for operations at variable rates using its overdrafts, revolving credit, bankers' acceptance and term loan facilities, and use fixed rate finance lease agreements to finance capital expenditure. Deposits are placed with established banks or financial institutions at the prevailing market rate.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments (continued)**26.6 Market risk (continued)****26.6.2 Interest rate risk (continued)***Exposure to interest rate risk*

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Fixed rate instruments				
Financial assets	85,338	158,802	172,113	265,428
Financial liabilities	(6,881)	(5,865)	(505)	(701)
	78,457	152,937	171,608	264,727
Floating rate instruments				
Financial assets	20,356	2,111	179,077	60,214
Financial liabilities	(59,747)	(67,185)	-	-
	(39,391)	(65,074)	179,077	60,214

*Interest rate risk sensitivity analysis**Fair value sensitivity analysis for fixed rate instruments*

The Group and the Company do not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group and the Company do not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments (continued)**26.6 Market risk (continued)****26.6.2 Interest rate risk (continued)**

Interest rate risk sensitivity analysis (continued)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points ("bp") in interest rates at the end of the reporting period would have increased/(decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Group		Company	
	100 bp increase RM'000	100 bp decrease RM'000	100 bp increase RM'000	100 bp decrease RM'000
2017				
Floating rate instruments	(299)	299	1,361	(1,361)
2016				
Floating rate instruments	(495)	495	458	(458)

26.7 Fair value information

The carrying amounts of available-for-sale financial assets, cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

It was not practicable to estimate the fair value of the Group's investment in unquoted shares due to the lack of comparable quoted market prices and the inability to estimate a reliable fair value without incurring excessive costs.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments (continued)

26.7 Fair value information (continued)

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statements of financial position.

2017	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000		
Group								
Financial liabilities								
Term loans (secured)	-	-	-	-	-	(43,555)	(43,555)	(43,555)
Finance lease liabilities	-	-	-	-	-	(6,700)	(6,700)	(6,881)
	-	-	-	-	-	(50,255)	(50,255)	(50,436)
Company								
Financial liabilities								
Finance lease liabilities	-	-	-	-	-	(467)	(467)	(505)

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments (continued)

26.7 Fair value information (continued)

2016	Group	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value RM'000	Carrying amount RM'000
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000		
	Financial liabilities								
	Term loans (secured)	-	-	-	-	-	(66,993)	(66,993)	(66,993)
	Finance lease liabilities	-	-	-	-	-	(5,335)	(5,335)	(5,865)
		-	-	-	-	-	(72,328)	(72,328)	(72,858)
	Company								
	Financial liabilities								
	Finance lease liabilities	-	-	-	-	-	(633)	(633)	(701)

NOTES TO THE FINANCIAL STATEMENTS

26. Financial instruments (continued)**26.7 Fair value of information (continued)****Level 3 fair value**

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

Non-derivative financial asset and liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the interest rate determined at the end of the reporting period.

For finance leases, the market rate of interest is determined by reference to similar lease agreements. For unsecured term loans, the carrying amounts approximate the fair value as they bear variable rates of interest determined based on a margin over the lender bank's base lending rate.

Interest rates used to determine fair value

The interest rates used to discount estimated cash flows, when applicable, are as follows:

	2017	2016
Group		
Finance lease liabilities	3.53%	6.14%
Company		
Finance lease liabilities	4.66%	4.66%

27. Capital management

The Group's objectives when managing capital are to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investors, creditors and market confidence and to sustain future development of the business. The Directors monitor and are determined to maintain an optimal debt-to-equity ratio that complies with debt covenants.

NOTES TO THE FINANCIAL STATEMENTS

27. Capital management (continued)

The debt-to-equity ratios at 31 December 2017 and at 31 December 2016 were as follows:

	Group	
	2017 RM'000	2016 RM'000
Total loans and borrowings (Note 15)	66,628	73,050
Less: Cash and cash equivalents (Note 13)	(133,811)	(215,941)
Net debt	(67,183)	(142,891)
Total equity	485,128	523,108
Debt-to-equity ratio	-	-

There was no change in the Group's approach to capital management during the financial year.

Under the requirements of Bursa Malaysia Practice Note No. 17/2005, the Group is required to maintain a consolidated shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Group has complied with this requirement.

The Group is also required to maintain a debt-to-equity ratio at no more than 1.25 to comply with a bank covenant, failing which, the bank may call an event of default. The Group has complied with this requirement.

28. Contingent liabilities

The unrecognised contingent liabilities of the Group and the Company at the end of the reporting period are summarised as below:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Bank guarantees given to financial institutions in respect of facilities granted to				
- subsidiaries	-	-	403,574	403,774
- associates	13,800	13,800	13,800	13,800
Bank guarantee given to third parties relating to performance, tender and advance payment bonds	33,159	33,693	-	-
Guarantees given in favour of main contractors of the subsidiaries	-	10,918	-	10,918

NOTES TO THE FINANCIAL STATEMENTS

29. Related parties**Identity of related parties**

For the purposes of these financial statements, parties are considered to be related to the Group and the Company if the Group and the Company have the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly and entity that provide key management personnel services to the Group. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

The Group has related party relationships with its subsidiaries (see Note 6), associates (see Note 7), joint ventures (see Note 8) and key management personnel.

Transactions with key management personnel**Key management personnel compensation**

Key management personnel compensation is disclosed in Note 18.

Significant related party transactions

Related party transactions have been entered into in the normal course of business under negotiated terms. The significant related party transactions of the Group and the Company are shown below. The balances related to the below transactions are shown in Note 11 and 16.

	Transaction value year ended 31 December	
	2017	2016
	RM'000	RM'000
Group		
Affiliated company of a joint venture		
- management fee expense	-	308
<hr/>		
Entity in which a Director of a subsidiary has interest		
- provision of drivers management services	-	2,219
<hr/>		
Entity in which a Director has interest		
- disposal of interest in shares of subsidiary	398	-
<hr/>		
Company		
Subsidiaries		
- interest income	9,498	(5,355)
<hr/>		

NOTES TO THE FINANCIAL STATEMENTS

30. Operating leases***Leases as lessee***

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2017	2016
	RM'000	RM'000
Less than one year	826	863
Between one and five years	1,404	-
	2,230	863

The Group leases offices and office equipment under operating leases. The leases typically run for a period of 5 years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

31. Capital and other commitments

	Group	
	2017	2016
	RM'000	RM'000
Capital expenditure commitments		
Contracted but not provided for	3,623	31,284

32. Material acquisition of subsidiary and non-controlling interests**Acquisition of subsidiary – Beijing Xinlian Yitong Technology Co. Ltd.**

On 3 February 2017, the Group had acquired 100% of the entire issued and registered capital of Beijing Xinlian Yitong Technology Co. Ltd. (“BXYT”) for a total cash consideration of RM5,050,000 (HKD9.6 million).

BXYT was incorporated in People’s Republic of China on 25 November 2011 as a private limited company and its principal activity is within the domain of providing online tourism and marketing services in China.

NOTES TO THE FINANCIAL STATEMENTS

32. Material acquisition of subsidiary and non-controlling interests (continued)**Acquisition of subsidiary – Beijing Xinlian Yitong Technology Co. Ltd. (continued)**

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

	Group 2017 RM'000
Fair value of consideration transferred	
Cash and cash equivalents	5,050
<hr/>	
Identifiable assets acquired and liabilities assumed	
Property, plant and equipment	2
Prepayments	470
Other receivables	105
Cash and cash equivalents	-
Trade and other payables	(1,995)
<hr/>	
Total identifiable net liabilities	(1,418)
<hr/>	
Net cash outflow arising from acquisition of subsidiary	
Purchase consideration settled in cash and cash equivalents	5,050
Cash and cash equivalents acquired	-
<hr/>	
	5,050
<hr/>	
Goodwill	
Total consideration transferred	5,050
Fair value of identifiable net liabilities	1,418
Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities of the acquiree	-
<hr/>	
Goodwill upon acquisition	6,468
Less: Goodwill impaired	(6,468)
<hr/>	
	-
<hr/>	

NOTES TO THE FINANCIAL STATEMENTS

32. Material acquisition of subsidiary and non-controlling interests (continued)**Acquisition of subsidiary – Rayvn AS**

On 16 February 2017, the Group had acquired 100,000 ordinary shares in Rayvn AS (“RAS”) for a total purchase consideration of NOK1.5 million. On the same day, the Group had subscribed 818,182 ordinary shares of NOK4.278 each in RAS for a consideration of NOK3.5 million.

RAS’ principal activity is in the domain of developing and selling a web-based software solution for crisis management.

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

	Group 2017 RM’000
Fair value of consideration transferred	
Cash and cash equivalents	782
Identifiable assets acquired and liabilities assumed	
Property, plant and equipment	2,101
Other receivables	213
Cash and cash equivalents	11
Trade and other payables	(2,322)
Total identifiable net liabilities	3
Net cash outflow arising from acquisition of subsidiary	
Purchase consideration settled in cash and cash equivalents	782
Cash and cash equivalents acquired	(11)
	771
Goodwill	
Total consideration transferred	782
Fair value of identifiable net liabilities	(3)
Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities of the acquiree	1
Goodwill upon acquisition	780
Less: Goodwill impaired	(780)
	-

NOTES TO THE FINANCIAL STATEMENTS

32. Material acquisition of subsidiary and non-controlling interests (continued)**Acquisition of subsidiary – Circlic Interactive Tourism Sdn. Bhd.**

On 18 August 2016, the Group has subscribed 4,643 ordinary shares of RM1.00 each in Circlic Interactive Sdn. Bhd. (“CISB”), representing 65% of the enlarged issued and paid-up share capital of CISB for total cash consideration of RM4,643.

The company was incorporated on 31 October 2014 and its intended principal activities are within the domain of mobile commerce, focusing on consumers of China and South East Asia. However, CISB has remained dormant since incorporation. Accordingly, the contribution of the subsidiary to the Group’s consolidated results is not significant.

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

	Group 2016 RM'000
Fair value of consideration transferred	
Cash and cash equivalents	5
Identifiable assets acquired and liabilities assumed	
Other receivables	129
Cash and cash equivalents	5
Trade and other payables	(179)
Total identifiable net liabilities	(45)
Net cash outflow arising from acquisition of subsidiary	
Purchase consideration settled in cash and cash equivalents	5
Cash and cash equivalents acquired	(5)
	-
Goodwill	
Total consideration transferred	5
Fair value of identifiable net liabilities	45
Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities of the acquiree	(16)
Goodwill upon acquisition	34
Less: Goodwill impaired	(34)
	-

NOTES TO THE FINANCIAL STATEMENTS

33. Significant events

Significant events during the year are as follows:

i) Circlc Interactive Tourism Sdn. Bhd.

On 3 January 2017, an Extraordinary General Meeting (“EGM”) had been held by Circlc Interactive Tourism Sdn. Bhd. (“CITSB”), a 65%-owned subsidiary of Salcon Water International Limited (“SWIL”) which in turn a wholly-owned subsidiary of the Company, to allot and issue 192,857 new ordinary shares of RM1.00 each for a total cash consideration of RM192,857. Following the subscription, CITSB remained a 65%-owned subsidiary of the Company.

ii) Signcharge Sdn. Bhd.

On 5 January 2017, the Company’s wholly-owned subsidiary, namely Salcon Water International Limited (“SWIL”), had entered into agreement with Mr. See Che Chi (“SCC”) for the acquisition of additional 1.5 million of ordinary shares of RM1.00 each in Signcharge Sdn. Bhd. (“SCSB”), representing 51.1% of the issued and paid-up share capital of SCSB for a total purchase consideration of RM0.6 million. The proposed acquisition was completed on 20 January 2017.

iii) Wisdom Sports (M) Sdn. Bhd. (f.k.a. Enrich Signature Sdn. Bhd.)

On 25 January 2017, Circlc Interactive Tourism Sdn. Bhd. (“CITSB”), a 65%-owned subsidiary of Salcon Water International Limited (“SWIL”) which in turn a wholly-owned subsidiary of the Company, had acquired 2 ordinary shares of RM1.00 each, representing 100% equity interest in Enrich Signature Sdn. Bhd. (“ESSB”) for a total cash consideration of RM2. Following the acquisition, ESSB became a 65% indirect-owned subsidiary of the Company.

On 28 February 2017, Enrich Signature Sdn. Bhd. (“ESSB”), a wholly-owned subsidiary of Circlc Interactive Tourism Sdn. Bhd. (“CITSB”) which in turn a 65%-owned subsidiary of Salcon Xinlian Group Limited which in turn a 51.02%-owned subsidiary of the Company, has changed its name to Wisdom Sports (M) Sdn. Bhd. (“WSSB”).

On 28 February 2017, CITSB had entered into an agreement with Shenzhen Wisdom Sports Industry Co. Ltd to form a joint venture through WSSB for the purpose of organising and managing Belt and Road Marathon Majors (“BRMS”) to be held in Malaysia. Following the proposed subscription, CITSB’s equity interest in WSSB will be reduced from 100% to 45% and WSSB will cease to be an indirect subsidiary of the Company.

iv) Salcon Xinlian Sdn. Bhd. (f.k.a Anggerik Megajaya Sdn. Bhd.)

On 25 January 2017, the Company had acquired 2 ordinary shares of RM1.00 each, representing 100% equity interest in Anggerik Megajaya Sdn. Bhd. (“AMSB”) for a total cash consideration of RM2. Following the acquisition, AMSB had become a wholly-owned subsidiary of the Company.

On 21 February 2017, Anggerik Megajaya Sdn. Bhd. (“AMSB”) had changed its name to Salcon Xinlian Sdn. Bhd. (“SXS”).

On 19 July 2017, SXS has increased its issued and paid-up share capital from RM2 to RM100 by way of subscription of new shares in SXS by Mr. See Che Chi (“SCC”) and Dato’ Mohamed Nizam Bin Abdul Razak (“Dato’ Nizam”). Following the subscription, the Company’s equity interest in SXS was reduced from 100% to 51% and SXS remained as a subsidiary of the Company.

NOTES TO THE FINANCIAL STATEMENTS

33. Significant events (continued)**v) Circllc Sdn. Bhd. (f.k.a. Baiduri Nyaman Sdn. Bhd.)**

On 27 January 2017, the Company's wholly-owned subsidiary, namely Salcon Water International Limited ("SWIL"), had acquired 2 ordinary shares of RM1.00 each, representing 100% equity interest in Baiduri Nyaman Sdn. Bhd. ("BNSB") for a total cash consideration of RM2. Following the acquisition, BNSB had become a wholly-owned subsidiary of the Company.

vi) Salcon Xinlian Group Limited (f.k.a Salcon Water International Limited)

On 8 February 2017, the Company's wholly-owned subsidiary, Salcon Water International Limited ("SWIL") has changed its name to Salcon Xinlian Group Limited ("SXGL").

On the same date, the Company had entered into an agreement with Mr. See Che Chi ("SCC") and Dato' Mohamed Nizam Bin Abdul Razak ("Dato' Nizam") to increase the issued and paid-up share capital in SXGL from HKD10 million to HKD19.6 million by way of subscription of new shares in SXGL by SCC and Dato' Nizam. Following the subscription, the Company's equity interest in SXGL was reduced from 100% to 51.02% and SXGL remained as a subsidiary of the Company. The subscription was completed on 17 February 2017.

vii) Rayvn AS

On 16 February 2017, Salcon ELU Sdn. Bhd. (f.k.a. Tanjung Jutaria Sdn. Bhd.) ("SESB"), a wholly-owned subsidiary of Salcon Engineering Berhad ("SEB") which in turn a wholly-owned subsidiary of the Company, has entered into agreement with Total Safety AS ("TSA") and Enovate AS ("Enovate") for the proposed acquisition of 100,000 ordinary shares in Rayvn AS ("RAS") for a total purchase consideration of NOK1.5 million.

On the same date, SESB had entered into agreement with RAS to subscribe 818,182 ordinary shares of NOK4.278 each in RAS for a consideration of NOK3.5 million. Upon completion of the transactions, RAS will become a 50.5% subsidiary of the Company.

viii) Juviter Group Sdn. Bhd.

On 21 February 2017, the Company's wholly-owned subsidiary, namely Anggerik Megajaya Sdn. Bhd. ("AMSB") has changed its name to Salcon Xinlian Sdn. Bhd. ("SXSB").

On the same date, SXSB had incorporated a wholly-owned subsidiary, Juviter Group Sdn. Bhd. ("JGSB") with the initial and paid-up share capital of RM1.00 comprising of 1 ordinary shares of RM1.00 each. The intended principal activities of JGSB are entertainment, event, film and television production, commercial advertising as well as information technology and software development.

On 14 December 2017, the Company entered into a Share Sale Agreement with Mr. See Che Chi ("SCC") to dispose of 50,000 ordinary shares in JGSB, representing 100% of the total share capital of JGSB to SCC for a total cash sale consideration of RM10. The disposal was completed on 29 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

33. Significant events (continued)

ix) Eco World-Salcon Y1 Pty Ltd (f.k.a. Salcon Development (Australia) Pty. Ltd.)

On 10 April 2017, Salcon Development Sdn. Bhd., a wholly-owned subsidiary of the Company, entered into a conditional share sale and purchase agreement with Fortune Quest Group Ltd., a wholly-owned subsidiary of Eco World International Berhad, for the proposed disposal of 80% equity interest in Salcon Development (Australia) Pty. Ltd. (a subsidiary) for a consideration of RM398,784 (AUD120,000). The proposed disposal was completed on 11 September 2017.

34. Subsequent events

On 27 February 2018, the Group's wholly-owned subsidiary, Salcon Power (HK) Limited entered into an agreement with ACP Solar Limited on the disposal of 983 units of solar photovoltaic electricity generating systems for a consideration of RM21,000,000 (GBP3.9 million).

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

In the opinion of the Directors, the financial statements set out on pages 107 to 204 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2017 and of their financial performance and cash flows for the financial year then ended.

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

.....
Dato' Seri (Dr.) Goh Eng Toon
Director

.....
Tan Sri Dato' Tee Tiam Lee
Director

Kuala Lumpur

Date: 4 April 2018

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT 2016

I, **Law Woo Hock**, the officer primarily responsible for the financial management of Salcon Berhad, do solemnly and sincerely declare that the financial statements set out on pages 107 to 204 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Law Woo Hock, NRIC: 640630-07-5353, MIA CA 7714 at Kuala Lumpur in the Federal Territory on 4 April 2018.

.....
Law Woo Hock

Before me:

D. Selvaraj
(W320)
Commissioner for Oaths
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SALCON BERHAD

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Salcon Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to financial statements, including a summary of significant accounting policies, as set out on page 107 to 204.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis of Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Profit recognition on construction contracts

Refer to Note 2(p) – Significant accounting policy: Revenue and other income and Note 17 – Revenue.

The key audit matter

The Group has various significant long term construction contracts. The recognition of revenue and costs, and hence profit on these contracts are assessed by reference to the proportion of contract costs incurred for the work performed to-date bear to the estimated total costs of the contract at completion.

Profit on contracts is a key audit matter for our audit because of the judgment and estimates involved in preparing the estimated total costs of the contract at completion. An error in the estimated total costs of the contract at completion could result in a material misstatement in the amount of profit or loss recognised to-date and in the current period.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SALCON BERHAD

Key Audit Matters (continued)

How the matter was addressed in our audit

We performed the following audit procedures, among others:

- challenging senior operational, commercial and financial management's judgement by obtaining and assessing information to support the estimated total costs. These assumptions included in the estimated total costs are the expected recovery of variations, claims and compensation events; and
- evaluating the reasonableness of the estimated total costs of the contract at completion by assessing the basis of their calculation, which included supplier quotes and contracts and other relevant costs in deriving the estimates.

We have determined that there are no key audit matters in the audit of the separate financial statements of the Company to communicate in our auditor report.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Director's Report, Statement on Risk Management and Internal Control, (but does not include the financial statements of the Group and of the Company and our auditors' report thereon), which we obtained prior to the date of this auditor's report, and the remaining parts of the annual report, which are expected to be made available to us after that date.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining parts of the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors of the Company and take appropriate actions in accordance with approved standards on auditing in Malaysia and International Standards on Auditing.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of the financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SALCON BERHAD

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group and of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SALCON BERHAD

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 6 to the financial statements.

Other Matter

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT

(LLP0010081-LCA & AF 0758)
Chartered Accountants

Tai Yoon Foo

Approval Number: 2948/05/18(J)
Chartered Accountant

Petaling Jaya, Selangor

Date: 4 April 2018

PARTICULARS OF GROUP PROPERTIES

The properties of the Group as at 31 December 2017 and their net book values ("NBV") are indicated below:

FREEHOLD BUILDINGS AND LAND

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Envitech Sdn Bhd	HS(D) 102104, PT No. 15914, Pekan Damansara, Daerah Petaling/No. 64, Jalan PenyairU1/44, Temasya Industrial Park, Seksyen U1, 40150 Shah Alam, Selangor Darul Ehsan	149 sq. metres of intermediate unit 1½ storey terraced factory	21 years	14/03/2002	230
Envitech Sdn Bhd	HS(D) 3422, Lot No. 3988, Mukim Damansara, Daerah Petaling, Selangor/No. 67, Jalan SS15/5A, 47500 Subang Jaya, Selangor Darul Ehsan	164 sq. metres of intermediate unit 3 storey terraced shop-office	38 years	15/03/2002	769
Envitech Sdn Bhd	No.79, Lorong Sanggul 1F, Bandar Puteri, 41200 Klang, Selangor Darul Ehsan	1,540 sq ft of 3 storey shop	13 years	15/05/2013	1,029
Envitech Sdn Bhd	No.81, Lorong Sanggul 1F, Bandar Puteri, 41200 Klang, Selangor Darul Ehsan	1,540 sq ft of 3 storey shop	13 years	15/05/2013	1,236
Eco-Coach & Tours (M) Sdn Bhd	No. 25, Jalan Seri Waja 2, Taman Industri Waja, 09000 Kulim. Kedah	1½ storey semi-detached factory	12 years	23/01/2013	787
Eco-Coach & Tours (M) Sdn Bhd	No. 26, Jalan Seri Waja 2, Taman Industri Waja, 09000 Kulim. Kedah	1½ storey semi-detached factory	12 years	23/01/2013	788
					4,839

PARTICULARS OF GROUP PROPERTIES

INVESTMENT PROPERTIES

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Envitech Sdn Bhd	Property held under GRN 227594 Lot 5109 (formerly held under HS(D) 62070 PT 2074) Mukim Beranang, District of Ulu Langat, State of Selangor (BM9/2C)	12,000 sq ft of bungalow plot	15 years	28/11/2002	230
Envitech Sdn Bhd	Bungalow Lot No. BB-034 Bandar Mahkota Banting, measuring an area approximately 465 square metres bearing postal address at No. 42, Jalan Angkasa 1A/5 Bandar Mahkota Banting, 42700 Banting , Selangor held under master title Geran 100210 Lot 19601 Mukim Tanjong Duabelas, District of Kuala Langat, State of Selangor	465 sq. metres of bungalow plot	9 years	22/10/2009	89
Envitech Sdn Bhd	Industrial Land Lot No. 98 Section 4, Phase 2C, Selangor Halal-Hub Pulau Indah measuring an area approximately 0.50 acre (21,780 square feet) held under master title PN 7939 Lot No. 74076 District and Mukim Kelang, State of Selangor	0.5 acre of industry	9 years	24/07/2009	494
Envitech Sdn Bhd	Unit No. 2, Corner Ground Floor, Block E Shop & Office At Pulau Melaka	3,358 sq. ft. of corner ground shop & office	8 years	1/11/2011	781
Envitech Sdn Bhd	Unit No. 7, Intermediate Ground Floor, Block .K Shop & Office At Pulau Melaka	1,540 sq. ft. of intermediate ground shop & office	8 years	1/11/2011	367
Envitech Sdn Bhd	Ukay Perdana Shopplot as Lot No. SB-SG16	920 sq. ft. of intermediate shop	8 years	10/11/2011	284
Envitech Sdn Bhd	Ukay Perdana Shopplot as Lot No. SB-SG18	920 sq. ft. of intermediate shop	8 years	10/11/2011	298

PARTICULARS OF GROUP PROPERTIES

INVESTMENT PROPERTIES (CONTINUED)

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG20	920 sq. ft. of intermediate shop	8 years	10/11/2011	298
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG21	920 sq. ft. of intermediate shop	8 years	10/11/2011	284
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG23	920 sq. ft. of intermediate shop	8 years	10/11/2011	473
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SA-0106	920 sq. ft. of intermediate shop	8 years	10/11/2011	306
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-0111	920 sq. ft. of intermediate shop	8 years	10/11/2011	406
Envitech Sdn Bhd	Unit No. Parcel 12A, 150 Ground Floor, Block D Shop & Office At Pulau Melaka	1,300 sq. ft. of end lot shop	6 years	22/11/2012	367
Envitech Sdn Bhd	Unit No. Parcel 12, LOT151 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of end lot shop	6 years	22/11/2012	372
Envitech Sdn Bhd	Unit No. Parcel 10, LOT 152 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of intermediate shop	6 years	22/11/2012	338
Envitech Sdn Bhd	Unit No. Parcel 8, LOT 153 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of intermediate shop	6 years	22/11/2012	338
Envitech Sdn Bhd	Unit No. Parcel 6, 154 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of intermediate shop	6 years	22/11/2012	338
Envitech Sdn Bhd	Unit No. Parcel 2A, LOT 155 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of intermediate shop	6 years	22/11/2012	338
Envitech Sdn Bhd	Unit No. Parcel 27-1, LOT 329 (55-1), 1 ST Floor, Block U Shop & Office At Pulau Melaka	3,007 sq. ft. of corner shop	6 years	22/11/2012	301

PARTICULARS OF GROUP PROPERTIES

INVESTMENT PROPERTIES (CONTINUED)

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Envitech Sdn Bhd	Unit No. Parcel 28-1, LOT 315 (41-1), 1 ST Floor, Block S Shop & Office At Pulau Melaka	2,626 sq. ft. of corner shop	6 years	22/11/2012	323
Envitech Sdn Bhd	Unit No. Parcel 21-1, LOT 338 (84-1), 1 ST Floor, Block W Shop & Office At Pulau Melaka	2,885 sq. ft. of corner shop	6 years	22/11/2012	289
Envitech Sdn Bhd	Unit No. Parcel 61-2A, LOT 207 (191-2A), 2 ND Floor, Block J Shop & Office At Pulau Melaka	1,531 sq. ft. of corner shop	6 years	22/11/2012	201
Envitech Sdn Bhd	Unit No. Parcel 61-2B, LOT 207 (191-2B), 2 ND Floor, Block J Shop & Office At Pulau Melaka	1,418 sq. ft. of corner shop	6 years	22/11/2012	136
Salcon Engineering Berhad	B-PH-07, Casa Subang, Service Apartment Subang USJ 1.	1,555 sq. ft. of service apartment	10 years	31/12/2015	550
					8,201

PARTICULARS OF GROUP PROPERTIES

LAND HELD FOR PROPERTY DEVELOPMENT

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Nusantara Megajuta Sdn Bhd	H.S.(D) 482930, No P.T.B. 22841, Bandar Johor Bahru, Daerah Johor Bahru, Johor Darul Ta'zim	10,077 sq. metres	99 years leasehold expiring on 7/6/2109	14/10/2014	21,305
Nusantara Megajuta Sdn Bhd	H.S.(D) 482931, No P.T.B. 22842, Bandar Johor Bahru, Daerah Johor Bahru, Johor Darul Ta'zim	41,399 sq. metres	99 years expiring on 7/6/2109	14/10/2014	87,526
					108,831

ANALYSIS OF SHAREHOLDINGS

AS AT 30 MARCH 2018

Issued share capital	:	RM338,847,226.00 (including 4,080,062 treasury shares held)
Class of shares	:	Ordinary share
Voting rights	:	On show of hands : One vote for each shareholder
	:	On poll : One vote for each ordinary share

Distribution of Shareholdings

Size of Shareholdings	Number of Shareholders	Number of Shares	Percentage of Issued Capital (%)
Less than 100	1,546	80,276	0.011
100 – 1,000	552	180,220	0.026
1,001 – 10,000	3,416	16,334,415	2.424
10,001 – 100,000	4,484	129,375,410	19.206
100,001 – less than 5% of issued shares	680	374,845,201	55.646
5% and above of issued shares	3	152,798,868	22.683
Total	10,681	673,614,390	100.00

List of Substantial Shareholders

Name of Substantial Shareholders	Direct Interest		Indirect Interest	
	No. of shares	Percentage of issued capital (%)	No. of shares	Percentage of issued capital (%)
Naga Muhibah Sdn. Bhd.	70,415,688	10.453	-	-
Tan Sri Dato' Tee Tiam Lee	40,751,200	6.050	47,631,980 ⁽¹⁾	7.071
Dato' Seri (Dr.) Goh Eng Toon	2,427,777	0.360	70,415,688 ⁽²⁾	10.453
Datin Goh Phaik Lynn	-	-	70,415,688 ⁽²⁾⁽ⁱ⁾	10.453
	-	-	316,666 ⁽³⁾	0.047
	-	-	3,800,000 ⁽⁴⁾	0.564
Dato' Leong Kok Wah	3,800,000	0.564	316,666 ⁽³⁾	0.047
	-	-	70,415,688 ⁽⁵⁾	10.453
Tee Xun Hao	164,666	0.024	47,631,980 ⁽¹⁾	7.071
Infra Tropika Sdn Bhd	47,631,980	7.071	-	-

Notes:

- (1) Deemed interested through the shares held in Infra Tropika Sdn Bhd pursuant to Section 8 of the Companies Act, 2016
- (2) (i) Deemed interested through shareholding in Naga Muhibah Sdn Bhd pursuant to Section 8 of the Companies Act, 2016
(ii) Deemed interested through shares held by child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 8 of the Companies Act, 2016
- (3) Deemed interested through the shares held by children (Leong Yi Ping and Leong Yi Ming) pursuant to Section 8 of the Companies Act, 2016
- (4) Deemed interested through the shares held by spouse (Dato' Leong Kok Wah) pursuant to Section 8 of the Companies Act, 2016
- (5) Deemed interested through the shares held by spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 8 of the Companies Act, 2016

ANALYSIS OF SHAREHOLDINGS

AS AT 30 MARCH 2018

List of 30 Largest Shareholders

No.	Name of Shareholders	No. of Shares	Percentage of Issued Capital (%)
1	NAGA MUHIBAH SDN BHD	70,415,688	10.453
2	INFRA TROPIKA SDN BHD	47,631,980	7.071
3	TAN SRI DATO' TEE TIAM LEE	34,751,200	5.158
4	LEE THIAM LAI	29,592,500	4.393
5	KONG HON KONG	28,513,335	4.232
6	AFFIN HWANG NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR WONG SWEE YEE (M09)	25,000,000	3.711
7	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR RHB SMALL CAP OPPORTUNITY UNIT TRUST	9,573,888	1.421
8	TENG LI LING	8,772,922	1.302
9	PEMBINAAN PUNCA CERGAS SDN. BHD.	7,863,888	1.167
10	CHIN CHIN SEONG	7,360,200	1.092
11	CARTABAN NOMINEES (TEMPATAN) SDN BHD RHB TRUSTEES BERHAD FOR SP TACTICAL INVESTMENT FUND	6,387,627	0.948
12	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN SRI DATO' TEE TIAM LEE	6,000,000	0.890
13	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	5,464,055	0.811
14	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	4,850,372	0.720
15	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR DATO' LEONG KOK WAH	3,800,000	0.564

ANALYSIS OF SHAREHOLDINGS

AS AT 30 MARCH 2018

List of 30 Largest Shareholders (continued)

No.	Name of Shareholders	No. of Shares	Percentage of Issued Capital (%)
16	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR YEAP GEK @ YEAP POH CHIM	3,500,666	0.519
17	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	3,458,733	0.513
18	UOB KAY HIAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR UOB KAY HIAN PTE LTD (A/C CLIENTS)	3,303,487	0.490
19	DATO' CHOONG MOH KHENG	3,166,666	0.470
20	KOH FOONG SOON	3,100,000	0.460
21	GHS STRATEGIC HOLDINGS SDN BHD	2,785,666	0.413
22	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHAN CHEU LEONG	2,680,044	0.397
23	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR OCBC SECURITIES PRIVATE LIMITED (CLIENT A/C-R ES)	2,675,111	0.397
24	CHIN CHIN SEONG	2,551,800	0.378
25	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR MAK NGIA NGIA @ MAK YOKE LUM (MM0749)	2,453,000	0.364
26	DATO' SERI (DR.) GOH ENG TOON	2,427,777	0.360
27	TEE AH SWEE	2,427,777	0.360
28	QUEK SEE KUI	2,277,000	0.338
29	GOLDEN FRESH SDN BHD	2,111,111	0.313
30	JFCB HOLDINGS SDN BHD	2,111,111	0.313
		337, 007, 604	50.029

ANALYSIS OF SHAREHOLDINGS

AS AT 30 MARCH 2018

Directors' Shareholdings

Name of Directors	Direct Interest		Indirect Interest	
	No. of shares	Percentage of issued capital (%)	No. of shares	Percentage of issued capital (%)
Dato' Seri (Dr.) Goh Eng Toon	2,427,777	0.360	70,415,688 ⁽¹⁾	10.453
Dato' Dr. Freezailah Bin Che Yeom	1,847,644	0.274	-	-
Tan Sri Dato' Tee Tiam Lee	40,751,200	6.050	47,796,646 ⁽²⁾	7.096
Dato' Leong Kok Wah	3,800,000	0.564	316,666 ⁽³⁾	0.047
			70,415,688 ⁽⁴⁾	10.453
Dato' Choong Moh Kheng	3,166,666	0.470	7,863,888 ⁽⁵⁾	1.167
Chan Seng Fatt	-	-	-	-

Notes:

- (1) (i) Deemed interested through shareholding in Naga Muhibah Sdn Bhd pursuant to Section 8 of the Companies Act, 2016
(ii) Deemed interested through shares held by child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 8 of the Companies Act, 2016
- (2) (i) Deemed interested through the shares held in Infra Tropika Sdn Bhd pursuant to Section 8 of the Companies Act, 2016
(ii) Deemed interested pursuant to Section 59(11)(c) of the Companies Act, 2016 through shares held by child (Tee Xun Hao).
- (3) Deemed interested through the shares held by children (Leong Yi Ping and Leong Yi Ming) pursuant to Section 8 of the Companies Act, 2016
- (4) Deemed interested through the shares held by spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 8 of the Companies Act, 2016
- (5) Deemed interested through the shares held in Pembinaan Punca Cergas Sdn Bhd pursuant to Section 8 of the Companies Act, 2016

NOTICE OF FIFTEENTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Fifteenth Annual General Meeting of Salcon Berhad (“the Company”) will be held at Victorian Ballroom, Level 1, Holiday Villa Hotel & Conference Centre, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Wednesday, 27 June 2018 at 10.30 a.m. for the following purposes:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2017 together with the Reports of the Directors and Auditors thereon. **[Please see Note 2]**
2. To approve the payment of the first and final single tier dividend of 1 sen per ordinary share in respect of the financial year ended 31 December 2017. **[Resolution 1]**
3. To approve the payment of Directors’ fees of RM340,000.00 for the financial year ending 31 December 2018. **[Resolution 2]**
4. To approve the payment of Directors’ benefits of up to an amount of RM220,000.00 for the period from the conclusion of the Fifteenth Annual General Meeting until the next Annual General Meeting of the Company. **[Resolution 3]**
[Please see Note 3]
5. To re-elect the following Directors who retire pursuant to Article 96 of the Company’s Articles of Association:- **[Please see Note 4]**
 - (i) Tan Sri Dato’ Tee Tiam Lee **[Resolution 4]**
 - (ii) Chan Seng Fatt **[Resolution 5]**
6. To re-appoint Messrs KPMG PLT as Auditors of the Company and to authorise the Directors to fix their remuneration. **[Resolution 6]**
[Please see Note 5]

AS SPECIAL BUSINESS

To consider and, if deemed fit, to pass, with or without modifications, the following resolutions:

7. **Ordinary Resolution**
Authority to Allot Shares Pursuant to Sections 75 and 76 of the Companies Act 2016 **[Please see Note 6(a)]**

“THAT subject always to the Companies Act 2016 (“Act”), the Articles of Association of the Company and the approval of the relevant governmental and/or regulatory authorities (if any), the Directors be and are hereby authorised pursuant to Sections 75 and 76 of the Act to allot shares in the Company, from time to time, at such price, upon such terms and conditions and for such purposes and to such person or persons whomsoever as the Directors may in their absolute discretion deem fit provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed ten per centum (10%) of the total number of issued shares (excluding treasury shares) of the Company for the time being and THAT the Directors be and are hereby also empowered to obtain the approval for the listing of and quotation for the additional shares so issued from Bursa Malaysia Securities Berhad and THAT such authority shall continue to be in force until the conclusion of the next annual general meeting of the Company after the approval was given or at the expiry of the period within which the next annual general meeting is required to be held after the approval was given, whichever is earlier, unless such approval is revoked or varied by the Company at a general meeting.” **[Resolution 7]**

NOTICE OF FIFTEENTH ANNUAL GENERAL MEETING

8. **Ordinary Resolution**
Proposed Renewal of Authority for Share Buy-Back

[Please see Note 6(b)]

“THAT, subject always to the Companies Act 2016 (“Act”), the provisions of the Articles of Association of the Company, Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements (“Listing Requirements”) and all other applicable laws, guidelines, rules and regulations, the Company be and is hereby authorised, to the fullest extent permitted by law, to purchase such amount of ordinary shares in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that:-

[Resolution 8]

- (i) the aggregate number of shares purchased does not exceed ten per centum (10%) of the total number of issued shares of the Company as quoted on Bursa Securities as at the point of purchase;
- (ii) an amount not exceeding the Company’s audited retained profits at the time of purchase(s) will be allocated by the Company for the purchase of its own shares; and
- (iii) the Directors of the Company may decide either to retain the shares purchased as treasury shares or cancel the shares or retain part of the shares so purchased as treasury shares and cancel the remainder or to resell the shares or distribute the shares as dividends or to deal with the treasury shares in any other manner as prescribed by the Act, rules, regulations and orders made pursuant to the Act and the Listing Requirements and any other relevant authority for the time being in force.

AND THAT the authority conferred by this resolution will commence immediately upon the passing of this Ordinary Resolution and will continue to be in force until:

- (i) the conclusion of the next annual general meeting of the Company following at which time the authority shall lapse unless by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; or
- (iii) revoked or varied by ordinary resolution passed by the shareholders of the Company at a general meeting,

whichever occurs first, but shall not prejudice the completion of purchase(s) by the Company before the aforesaid expiry date and, in any event, in accordance with the provisions of the Listing Requirements and any other relevant authorities.

AND THAT authority be and is hereby given to the Directors of the Company to take all such steps as are necessary or expedient to implement, finalise and give full effect to the aforesaid purchase(s) with full powers to assent to any conditions, modifications, variations and/or amendments (if any) as may be required or imposed by the relevant authorities and with the fullest power to do all such acts and things thereafter in accordance with the Act, the provisions of the Articles of Association of the Company and the requirements and/or guidelines of Bursa Securities for the Main Market and all other relevant governmental and/or regulatory authorities.”

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

NOTICE OF FIFTEENTH ANNUAL GENERAL MEETING

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS HEREBY GIVEN THAT subject to the approval of the shareholders of the Company at the Fifteenth Annual General Meeting to be held on 27 June 2018, a first and final single tier dividend of 1 sen per ordinary share in respect of the financial year ended 31 December 2017 will be paid on 19 July 2018 to depositors whose names appear in the Record of Depositors on 5 July 2018.

A depositor shall qualify for entitlement to the dividend only in respect of:-

- (a) Shares transferred into the depositor's Securities Account before 4:00 p.m. on 5 July 2018 in respect of transfers; and
- (b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

Wong Wai Foong (MAICSA 7001358)

Joanne Toh Joo Ann (LS 0008574)

Company Secretaries

Kuala Lumpur
30 April 2018

Notes:-

1. APPOINTMENT OF PROXY

- (a) A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote at the meeting except where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, in which event it may appoint not more than two (2) proxies in respect of each Securities Account it holds in ordinary shares of the Company standing to the credit of the said Securities Account.
- (b) For an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
- (c) Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the appointments shall be invalid unless the proportion of shareholdings to be represented by each proxy is specified in the instrument appointing the proxies. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.
- (d) The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.
- (e) The instrument appointing a proxy must be deposited at the Registered Office located at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.
- (f) Only members whose names appear in the Record of Depositors as at 20 June 2018 will be entitled to attend, speak and vote at the meeting or appoint proxy(ies) to attend, speak and vote on their behalf.

2. AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

The Audited Financial Statements are laid in accordance with Section 340(1)(a) of the Companies Act 2016 for discussion only. They do not require shareholders' approval and hence, will not be put forward for voting by shareholders of the Company.

NOTICE OF FIFTEENTH ANNUAL GENERAL MEETING

3. DIRECTORS' BENEFITS

The proposed Resolution 3 for the Directors' benefits comprises fixed meeting allowance payable to Non-Executive Directors for attendance at the Board of Directors ("Board") and/or Audit Committee meetings and other benefits for Executive Directors. The proposed amount is calculated based on the current Board size and the number of scheduled Board and Audit Committee meetings for the period from the conclusion of the Fifteenth Annual General Meeting up to the next Annual General Meeting.

In the event the proposed amount is insufficient (e.g. due to more meetings or enlarged Board size), approval will be sought at the next Annual General Meeting for the shortfall.

4. RE-ELECTION OF DIRECTORS

Tan Sri Dato' Tee Tiam Lee and Mr Chan Seng Fatt are standing for re-election as Directors of the Company and being eligible, have offered themselves for re-election at the Fifteenth Annual General Meeting.

The Board has through the Nomination Committee, considered the assessment of the said Directors and agreed that they meet the criteria as prescribed by Paragraph 2.20A of the Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements ("Listing Requirements") on character, experience, integrity, competence and time commitment to effectively discharge their roles as Directors.

The Board has also through the Nomination Committee conducted an assessment on Mr Chan Seng Fatt's independence and is satisfied that he has complied with the criteria on independence as prescribed by the Bursa Securities Listing Requirements.

5. RE-APPOINTMENT OF AUDITORS

The Board has through the Audit Committee, considered the re-appointment of Messrs KPMG PLT as Auditors of the Company. The factors considered by the Audit Committee in making the recommendation to the Board to table the re-appointment of Messrs KPMG PLT at the forthcoming Annual General Meeting, included an assessment of the Auditors' independence and objectivity, calibre and quality process/performance.

6. EXPLANATORY NOTES TO SPECIAL BUSINESS**(a) AUTHORITY TO ALLOT SHARES PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016**

The proposed Resolution 7 is the renewal of the mandate obtained from the members at the last Annual General Meeting. As at the date of this Notice, the Company did not allot any shares pursuant to the mandate granted to the Directors at the previous Annual General Meeting held on 14 June 2017 as there were no requirements for such fund raising activities.

The proposed Resolution 7, if passed, would provide flexibility to the Directors to undertake fund raising activities, including but not limited to placement of shares for the purpose of funding the Company's future investment project(s), working capital and/or acquisition(s) at any time as the Directors may deem fit provided that the aggregate number of shares issued pursuant to the mandate does not exceed ten per centum (10%) of the total number of issued shares (excluding treasury shares) of the Company for the time being, without having to convene a general meeting. This authority, unless revoked or varied by the Company in a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company or at the expiry of the period within which the next Annual General Meeting is required to be held after the approval was given, whichever is earlier.

(b) PROPOSED RENEWAL OF AUTHORITY FOR SHARE BUY-BACK

The proposed Resolution 8, if passed, will allow the Company to purchase its own shares through Bursa Securities up to ten per centum (10%) of the total number of issued shares of the Company. Please refer to the Statement to Shareholders dated 30 April 2018 in relation to the Proposed Renewal of Authority for Share Buy-Back for further details.

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This report includes the General Public Information Disclosures, in accordance with the three economic-environment-social standards.

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I/ We _____
(FULL NAME IN BLOCK LETTERS)

NRIC No./Company No. _____ of _____

_____ (FULL ADDRESS)

being a Member/Members of **SALCON BERHAD** hereby appoint _____

_____ NRIC No. _____
(FULL NAME IN BLOCK LETTERS)

of _____
(FULL ADDRESS)

or failing whom, _____ NRIC No. _____
(FULL NAME IN BLOCK LETTERS)

of _____
(FULL ADDRESS)

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf, at the Fifteenth Annual General Meeting of the Company to be held at Victorian Ballroom, Level 1, Holiday Villa Hotel & Conference Centre, 9 Jalan SS21/1, 47500 Subang Jaya, Selangor Darul Ehsan on Wednesday, 27 June 2018 at 10.30 a.m. and at any adjournment thereof.

NO.	RESOLUTIONS	*FOR	*AGAINST
1.	To approve the payment of the first and final single tier dividend of 1 sen per ordinary share in respect of the financial year ended 31 December 2017.		
2.	To approve the payment of Directors' fees of RM340,000 for the financial year ending 31 December 2018.		
3.	To approve the payment of Directors' benefits of up to an amount of RM220,000 for the period from the conclusion of the Fifteenth Annual General Meeting until the next Annual General Meeting of the Company.		
4.	To re-elect Tan Sri Dato' Tee Tiam Lee as Director.		
5.	To re-elect Chan Seng Fatt as Director.		
6.	To re-appoint Messrs KPMG PLT as Auditors of the Company and to authorise the Directors to fix their remuneration.		
7.	To grant authority to allot shares pursuant to Sections 75 and 76 of the Companies Act 2016.		
8.	To approve the Proposed Renewal of Authority for Share Buy-Back.		

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

Dated this _____ day of _____, 2018.

Signature or Common Seal of Shareholder
Contact Number:

CDS Account No.:
Number of shares held:
If more than 1 proxy, please specify number of shares represented by each proxy
Name of Proxy 1: Number of Shares :
Name of Proxy 2: Number of Shares :

Notes:-

- 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.
- 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.
- 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. There shall be no restriction as to the qualification of the proxy.
- 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.
- The instrument appointing a proxy must be deposited at the Registered Office located 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.
- Only members whose names appear in the Record of Depositors as at 20 June 2018 will be entitled to attend, speak and vote at the meeting or appoint proxy(ies) to attend, speak and vote on their behalf.

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AFFIX
STAMP
HERE

SALCON BERHAD (593796-T)

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

2nd fold here

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