

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

Shareholders of Salcon Berhad should rely on their own evaluation to assess the merits and risks of the Proposed Disposal (as defined herein). If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or any other professional adviser immediately.

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



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

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE

PART A

PROPOSED DISPOSAL BY SALCON DEVELOPMENT SDN BHD, A WHOLLY-OWNED SUBSIDIARY OF SALCON BERHAD (“COMPANY”), OF 80% EQUITY INTEREST IN ECO WORLD-SALCON Y1 PTY LTD (FORMERLY KNOWN AS SALCON DEVELOPMENT (AUSTRALIA) PTY LTD) TO FORTUNE QUEST GROUP LTD, A WHOLLY-OWNED SUBSIDIARY OF ECO WORLD INTERNATIONAL BERHAD FOR A DISPOSAL CONSIDERATION OF AUD120,000 (“PROPOSED DISPOSAL”)

PART B

INDEPENDENT ADVICE LETTER FROM AFFIN HWANG INVESTMENT BANK BERHAD TO THE NON-INTERESTED SHAREHOLDERS OF THE COMPANY IN RELATION TO THE PROPOSED DISPOSAL

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Adviser for Part A



Hong Leong Investment Bank Berhad (10209-W)

(A Participating Organisation of Bursa Malaysia Securities Berhad)
(A Trading Participant of Bursa Malaysia Derivatives Berhad)

Independent Adviser for Part B



AFFIN HWANG INVESTMENT BANK BERHAD (14389-U)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

The notice convening the extraordinary general meeting (“**EGM**”) of the Company to be held at Classics Ballroom, Level 3, Holiday Villa Hotel & Conference Centre Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Tuesday, 29 August 2017 at 11.00 a.m. or any adjournment thereof, together with the proxy form are enclosed in this Circular.

As a shareholder, you can appoint a proxy or proxies to attend and vote on your behalf. You must complete and deposit the proxy form at the registered office of the Company at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not later than 48 hours before the time set for the EGM or any adjournment thereof. You are not precluded from attending and voting in person at the EGM should you wish to do so subsequent to the lodging of the proxy form.

Last date and time for lodging the proxy form : Sunday, 27 August 2017 at 11.00 a.m
Date and time of the EGM : Tuesday, 29 August 2017 at 11.00 a.m or any adjournment thereof

This Circular is dated 14 August 2017

DEFINITIONS

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

“Act”	: Companies Act, 2016
“Acquisition”	: Acquisition by EW-Salcon Australia of the Subject Property together with all chattels, plant and equipment owned by KE Rogers on the Subject Property, which was completed on 29 March 2017
“Advances”	: Advances from SDSB to EW-Salcon Australia for the purpose of carrying on of EW-Salcon Australia’s business up to the Unconditional Date
“Affin Hwang IB” or “Independent Adviser”	: Affin Hwang Investment Bank Berhad
“Agreements”	: SPA, Shareholders’ Agreement and Development Management Agreement, collectively
“BNM”	: Bank Negara Malaysia
“Board”	: Board of Directors of Salcon
“Bursa Securities”	: Bursa Malaysia Securities Berhad
“Business Day”	: A day other than a Saturday, Sunday or public holiday on which banks are open for business generally in Selangor and Kuala Lumpur, Malaysia and Melbourne, Victoria, Australia
“BVI”	: British Virgin Islands
“Capital Call Notice”	: A notice issued by EW-Salcon Australia to the EW-Salcon Australia Shareholders, signed by the duly authorised signatory of EW-Salcon Australia, requesting subscription money for an allotment of EW-Salcon Australia Shares to increase the share capital of EW-Salcon Australia
“Completion Date”	: The completion of the Proposed Disposal will take place on a date (within the Completion Period) to be notified in writing by Fortune Quest to SDSB which will not be earlier than 5 Business Days from the delivery of the completion notice, or the last Business Day of the Completion Period
“Completion Period”	: Within a period of 3 months from the Unconditional Date or such longer period as SDSB and Fortune Quest may mutually agree in writing
“Cut-Off Date”	: The date that is 4 months from the date of the SPA or such other date as SDSB and Fortune Quest may mutually agree in writing
“Datin Goh”	: Datin Goh Phaik Lynn
“Dato’ Leong”	: Dato’ Leong Kok Wah
“Dato’ Seri (Dr.) Goh”	: Dato’ Seri (Dr.) Goh Eng Toon

DEFINITIONS (Cont'd)

“Development Management Agreement”	:	Development management agreement to be entered between EW-Salcon Australia and EW Sydney, whereby EW-Salcon Australia as the landowner of the Subject Property will appoint EW Sydney as the Development Manager for the initial planning, development, coordination and marketing of the Yarra One Project
“Development Manager”	:	Development manager for the Yarra One Project
“Disposal Consideration”	:	A cash consideration of AUD120,000 (equivalent to approximately RM401,772) for the Proposed Disposal
“EGM”	:	Extraordinary General Meeting
“EPS”	:	Earnings per Share
“EW-Salcon Australia”	:	Eco World-Salcon Y1 Pty Ltd (formerly known as Salcon Development (Australia) Pty Ltd)
“EW-Salcon Australia Shares”	:	Ordinary share(s) in EW-Salcon Australia
“EW-Salcon Australia Shareholders”	:	The shareholders of EW-Salcon Australia after the completion of the Proposed Disposal, namely SDSB and Fortune Quest
“EWI”	:	Eco World International Berhad
“EWI Group”	:	EWI and its subsidiaries, collectively
“EW Sydney”	:	Eco World Sydney Development Pty Ltd, a wholly-owned subsidiary of Fortune Quest
“Fees”	:	Fees payable by EW-Salcon Australia for the Services to be provided by the Development Manager as set out in Section 2.1, Part A of this Circular
“Financier”	:	United Overseas Bank Limited, Sydney Branch
“Fortune Quest”	:	Fortune Quest Group Ltd, a wholly-owned subsidiary of EWI
“FPE”	:	Financial period ended
“FYE”	:	Financial year ended/ending, as the case may be
“GST”	:	Goods and services tax in Australia
“HLIB” or “Adviser”	:	Hong Leong Investment Bank Berhad
“Independent Advice Letter”	:	The independent advice letter by Affin Hwang IB as set out in Part B of this Circular
“Interested Directors”	:	Dato’ Leong and Dato’ Seri (Dr.) Goh, collectively
“Interested Major Shareholders”	:	Dato’ Leong, Dato’ Seri (Dr.) Goh and Datin Goh, collectively
“KE Rogers”	:	K. & E. Rogers Pty Ltd
“LPD”	:	17 July 2017, being the latest practicable date before the printing and despatch of this Circular

DEFINITIONS (Cont'd)

“Main Market Listing Requirements”	:	Main Market Listing Requirements of Bursa Securities
“NA”	:	Net assets
“Naga Muhibah”	:	Naga Muhibah Sdn Bhd
“Non-Interested Directors”	:	Tan Sri Dato’ Tee Tiam Lee, Dato’ Dr. Freezailah bin Che Yeom, Dato’ Choong Moh Kheng and Mr. Chan Seng Fatt, collectively
“Non-Interested Shareholders”	:	The shareholders of the Company who are not interested in the Proposed Disposal
“PAT”	:	Profit after taxation
“PATMI”	:	Profit after taxation and minority interest
“PBT”	:	Profit before taxation
“Planning Permit”	:	Planning permit no. 0541/15 dated 27 April 2016 issued by the Council of the City of Stonnington at the direction of the Victorian Civil and Administration Tribunal for the Subject Property
“Proposed Disposal”	:	Proposed disposal by SDSB of 80% equity interest held in EW-Salcon Australia to Fortune Quest at the Disposal Consideration
“Pro-Tem Personnel”	:	Representatives nominated by Fortune Quest as pro-tem personnel prior to completion of the Proposed Disposal to assist EW-Salcon Australia in the strategic planning, development, sales and marketing of the Yarra One Project including coordination of all activities necessary for planning, early stage implementation and launching for sale of the Yarra One Project
“Repayment Sum”	:	Being a sum equivalent to 80% of the Advances
“Salcon” or the “Company”	:	Salcon Berhad
“Salcon Group” or the “Group”	:	Salcon and its subsidiary companies, collectively
“Salcon Share(s)” or “Share(s)”	:	Ordinary share(s) in Salcon
“SDSB”	:	Salcon Development Sdn Bhd, a wholly-owned subsidiary of Salcon Berhad
“Services”	:	The services to be provided by the Development Manager which can be categorised as follows: (a) Project planning and control, conceptual design and planning and project implementation and administration; and (b) Coordination of sales, marketing, credit control, customer care, project accounting and general administration
“Shareholders’ Agreement”	:	Shareholders’ agreement to be entered between SDSB, Fortune Quest and EW-Salcon Australia, which sets out, among others, the obligations of SDSB and Fortune Quest as EW-Salcon Australia Shareholders, the business for the development, sale and/or lease of the Subject Property and their shareholdings in EW-Salcon Australia

DEFINITIONS (Cont'd)

“Subject Property”	:	The property (including all improvements and fixtures) located at 16-22 Claremont Street, South Yarra, Victoria, 3141 Australia
“SPA”	:	Conditional share sale and purchase agreement dated 10 April 2017 entered into between SDSB and Fortune Quest for the Proposed Disposal
“Unconditional Date”	:	The date when the conditions precedent of the SPA are met or waived (as the case may be) before 5.00 p.m. on the Cut-Off Date
“Valuer” or “m3property”	:	m3property (Vic) Pty. Ltd.
“Valuation Certificate”	:	The valuation certificate for the Subject Property dated 1 June 2017 prepared by the Valuer, as enclosed in Appendix II of this Circular
“Valuation Report”	:	The valuation report (together with the Valuation Certificate) for the Subject Property dated 1 June 2017 prepared by the Valuer
“Yarra One Project”	:	The proposed development of the Subject Property into a residential-led mixed use development project consisting of a 27-storey building with 268 apartments, basement car park as well as commercial and retail spaces

Currency

“AUD”	:	Australian Dollar
“RM” and “sen”	:	Ringgit Malaysia and sen, respectively

In this Circular, translation of AUD amount to RM amount has been made according to the middle rate as published/made available by BNM at 5.00 pm on the LPD, unless otherwise indicated. Translation of AUD amount to RM amount was made at AUD1.00:RM3.3481.

All references to “our Company” and “the Company” in this Circular are to Salcon. References to “our Group” and “the Group” are to our Company and our subsidiaries, collectively. References to “we”, “us”, “our” and “ourselves” are to our Company and save where the context otherwise requires, will include our subsidiaries.

All references to “you” in this Circular are addressing the shareholders of Salcon who are entitled to attend and vote at our forthcoming EGM.

Words denoting the singular will, where applicable, include the plural and vice versa. Words denoting the masculine gender will, where applicable, include the feminine and/or neuter genders, and vice versa. Any reference to persons will include a corporation, unless otherwise specified.

Any reference in this Circular to any legislation is a reference to that legislation as for the time being amended or re-enacted. Any reference to a time of a day in this Circular will be a reference to Malaysian time, unless otherwise specified.

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PART A

**LETTER TO OUR SHAREHOLDERS
IN RELATION TO THE PROPOSED DISPOSAL**



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

Registered Office:

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

14 August 2017

BOARD OF DIRECTORS

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

To: The Shareholders of Salcon

Dear Sir/Madam,

PROPOSED DISPOSAL

1. INTRODUCTION

On 10 April 2017, HLIB announced on behalf of our Board that our Company had on the same date entered into a conditional share sale and purchase agreement with Fortune Quest, a wholly-owned subsidiary of EWI, for the proposed disposal of 80% equity interest in EW-Salcon Australia for the Disposal Consideration.

On 26 July 2017, HLIB announced on behalf of our Board that SDSB and Fortune Quest had on the same date mutually agreed to extend the Cut-Off Date from 10 August 2017 to 10 October 2017.

In view of the interests of certain directors, major shareholders and/or persons connected to them as set out in Section 9, Part A of this Circular, the Proposed Disposal is deemed as a related party transaction pursuant to Paragraph 10.08 of the Main Market Listing Requirements. In this respect, our Board had on 24 March 2017 appointed Affin Hwang IB as the Independent Adviser to advise our Non-Interested Directors and Non-Interested Shareholders with an independent evaluation of the Proposed Disposal.

The purpose of this Circular is to provide our shareholders with information on the Proposed Disposal, to set out our Board's recommendation and to seek your approval for the resolution pertaining to the Proposed Disposal to be tabled at the forthcoming EGM. The notice of EGM together with the proxy form are enclosed in this Circular.

YOU ARE ADVISED TO READ AND CONSIDER THE CONTENTS OF THIS CIRCULAR INCLUDING THE INDEPENDENT ADVICE LETTER IN PART B OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CAREFULLY BEFORE VOTING BY WAY OF POLL ON THE RESOLUTION PERTAINING TO THE PROPOSED DISPOSAL TO BE TABLED AT THE FORTHCOMING EGM.

2. DETAILS OF THE PROPOSED DISPOSAL

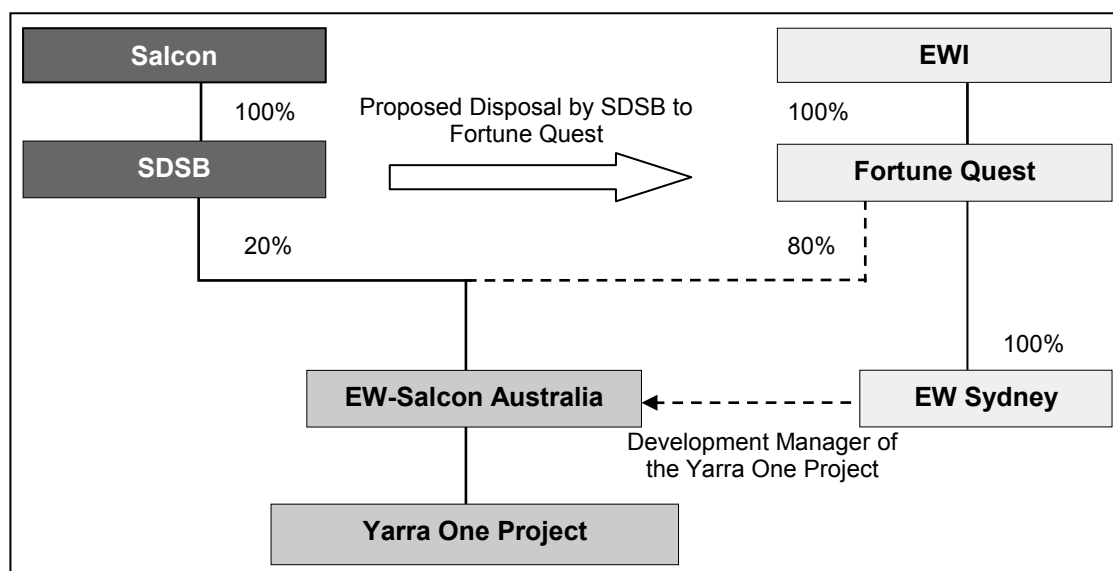
The Proposed Disposal entails the disposal by SDSB to Fortune Quest of 80% equity interest in EW-Salcon Australia for the Disposal Consideration, subject to the terms and conditions of the SPA. In addition to the Disposal Consideration, on the Completion Date, Fortune Quest will repay a sum equivalent to 80% of the total Advances owing by EW-Salcon Australia to SDSB. Upon completion of the Proposed Disposal, EW-Salcon Australia will become a 20% associate company of Salcon.

In conjunction with the Proposed Disposal, the following agreements will be entered into upon the completion of the Proposed Disposal:

- (i) the Shareholders' Agreement between SDSB, Fortune Quest and EW-Salcon Australia, which sets out, among others, the obligations of SDSB and Fortune Quest as shareholders of EW-Salcon Australia, the business for the development, sale and/or lease of the Subject Property and their shareholdings in EW-Salcon Australia; and
- (ii) the Development Management Agreement between EW-Salcon Australia and EW Sydney, whereby EW-Salcon Australia as the landowner of the Subject Property will appoint EW Sydney as the Development Manager for the initial planning, development, coordination and marketing of the Yarra One Project.

The salient terms of the SPA are set out in Section 3.1, Part A of this Circular. The salient terms of the final form of the Shareholders' Agreement and Development Management Agreement (which are annexed to the SPA) are set out in Sections 3.2 and 3.3, Part A of this Circular, respectively.

The diagrammatic structure of the Proposed Disposal is set out below:



2.1 Appointment of Development Manager

Pursuant to the Development Management Agreement, EW Sydney will be appointed as the Development Manager for the Yarra One Project after the completion of the Proposed Disposal. The scope of Services to be provided by EW Sydney and the Fees can be categorised as follows:

<u>Scope of Services</u>	<u>Fees</u>
A. Project planning & control, conceptual design & planning and project implementation & administration	Project construction fee: Monthly payment = A X B Where: A = Agreed rate of 3.00%; B = Contract costs based on claims certified by architects and/or engineers of the Yarra One Project until completion and final accounts (including those incurred/awarded prior to the date of the Development Management Agreement).
B. Coordination of sales, marketing, credit control, customer care, project accounting and general administration	Coordination of marketing & administrative fee: Payment* = C X D Where: C = Agreed rate of 1.20%; D = Net sale price less discounts and/or rebates given to end-purchasers (including those secured prior to the date of the Development Management Agreement).
	Note: * <i>The first 50% of the marketing & administrative fee is payable upon the exchange of contracts of sales with the end-purchasers. The remaining 50% is payable upon settlement of the sale price by the end-purchasers.</i>

Pending the Development Management Agreement being entered into upon completion of the Proposed Disposal, Pro-Tem Personnel nominated by Fortune Quest will assist EW-Salcon Australia in the strategic planning, development, sales and marketing of the Yarra One Project including coordination of all activities necessary for planning, early stage implementation and launching for sale of the Yarra One Project. On completion or termination of the SPA, the Pro-Tem Personnel will cease all its functions, duties and responsibilities, and their costs will be borne by Fortune Quest (if the Proposed Disposal is completed) and SDSB (if the Proposed Disposal is terminated).

2.2 Information on EW-Salcon Australia

EW-Salcon Australia was incorporated in Australia on 27 June 2016 under the Australia Corporations Act 2001 as a proprietary limited company under the name of Salcon Development (Australia) Pty Ltd. Subsequent to the signing of the SPA, EW-Salcon Australia changed its name to Eco World-Salcon Y1 Pty Ltd on 19 April 2017.

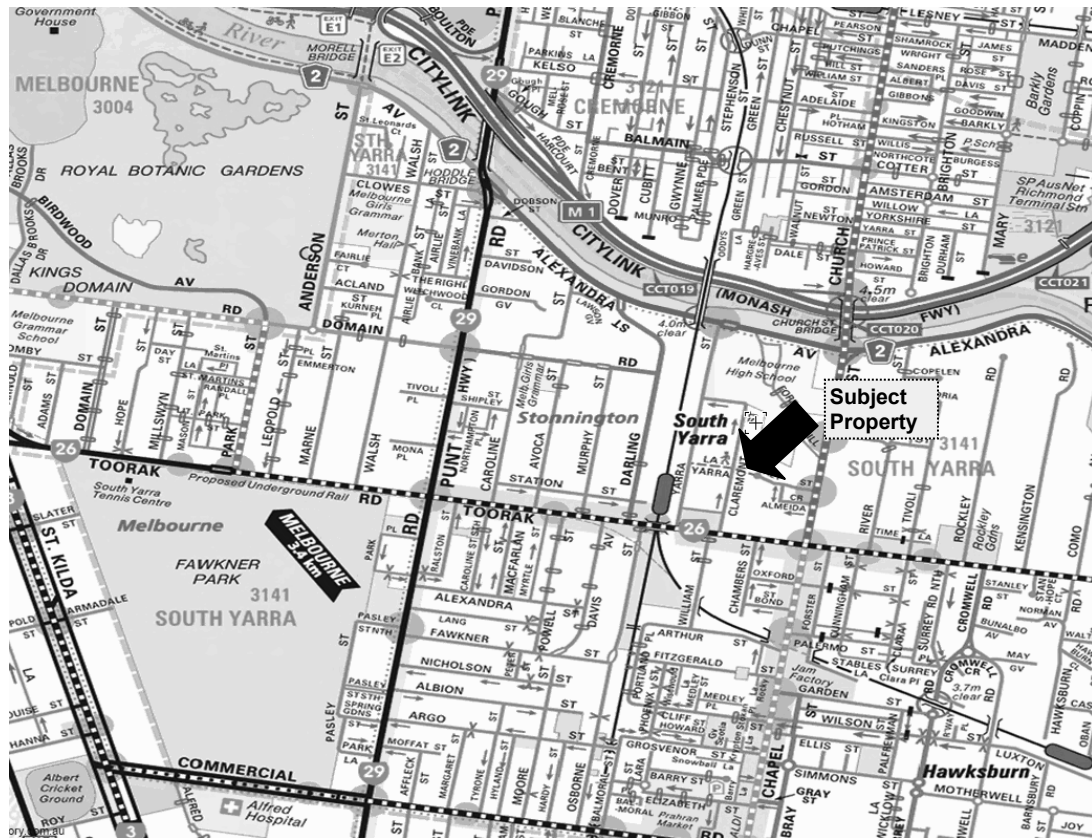
The principal activity of EW-Salcon Australia is property development. On 29 June 2016, EW-Salcon Australia entered into a contract of sale with KE Rogers to acquire the Subject Property together with all chattels, plant and equipment owned by KE Rogers on the Subject Property for a total cash consideration of AUD37,880,000, which was funded 35% via the Advances and 65% via bank borrowings. The Acquisition is subject to the covenants, easements and lease specified in the contract of sale but is otherwise free from encumbrances. The Acquisition was completed on 29 March 2017.

Further details on EW-Salcon Australia is set out in Appendix I of this Circular.

2.3 Information on the Subject Property

2.3.1 Location

The Subject Property is situated within the established suburb of South Yarra, approximately three kilometres south-east of the Melbourne Central Activities District. The Subject Property is approximately 300 metres east of the South Yarra Railway Station and approximately 200 metres north of the Toorak Road retail strip. The location of the Subject Property is depicted below:



(Source: Valuation Report)

2.3.2 Existing

There is an existing building located on the Subject Property which is a converted warehouse commercial office building ("**Building**"). The Building was constructed in the 1950s and has been periodically renovated and refurbished with an office conversion in the 1990s. The Building comprises a basement level with two storeys above.

The estimated total gross building area of the Building is 2,566 square metres and the estimated net lettable area is 2,277 square metres. Previously, there is one tenant leasing for:

- (i) an area of approximately 1,092 square metres of the first floor of the Building; and
- (ii) an area of about 217 square metres being an open space car park within the Subject Property,

for a lease term of 1 year from 1 July 2016 to 30 June 2017. The aggregate rental for the lease was AUD296,380 per annum plus GST. The lease has since expired and was not renewed. The Building is currently vacant and it will be demolished for the Yarra One Project.

2.3.3 Proposed Development

The Subject Property is proposed to be developed into a residential-led mixed use development project consisting of a 27-storey building with the following:

- (i) 268 apartments on levels 1 to 26 (unit size ranging from 50 square metres to 224 square metres);
- (ii) single retail unit on the ground floor with gross lettable retail area of 239 square metres;
- (iii) 3 commercial suites on levels 1, 2 and 3 with gross lettable retail area of 830 square metres in aggregate; and
- (iv) 4 levels of basement car park with 179 bays and 172 separate storage units.

The Yarra One Project is expected to be completed over the next 3 to 4 years. The gross development value of Yarra One Project is estimated to be approximately AUD222 million (equivalent to RM743.1 million) (exclusive of GST). The Yarra One Project was launched for pre-sale on 3 June 2017 and has achieved pre-sales (including reserved units) of approximately AUD65.8 million or 30% of the total gross development value as at the LPD. For information purposes, EW-Salcon Australia intends to sell all of the 268 apartment units as well as the single retail unit and 3 commercial suites of the Yarra One Project, instead of retaining it for rental income.

Further details of the Subject Property / Yarra One Project are as follows:

Land description	<p>The Subject Property comprises 2 contiguous titles occupying a regular shaped site situated to the eastern side of Claremont Street and western side of Daly Street</p> <p>Details of the certificates of title⁽¹⁾ are as follows:</p> <table border="1"> <thead> <tr> <th>Certificate of Title reference</th> <th>Lot No.</th> <th>Plan of subdivision</th> </tr> </thead> <tbody> <tr> <td>Volume 11869 Folio 455</td> <td>Lots 28, 29, 30</td> <td>004308</td> </tr> <tr> <td>Volume 11869 Folio 454</td> <td>Lot 31</td> <td>004308</td> </tr> </tbody> </table>	Certificate of Title reference	Lot No.	Plan of subdivision	Volume 11869 Folio 455	Lots 28, 29, 30	004308	Volume 11869 Folio 454	Lot 31	004308
Certificate of Title reference	Lot No.	Plan of subdivision								
Volume 11869 Folio 455	Lots 28, 29, 30	004308								
Volume 11869 Folio 454	Lot 31	004308								
Postal address	“Yarra One”, 16-22 Claremont Street, South Yarra, Victoria, 3141 Australia									
Land area (approximately)	2,128 square metres									
Tenure	Freehold									
Category of land use /council zoning	Commercial 1 Zone – Schedule 1 The purpose of the Commercial 1 Zone is to create vibrant mixed use commercial centres for retail, office, business, entertainment and community uses and to provide for uses at densities complementary to the role and scale of the commercial centre									
Existing use	Carpark and office with estimated total gross building area of 2,566 square metres and the estimated net lettable area of 2,277 square metres. The lease term for 1,309 square metres of the Subject Property (represents the occupancy rate of 57.5%) has expired on 30 June 2017									
Proposed use	Yarra One Project									

Expected commencement and completion dates	Construction is expected to commence in the first half of 2018 and is estimated to be completed by the second half of 2020
Gross development cost	Approximately AUD136 million ⁽²⁾ (exclusive of GST)
Gross development value	Approximately AUD222 million (exclusive of GST)
Current stage or percentage of completion	Not applicable as the construction of the Yarra One Project has not commenced as at the LPD
Status of approval	Planning Permit has been issued by the Council of the City of Stonnington on 27 April 2016. Final plans have been submitted to the Council of the City of Stonnington for endorsement, together with a request for minor amendments via secondary consent pursuant to the amendment to the Planning Permit. Such endorsement and secondary consent are pending from the Council of the City of Stonnington
Net book value	AUD40,334,595, based on latest unaudited accounts of EW-Salcon Australia for the FPE 31 March 2017
Market value	AUD37,000,000 (exclusive of GST) or equivalent to RM117,523,100 (based on the exchange rate AUD1.00:RM3.1763, being the middle rate published by BNM at 5.00 p.m. on 1 June 2017, being the date of valuation)
Encumbrances	The Subject Property is mortgaged to the Financier

Notes:

- (1) The certificates of title under Volume 11869 Folio 454 and Volume 11869 Folio 455 replaced the certificates of title under Volume 7832 Folio 143, Volume 7832 Folio 144 and Volume 8572 Folio 530 which have since been cancelled following the proposed plan of subdivision no. PS810944Y/S1.
- (2) Excluding land purchase/acquisition costs.

2.4 Basis and justification of arriving at the Disposal Consideration

The Disposal Consideration, which is payable in cash was arrived at following negotiations between SDSB and Fortune Quest on a willing-buyer willing-seller basis after taking into consideration the unaudited net liabilities of EW-Salcon Australia as at 31 March 2017 of AUD831,236.

Our Board is of the view that the Disposal Consideration is fair and reasonable after taking into consideration the following:

- (i) the unaudited net liabilities of EW-Salcon Australia of AUD831,236 as at 31 March 2017, based on the latest unaudited accounts of EW-Salcon Australia for the FPE 31 March 2017. As EW-Salcon Australia had been incorporated on 27 June 2016, no audited financial statements have been prepared as at the LPD;
- (ii) the Advances from SDSB to EW-Salcon Australia of AUD17,642,740.51 as at 31 March 2017 and the repayment to SDSB of AUD14,114,192.41, being a sum equivalent to 80% of the Advances. Pursuant to the SPA, the Repayment Sum will also include 80% of any further sum advanced by SDSB to EW-Salcon Australia before the Unconditional Date. As at the LPD, the total Advances from SDSB to EW-Salcon Australia is AUD19,840,520.26, which was provided between 27 June 2016 up to the LPD mainly to partially fund the Acquisition, payment of land transfer duty and payment of operating and administrative expenses incurred for Yarra One Project;

- (iii) SDSB's original purchase consideration of AUD37,880,000 to acquire the Subject Property ("**Land Cost**") from KE Rogers. The Acquisition was completed on 29 March 2017. The difference between the Land Cost and the net book value of the Subject Property of AUD40,334,595 as at 31 March 2017 is mainly due to land transfer duty incurred in relation to the Acquisition; and
- (iv) the valuation carried out by Knight Frank Valuations - Victoria, Australia on the Subject Property for the mortgage land banking purpose. Based on the said valuation report dated 10 March 2017, the market value of the Subject Property is AUD37,880,000 (exclusive of GST).

After the announcement on the Proposed Disposal on 10 April 2017, the Board appointed m3property (Vic) Pty. Ltd. to conduct a valuation on the Subject Property. Based on the Valuation Report, the market value of the Subject Property as valued by the Valuer is AUD37,000,000 (exclusive of GST) or equivalent to RM117,523,100 (*based on the exchange rate of AUD1.00:RM3.1763, being the middle rate published by BNM at 5.00 p.m. on 1 June 2017, being the date of valuation*). The market value of the Subject Property as valued by the Valuer is AUD880,000 or 2.3% lower than the Land Cost. For avoidance of doubt, the market value of the Subject Property as valued by the Valuer in its Valuation Report will not have any effect on the Disposal Consideration.

2.5 Salient features of the Valuation Report

The Subject Property was appraised by the Valuer using the direct comparison approach and hypothetical development approach (also known as residual method of valuation). The abovementioned methods of valuation have been adopted by the Valuer in view of the following:

- (i) direct comparison approach was adopted since there are available information for comparable sales evidences in surrounding localities of the Subject Property i.e. within the Forrest Hill precinct of South Yarra; and
- (ii) hypothetical development approach was adopted since there are available information for the proposed development of the Subject Property such as approved layout plans, costing and timing for development.

The direct comparison approach takes into consideration the sales of broadly similar properties transacted in the open market and compares these sales to the Subject Property having regard to factors including:

- (i) prevailing market conditions with specific consideration to potential unit pricing, sale rates and development costs;
- (ii) land area and potential densities/ unit yield;
- (iii) zoning status under the local authority planning scheme;
- (iv) development approvals;
- (v) likely scheme cost contributions where applicable;
- (vi) access and proximity to local transport corridors including freeways and rail facilities;
- (vii) immediate competition and profile of developers active within the general localities;
- (viii) servicing constraints;
- (ix) environmental constraints; and
- (x) location.

The hypothetical development approach is based upon explicit assumptions regarding the prospective cash flows which will arise from the proposed development of the Subject Property. The approach will take account of the project's gross realisation¹. However, the approach will not account for escalations in revenue or cost. A profit and risk factor is then applied to the net position derived after the deduction of selling/marketing costs and GST from the assessed gross realisation. This approach is specific to the project and in part relies upon information provided by the developer.

The assessed value of the Subject Property based on the direct comparison and hypothetical development approaches are AUD37,000,000 and AUD36,800,000 (both exclusive of GST), respectively. After consideration of the both approaches to value, the Valuer has adopted the upper end of the range as the market value of the Subject Property being AUD37,000,000 (exclusive of GST), which the Valuer has considered as reasonable given that both approaches broadly resulted in similar assessments.

Further details on the valuation of the Subject Property are set out in the Valuation Certificate, as enclosed in Appendix II of this Circular.

2.6 Information on the parties to the Agreements

(i) Information on SDSB

SDSB was incorporated in Malaysia on 3 November 2006 under the Companies Act, 1965 and registered under the Act as a private limited company. The issued share capital of SDSB is RM1,000,000 comprising 1,000,000 ordinary shares.

SDSB is a wholly-owned subsidiary of Salcon and its principal activity is investment holding and contracting for property development project. As at the LPD, the directors of SDSB are Tan Sri Dato' Tee Tiam Lee, Dato' Leong, Mr. Law Woo Hock and Mr. Jamiluddin Amini bin Sulaiman.

(ii) Information on Fortune Quest

Fortune Quest was incorporated in the BVI on 8 August 2013 under the BVI Business Companies Act, 2004 as a BVI business company limited by shares. Fortune Quest is authorised to issue up to 50,000 no par value shares of a single class and it has issued share capital of United States Dollar 1 comprising 1 fully paid ordinary share.

Fortune Quest is a wholly-owned subsidiary of EWI and its principal activity is investment holding. As at the LPD, the directors of Fortune Quest are Dato' Teow Leong Seng and Mr. Yap Foo Leong.

(iii) Information on EW Sydney

EW Sydney was incorporated in Australia on 29 April 2014 under the Australia Corporations Act 2001 as a private limited company with an issued share capital of AUD1 comprising 1 fully paid ordinary share.

EW Sydney is a wholly-owned subsidiary of Fortune Quest, which in turn is the wholly-owned subsidiary of EWI. The principal activity of EW Sydney is property development. As at the LPD, the directors of EW Sydney are Dato' Teow Leong Seng, Mr. Yap Foo Leong and Mr. Cheng Hsing Yao.

¹ Being the sum of the market values of the individual completed units which a development can achieve over a specified selling period, assuming an orderly sale, between willing buyers and willing sellers, in an arm's length transaction, after proper marketing, wherein the parties acted knowledgeably, prudently and without compulsion.

2.7 Original cost and date of investment

The original cost and date of investment in EW-Salcon Australia by SDSB are set out below:

<u>Date of investment</u>	<u>Cost of investment</u>
27 June 2016	⁽¹⁾ AUD80

Note:

(1) Based on the 80% equity interest in EW-Salcon Australia to be disposed.

2.8 Source of funding

Pursuant to the final form of the Shareholders' Agreement, the development cost of Yarra One Project is expected to be funded from bank borrowings to be raised by EW-Salcon Australia and equity funding from its shareholders. If the development cost is funded by issuance of new ordinary shares and/or other shares in EW-Salcon Australia, it will be based on the EW-Salcon Australia Shareholders' proportionate shareholdings in EW-Salcon Australia as follows:

<u>Shareholders</u>	<u>Percentage shareholdings after the completion of the Proposed Disposal</u>
SDSB	20%
Fortune Quest	80%

The proportion of development cost which will be financed via bank borrowings has yet to be determined as at this juncture.

2.9 Liabilities to be assumed by Fortune Quest

Other than the Repayment Sum and the corporate guarantee(s) given for an existing loan and/or future bank borrowings to be secured, there are no other liabilities, including contingent liabilities and guarantees to be assumed by Fortune Quest pursuant to the Proposed Disposal.

3. SALIENT TERMS OF THE AGREEMENTS

3.1 Salient terms of the SPA

The salient terms of the SPA are summarised below:

(i) Disposal Consideration and method of payment

The Disposal Consideration is AUD120,000.

SDSB and Fortune Quest acknowledge that the market value of the Subject Property may fluctuate in the period between the date of SPA and the Completion Date but the Disposal Consideration will remain fixed unless varied in writing and signed by both parties.

The Disposal Consideration is payable by Fortune Quest to SDSB on the Completion Date in same day cleared funds in the manner specified by SDSB to Fortune Quest and free of any deduction, withholding, set-off or counterclaim.

(ii) Conditions precedent

Completion of the Proposed Disposal is conditional on the satisfaction or waiver (as the case may be) of the following conditions precedent:

(a) Shareholders' approval

SDSB obtaining the approval of the shareholders of Salcon in a general meeting for:

- (aa) the Proposed Disposal; and
- (bb) entering into and perform the Development Management Agreement.

(b) Finance approval

SDSB obtaining, on terms reasonably acceptable to Fortune Quest, consent from the Financier in relation to the Proposed Disposal.

The Financier has given its consent to the Proposed Disposal via its letter dated 27 July 2017, subject to the following:

- (aa) the completion of the Proposed Disposal occurring on the Completion Date;
- (bb) Fortune Quest or its holding company providing a corporate guarantee in favour of the Financier in respect of EW-Salcon Australia's obligations under the facility agreement dated 20 March 2017, limited to AUD25,000,000 on such terms and in a form to the satisfaction of the Financier, within 90 days from the Completion Date; and
- (cc) any other conditions the Financier may require, as advised to EW-Salcon Australia in writing.

(c) Due diligence

Fortune Quest being reasonably satisfied with the results of its due diligence enquiries in respect of EW-Salcon Australia including, but not limited to, the financial, contractual, trading and taxation position of EW-Salcon Australia, which enquiries must be completed within 2 months from the date of SPA.

As at the LPD, the due diligence enquiries in respect of EW-Salcon Australia have been completed and there are no non-satisfactory findings.

(d) Secondary consent

EW-Salcon Australia obtaining the consent from the Council of the City of Stonnington for amendment to the Planning Permit pursuant to a letter from SJB Planning Pty Ltd (ACN 007 427 554) to the Statutory Planning Division of the City of Stonnington dated 24 October 2016.

(Collectively, referred to as "**Conditions Precedent**").

SDSB and Fortune Quest must take all necessary actions and use reasonable endeavours: (i) to satisfy the Conditions Precedent; or (ii) to the extent permitted under the SPA, to waive the requirement to meet such Conditions Precedent; before 5.00 p.m. on the Cut-Off Date.

(iii) Completion

The completion of the Proposed Disposal will take place on a date (within the Completion Period) to be notified in writing by Fortune Quest to SDSB ("**Completion Notice**") which will not be earlier than 5 Business Days from the delivery of the Completion Notice. The Completion Period is 3 months from the Unconditional Date or such longer period as SDSB and Fortune Quest may mutually agree in writing.

In the event that Fortune Quest does not notify SDSB of the Completion Date, the Completion Date will be the last Business Day of the Completion Period.

(iv) Fortune Quest's completion obligation

Against receipt of all the documents and performance from/by SDSB on the Completion Date, Fortune Quest must:

- (a) pay the Disposal Consideration to SDSB;
- (b) deliver its executed Shareholders' Agreement to SDSB; and
- (c) deliver the Development Management Agreement executed by EW Sydney to EW-Salcon Australia.

In addition, Fortune Quest will, on behalf of EW-Salcon Australia, repay to SDSB a sum equivalent to 80% of the Advances in AUD.

(v) Advances

(i) Advances

As at 31 March 2017, SDSB has advanced to EW-Salcon Australia a sum of AUD17,642,740.51 and may, at any time before the Unconditional Date with prior written notice to Fortune Quest, advance further amount to EW-Salcon Australia for the purpose of carrying on of EW-Salcon Australia's business.

(ii) Repayment of Advances

Not later than 5 Business Days after Unconditional Date, SDSB will deliver a letter addressed to Fortune Quest ("**SDSB's Letter**") together with EW-Salcon Australia's management accounts as at the Unconditional Date, confirming the total outstanding amount of the Advances in AUD due and owing by EW-Salcon Australia to SDSB. SDSB undertakes with Fortune Quest that it will not make any further shareholder's advances to EW-Salcon Australia with effect from the Unconditional Date. On the Completion Date, Fortune Quest will for and on behalf of EW-Salcon Australia repay the Repayment Sum in AUD, as may be indicated by SDSB in SDSB's Letter.

(iii) Discharge and satisfaction of SDSB's Advances

Upon the payment of Repayment Sum being acknowledged in writing by SDSB, the Repayment Sum will be deemed discharged and satisfied in full. The Repayment Sum and the balance of the Advances will be capitalised by EW-Salcon Australia into EW-Salcon Australia Shares and repay to SDSB and Fortune Quest proportionately.

(vi) Termination

(a) SDSB's default

If prior to the Completion Date, SDSB is in default or breaches any of the terms and conditions of the SPA, Fortune Quest will be entitled to terminate the SPA by written notice, whereupon SDSB will within 5 Business Days of such notice, refund to Fortune Quest all moneys, if any, paid by Fortune Quest under the SPA. Thereafter, the SPA will be null and void and be of no further force or effect and neither party will have any further claim or claims against the other save and except for the cost incurred or to be incurred by the Pro-Tem Personnel pursuant to Section 2.1, Part A of the Circular and antecedent breach in relation to any rights accrued prior to such notice.

(b) Fortune Quest's default

If prior to the Completion Date, Fortune Quest is in default or breaches any of the terms and conditions of the SPA, SDSB will be entitled to terminate the SPA by written notice, whereupon SDSB will within 5 Business Days of such notice, refund to Fortune Quest all moneys, if any, paid by Fortune Quest under the SPA and SDSB will be entitled to dispose of or deal with the EW-Salcon Australia Shares at its absolute discretion. Thereafter, the SPA will be null and void and be of no further force or effect and neither party will have any further claim or claims against the other save and except for any costs incurred or to be incurred by the Pro-Tem Personnel pursuant to Section 2.1, Part A of the Circular and antecedent breach in relation to any rights accrued prior to such notice.

(vii) Corporate guarantee

(a) SDSB and Fortune Quest acknowledge that the land loan obtained by EW-Salcon Australia from the Financier ("**Land Loan**") in relation to the Acquisition is presently secured by, *inter alia*, a corporate guarantee by Salcon ("**Salcon Corporate Guarantee**") and agree to procure the release of the Salcon Corporate Guarantee as expeditiously as possible and in any event no later than 6 months from the Completion Date.

(b) SDSB and Fortune Quest agree that following the Completion Date and prior to the release of the Salcon Corporate Guarantee, Fortune Quest will, and will procure its holding company to at all times indemnify SDSB and/or Salcon against any actions, proceedings and claims arising against SDSB and/or Salcon in respect of the Salcon Corporate Guarantee.

3.2 Salient terms of the Shareholders' Agreement

The salient terms of the final form of the Shareholders' Agreement are summarised below:-

(i) Termination

The Shareholders' Agreement will terminate:

- (a) when, as a result of transfers of EW-Salcon Australia Shares made in accordance with Shareholders' Agreement, only one party remains as legal and beneficial holder of the issued share capital in EW-Salcon Australia;
- (b) when a resolution is passed by EW-Salcon Australia Shareholders or EW-Salcon Australia's creditors, or an order is made by a court or other competent body, that will lead to EW-Salcon Australia being wound up and its assets being distributed among EW-Salcon Australia 's creditors, the EW-Salcon Australia Shareholders and/or other contributors; or
- (c) on the date agreed by all EW-Salcon Australia Shareholders in writing.

(ii) Directors

EW-Salcon Australia must have a minimum of 1 director and a maximum of 5 directors appointed to its board of director ("**EW-Salcon Australia Board**") at any time.

Each of the EW-Salcon Australia Shareholders is entitled to appoint one (1) director to the EW-Salcon Australia Board for every 20% of the EW-Salcon Australia Shares it holds ("**Nominating Shareholder**").

For as long as Fortune Quest holds more than 50% of the EW-Salcon Australia Shares, the chairman of the EW-Salcon Australia Board will be appointed by Fortune Quest from amongst the directors nominated by Fortune Quest. The chairman will not have a casting vote in addition to any vote as a director.

(iii) Voting

Each director has 1 vote at the EW-Salcon Australia Board meetings.

(iv) Quorum requirements

- (a) The quorum necessary before a EW-Salcon Australia Board meeting can take place is a majority of the directors appointed to the EW-Salcon Australia Board (provided that at least one director from each Nominating Shareholder is present).
- (b) In the event that there is no quorum for any board meeting, such meeting will be postponed to be convened 5 Business Days later at the same place and at the same time, and at least 3 Business Days' notice will be given to each director. The quorum necessary before an adjourned meeting can take place is majority of the directors appointed to the EW-Salcon Australia Board. In the event that there is no quorum at such adjourned board meeting, the meeting will be dissolved.

(v) Decisions of the Board

All decisions of the EW-Salcon Australia Board, or any matter requiring the vote, resolution, consent or approval of the EW-Salcon Australia Board, must be approved by simple majority of votes cast by those directors who are present at the EW-Salcon Australia Board meeting and who are entitled, at the time the decision is made, to vote on the decision or matter.

(vi) Reserved matters

The following matters can only be effected by a resolution of the EW-Salcon Australia Board in respect of which at least one director nominated by Fortune Quest and at least one director nominated by SDSB shall have voted in favour of such resolution:

- (a) change in the business of EW-Salcon Australia;
- (b) change in maximum number of directors;
- (c) changes to the constitution or constituent documents;
- (d) winding-up or reconstruction of EW-Salcon Australia;
- (e) change in share capital;
- (f) acquisition or any subsequent winding-up or sale of subsidiary or associated company;
- (g) investment, partnership or joint venture or legally binding arrangement which the payment obligation exceeding AUD100,000 other than in the ordinary course of business;
- (h) granting loan, guarantee or any financial assistance to third party;
- (i) entering into contracts with related party of the EW-Salcon Australia Shareholders;
- (j) acceptance or incurrence of any credit facilities or borrowings granted by any financial institution or third-party and the creation of security over EW-Salcon Australia' assets other than in the ordinary course of business;
- (k) declaration or payment of any dividend or the making of any distribution or return of capital;
- (l) sale or disposal of assets of EW-Salcon Australia other than in the ordinary course of business; and
- (m) litigation, claims, arbitration proceedings involving EW-Salcon Australia which exceeds AUD100,000.

(vii) First right of refusal and sale to third party

- (a) Where one of the EW-Salcon Australia Shareholders ("**Selling Shareholders**") proposes to transfer its EW-Salcon Australia Shares, the other EW-Salcon Australia Shareholder ("**Other Shareholders**") will have a first right of refusal to acquire EW-Salcon Australia Shares that the Selling Shareholder wishes to transfer before EW-Salcon Australia Shares can be sold to a third party purchaser ("**Third Party Purchaser**") at a price and on terms no more favourable than the terms offered to the Other Shareholders.

Any transfer of the EW-Salcon Australia Shares and advances by the Selling Shareholder to a Third Party Purchaser will be conditional on:

- (aa) the Third Party Purchaser entering into a deed of accession under which it becomes a party to the Shareholders' Agreement; and
- (bb) the Third Party Purchaser complying with all other requirements that the EW-Salcon Australia Board may reasonably impose in connection with the transfer of the EW-Salcon Australia Shares and advances.

(viii) Events of default

If a EW-Salcon Australia Shareholder ("**Defaulting Party**"):

- (a) commit any material breach of its obligations under the Shareholders' Agreement and will fail to remedy such breach within 30 days from the service of any written notice by the other Shareholders complaining of such breach; or
- (b) subject to an insolvency event; or
- (c) sells, transfers or otherwise disposes of its legal and/or beneficial interest in and/or control of any shares in EW-Salcon Australia to any person otherwise than in accordance with the provisions of the Shareholders' Agreement;

then in any such event the other Shareholder ("**Innocent Party**") will, without prejudice to such other rights and remedies as it may have, and at its option, be entitled to:

- (A) give notice in writing ("**Default Notice**") to the Defaulting Party requiring the Defaulting Party either:
 - (aa) to purchase all of the Innocent Party's EW-Salcon Australia Shares and its advances at 110% of the value of such advances and the net tangible asset value of such shares, or
 - (bb) to sell all of the Defaulting Party's EW-Salcon Australia Shares and its advances to the Innocent Party at 90% of the value of such advances and the net tangible asset value of such shares; or
- (B) serve a dissolution notice in writing in respect of EW-Salcon Australia on the Defaulting Party and immediately thereafter both EW-Salcon Australia Shareholders will, and will procure EW-Salcon Australia to, where practicable, having regard to the requirements of any relevant authorities, take all such steps as may be necessary to forthwith wind up EW-Salcon Australia voluntarily. Upon the winding up of EW-Salcon Australia, the provisions of the Shareholders Agreement will terminate with immediate effect but without prejudice to any rights and liabilities which will have accrued or been incurred up to that time, provided that the Defaulting Party will be entitled to only 90% of its Agreed Proportion (as defined below in Section 3.2 (ix)(a), Part A of this Circular) of the proceeds or assets to be distributed in cash or in specie to the EW-Salcon Australia Shareholders and the remaining 10% of such proceeds or assets which would otherwise be distributed to the Defaulting Party, will be distributed to the Innocent Party.

(ix) External financing and shareholders funding

- (a) EW-Salcon Australia Shareholders confirm that it is their intention that, whenever practicable, the funding requirements of EW-Salcon Australia will be obtained by EW-Salcon Australia through commercial borrowings from external financiers. If it will not be possible to obtain such external financing or the effect of such borrowings will cause the gearing of EW-Salcon Australia to exceed such levels as are prudent, then subject to complying with Section 3.2 (vi), Part A of this Circular and any applicable laws, regulations or requirements of a stock exchange to which EW-Salcon Australia Shareholders or their respective holding companies may be subject to, EW-Salcon Australia Shareholders will provide the requisite finance by way of shareholder's loans, subscription for ordinary shares and/or subscription for other shares in EW-Salcon Australia ("**Shareholders Funding**") in the agreed proportion between EW-Salcon Australia Shareholders ("**Agreed Proportion**"). If required in connection with the external financing, EW-Salcon Australia Shareholders will, subject to complying with any applicable laws, regulations or requirements of a stock exchange to which EW-Salcon Australia Shareholders or their respective holding companies may be subject to, provide, or cause their respective holding companies, to provide corporate guarantee or any security or other form of credit support whatsoever in the Agreed Proportion but EW-Salcon Australia will not require any of its directors to provide any personal guarantee.

For avoidance of doubt, "**Agreed Proportion**" means 80% for Fortune Quest and 20% for SDSB, or subject to and in accordance with the provisions of the Shareholders' Agreement, such other adjusted proportion as will reflect the shareholding of the EW-Salcon Australia Shareholders from time to time in EW-Salcon Australia.

- (b) Subject to complying with any applicable laws, regulations or requirements of a stock exchange to which EW-Salcon Australia Shareholders or their respective holding companies may be subject to, all Shareholders Funding will:
- (aa) (in the event that Shareholders Funding is provided by way shareholders' loan) accrue interest at a rate to be agreed between the EW-Salcon Australia Shareholders and failing such agreement will be based on the prevailing commercial borrowing rate for overdraft loans of more than AUD100,000 as charged by Westpac Banking Corporation from time to time; and
- (bb) (in the event that the Shareholders Funding is provided by way of subscription for preference shares in EW-Salcon Australia) have a preferential dividend at such rate and payable at such times as EW-Salcon Australia Shareholders and EW-Salcon Australia may reasonably agree prior to the issuance of such preference shares;

and the repayment of such Shareholders Funding or any redemption, buyback or reduction of capital as a return of Shareholders Funding will be subject to any requirements of the external financiers and subject to any laws, rules, regulations, directives or requirements of relevant authorities.

(x) Requisite Share Capital

The share capital of EW-Salcon Australia may be increased from time to time to a level and within such period of time as will be required by the relevant authorities and/or the external financiers ("**Requisite Share Capital**"), and subject to the issuance of Capital Call Notice, the EW-Salcon Australia Shareholders will subscribe and pay in full for such EW-Salcon Australia Shares in their Agreed Proportion within the requisite period set out in the Capital Call Notice.

If any EW-Salcon Australia Shareholder is unable or fails to fund its Agreed Proportion of the Requisite Share Capital ("**Non-Paying Shareholder**") within the period imposed by EW-Salcon Australia in the Capital Call Notice then the other EW-Salcon Australia Shareholder who has made payment for its Agreed Proportion of the Requisite Share Capital ("**Paying Shareholder**") may, but will not be obliged to, and without prejudice to any of the Paying Shareholder's rights and remedies under the Shareholders Agreement, subscribe for all of the remaining unpaid portion for the Requisite Share Capital in excess of its Agreed Proportion ("**Unpaid Portion**"). Upon payment of the Unpaid Portion by the Paying Shareholder, EW-Salcon Australia will issue to the Paying Shareholder such number of EW-Salcon Australia Shares that the Non-Paying Shareholder would otherwise have been entitled to.

3.3 Salient terms of the Development Management Agreement

The salient terms of the final form of the Development Management Agreement are summarised below:

(i) Appointment

EW Sydney is to be appointed the Development Manager for the fees and other charges in the manner set out in Section 2.1, Part A of this Circular to be paid by EW-Salcon Australia. The Services are as set out in Section 2.1, Part A of this Circular. The scope of the Services may be varied and modified subject to mutual agreement of EW-Salcon Australia and EW Sydney.

For the avoidance of doubt, the Services will not in any way require the Development Manager to act as an estate agent or agent as defined in the Australia Estate Agents Act 1980.

(ii) Reporting and authority of Development Manager

The Development Manager will, at each EW-Salcon Australia Board meeting, report to the EW-Salcon Australia Board on the progress of the Yarra One Project. The Development Manager will ensure that the Yarra One Project is implemented and carried out in accordance with the proposed business plan and budget ("**Approved Business Plan and Budget**") which has been approved by the EW-Salcon Australia Board and accepted by EW-Salcon Australia. The Development Manager will have the authority and discretion to deal with all matters in accordance with the Development Management Agreement provided the Development Manager:

- (a) observes and does not exceed the Approved Business Plan and Budget or the limits of authority of the Development Manager for the performance of the Services which will be within the approval limits as may be determined or varied by the EW-Salcon Australia Board from time to time, as the case may be; and
- (b) observes and performs its duties and obligations under the Development Management Agreement.

(iii) Term of Appointment

The appointment of the Development Manager will commence on the date of the Development Management Agreement (which is expected to be the completion of the Proposed Disposal) and will terminate on the expiry of the period of 6 months from the issuance of the occupation certificate for the Yarra One Project unless earlier terminated by EW-Salcon Australia or EW Sydney in accordance with Section 3.3 (iv), Part A of this Circular.

(iv) Termination

The Development Management Agreement may be terminated by EW-Salcon Australia or EW Sydney by written notice to the other upon the occurrence of any of the following events:

- (a) if EW-Salcon Australia or EW Sydney materially breaches any of its representations, warranties, covenants or undertakings under the Development Management Agreement and such breach is not rectified or remedied by the defaulting party within 60 days from the date of written notice from the innocent party requiring the defaulting party to remedy the breach or such longer period as EW-Salcon Australia or EW Sydney may mutually agree having regard to the nature of the breach;
- (b) if the SPA and/or the Shareholders' Agreement is terminated in accordance with the provisions contained in the respective agreements;
- (c) in the event of any winding-up proceedings being instituted against EW-Salcon Australia or EW Sydney or any court order or resolution for the winding up of EW-Salcon Australia or EW Sydney is granted, or upon the appointment of any receiver, administrator, trustee, nominee, supervisor or judicial manager over any part of the undertaking or assets of EW-Salcon Australia or EW Sydney; or
- (d) if the Development Manager ceases to be a subsidiary of EWI.

4. RATIONALE

The Proposed Disposal is intended to create an 80:20 shareholding structure between Fortune Quest and SDSB, respectively as the EW-Salcon Australia Shareholders. Notwithstanding that the initial intention is for our Group to develop the Yarra One Project on our own, the Proposed Disposal provides an opportunity for our Group to undertake the Yarra One Project with a partner who already has presence in the international property market.

As our Group is new in the property development industry in Australia, the SPA was entered into to tap on the reputation, strength and experience of the EWI Group in the international property market, which is led by an experienced management team. We may also benefit from the EWI Group's branding, marketing channels and customer base.

EWI is an international property developer that focuses on developing real estate assets into high quality residential-led, mixed-use developments in mature markets with growth potential and favourable macroeconomic conditions such as the United Kingdom and Australia. Currently, EWI Group has four on-going property development projects, of which 3 projects are in London, United Kingdom and 1 project is in Sydney, Australia. (Source: EWI's Prospectus dated 9 March 2017)

The appointment of EW Sydney as the Development Manager will allow them to control and monitor the quality of the entire development of Yarra One Project from planning until its completion. Our Board believes that with their extensive experience, the collaboration with EW Sydney will contribute to the successful completion of the Yarra One Project.

The Board takes cognisance that our Group currently does not have a track record in the Australian property market. Hence, it may be challenging for us to secure project financing at a margin of financing and rate that are favourable to us which may affect the capital and profit margin for the Yarra One Project.

After considering the above, our Board is of the view that the Proposed Disposal represents an attractive opportunity for Salcon to monetise the asset and at the same time, maintaining a 20% equity stake in EW-Salcon Australia to continue participating in the future prospects of the Yarra One Project. The Yarra One Project will also provide an opportunity for our Group to gain a foothold in the Australian property market.

The Board is also of the view that the Proposed Disposal is in the best interest of Salcon as the Proposed Disposal will allow our Company to unlock the value of our investment in EW-Salcon Australia and provide greater financial strength and flexibility to our Group to pursue future potential acquisitions and/or investment opportunities.

5. UTILISATION OF PROCEEDS

We intend to utilise AUD120,000 (equivalent to approximately RM401,772) from the Disposal Consideration to defray the estimated expenses in relation to the Proposed Disposal comprising adviser, lawyers, valuer, regulatory fees and other related costs. The Disposal Consideration is expected to be utilised within 3 months from receipt of the said proceeds.

For information purpose, the Repayment Sum will be reinvested to the Yarra One Project in the event that EW-Salcon Australia issues a Capital Call Notice and/or any future investments of Salcon, which has yet to be determined as at the LPD. The proposed investments which have yet to be identified may or may not be in similar or complementary industries to our Group's existing businesses. In the event shareholders' approval is required pursuant to the Main Market Listing Requirements for the future investments of Salcon, such approval will be sought in accordance with the provisions of the Main Market Listing Requirements.

The breakdown and timeframe for the utilisation of the Repayment Sum cannot be determined at this juncture as it will depend on the operating/financing requirements of Salcon Group in the future. Pending the utilisation of the Repayment Sum by Salcon Group, the Repayment Sum will be placed in interest-bearing deposit accounts with financial institutions or short-term money market instrument(s) as the Board may deem fit.

6. RISK FACTORS

Shareholders should consider the following risk factors arising from the Proposed Disposal (which may not be exhaustive):

6.1 Non-completion of the Proposed Disposal

The completion of the Proposed Disposal is conditional upon the conditions as set out in the SPA being satisfied. The non-fulfillment of the Conditions Precedent may result in the SPA being terminated, hence the objectives and benefits of the Proposed Disposal disclosed in Section 4, Part A of this Circular will not be achieved. There is also no assurance that the Proposed Disposal can be completed within the time period permitted under the SPA.

Nevertheless, our Board and management will take reasonable steps to ensure that the Conditions Precedent are met within the stipulated timeframe and that every effort is made to obtain all the necessary approvals for the Proposed Disposal.

6.2 Risks associated with associate company

The business goals and interests of the EW-Salcon Australia Shareholders may diverge over the course of implementation of the Yarra One Project. After the completion of the Proposed Disposal, our Group will only hold 20% equity interest in EW-Salcon Australia. Without the majority control in EW-Salcon Australia, our Group will not be able to influence the management, operation and performance of EW-Salcon Australia in a manner which would be favourable to our Group.

Should any disagreements arise between the EW-Salcon Australia Shareholders, there can be no assurance that these disagreements can be resolved in a manner favourable to our Company. Additionally, these disagreements could significantly affect the progress of the Yarra One Project as well as the financial condition and results of operations of our Group.

Nevertheless, the risk may be mitigated by SDSB entering into the Shareholders' Agreement with Fortune Quest and EW-Salcon Australia, of which the terms and conditions stated therein have been agreed upon and finalised by SDSB and Fortune Quest as at the LPD. The Shareholders' Agreement entails, among others, a list of reserved matters that require unanimous voting from at least one director nominated by Fortune Quest and at least one director nominated by SDSB in order to effect the resolution.

7. EFFECTS

7.1 Share capital and substantial shareholders' shareholding

The Proposed Disposal will not have any effect on the share capital and substantial shareholders' shareholdings of Salcon as the Proposed Disposal does not involve any issuance of Salcon Shares.

7.2 NA per share and gearing

Based on the audited consolidated financial statements of our Company for the FYE 31 December 2016, the pro forma effects of the Proposed Disposal on our Company's consolidated NA, NA per share and gearing are as follows:

	(I) Audited as at 31 December 2016 (RM'000)	(I) After adjusting for the Acquisition ⁽¹⁾ (RM'000)	(II) After (I) and adjusting for subsequent events (RM'000)	(III) After the Proposed Disposal (RM'000)
Share capital	338,847	338,847	338,847	338,847
Reserves	76,645	76,639	⁽²⁾ 97,111	97,111
Retained earnings	68,490	65,683	⁽²⁾ 43,785	⁽³⁾ 45,786
NA attributable to owners of the Company	483,982	481,169	479,743	481,744
Number of Salcon Shares (⁽⁴⁾ '000)	⁽⁴⁾ 642,684	⁽⁴⁾ 642,684	⁽⁵⁾ 675,777	⁽⁵⁾ 675,777
NA per Salcon Share (RM)	0.75	0.75	0.71	0.71
Total borrowings (RM'000)	73,050	⁽⁶⁾ 156,346	156,346	73,050
Gearing ratio (times)	0.15	0.32	0.33	0.15

Notes:

- (1) Adjusted for completion of the Acquisition on 29 March 2017.
- (2) After taking into consideration the purchase of 2,571,000 treasury shares worth RM1.4 million from 1 January 2017 up to the LPD and subsequent distribution of 35,663,238 treasury shares worth RM21.9 million on 12 July 2017 as first and final share dividend for FYE 31 December 2016 on the basis of 1 treasury share for every 18 existing Salcon Shares held by entitled shareholders (“**Distribution of Share Dividend**”).
- (3) After taking into consideration the estimated gain on disposal of approximately RM2.0 million.
- (4) Excluding 35,010,000 Salcon Shares held as treasury shares as at 31 December 2016.
- (5) Excluding 1,917,762 Salcon Shares held as treasury shares as at the LPD.
- (6) After taking into consideration the borrowing of EW-Salcon Australia amounting to approximately RM83.3 million to finance the Acquisition.

7.3 Earnings and EPS

Save for the expected gain arising from the Proposed Disposal, the Proposed Disposal is not expected to have a material effect on the earnings of the Salcon Group for the FYE 31 December 2017.

Upon completion of the Proposed Disposal, the Salcon Group is expected to realise a net gain attributable to owners of our Company of approximately RM2.0 million based on the latest audited financial statements of the Salcon Group for the FYE 31 December 2016. The net gain attributable to owners of our Company represents an EPS of approximately 0.30 sen, based on 675,776,690 Salcon Shares (excluding treasury shares) after the Distribution of Share Dividend.

Gain by Salcon for the Proposed Disposal:

	(RM)
Disposal Consideration	401,772
Add: Reversal of our share of accumulated losses in EW-Salcon Australia	2,245,291
Add: Translation reserve	4,611
(Less): Cost of investment	(244)
(Less): Estimated expenses of the Proposed Disposal	(650,000)
Gain on disposal	<u>2,001,430</u>

For illustration purposes, assuming that the Proposed Disposal had been completed on 1 January 2016, the effects of the Proposed Disposal on our consolidated EPS for the FYE 31 December 2016 are as follows:

	FYE 31 December 2016 (RM'000)	After the Proposed Disposal (RM'000)
Consolidated PAT attributable to owners of the Company	11,844	⁽¹⁾ 13,845
Numbers of Salcon Shares ('000)	642,684	675,777
Basic EPS (sen)	1.84	2.05

Note:

- (1) After taking into account the expected gain from the Proposed Disposal of approximately RM2.0 million.

The Yarra One Project is expected to contribute positively to the future earnings of the Salcon Group via the remaining 20% equity interest held by SDSB in EW-Salcon Australia.

8. APPROVALS REQUIRED

The Proposed Disposal is conditional upon the following approvals being obtained:

- (i) the shareholders of Salcon at the forthcoming EGM;
- (ii) secondary consent from Council of the City of Stonnington for the amendment to the Planning Permit; and
- (iii) any other relevant authorities and/or parties, if required.

9. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

Dato' Leong is the Executive Director and a major shareholder of Salcon by virtue of his direct shareholdings in Salcon and the shareholdings held by his children (Ms. Leong Yi Ping and Ms. Leong Yi Ming) in Salcon and the shareholdings held by his spouse (Datin Goh) in Salcon via Naga Muhibah. He is a major shareholder of EWI by virtue of his direct shareholdings in EWI and his indirect shareholdings in EWI held via Eco World Capital (International) Sdn Bhd, Eco World Development Group Berhad, Sinarmas Harta Sdn Bhd and Syabas Tropikal Sdn Bhd. Hence, he is deemed interested in the Proposed Disposal.

Dato' Seri (Dr.) Goh is the Chairman, Non-Independent Non-Executive Director of Salcon and a major shareholder of Salcon by virtue of his direct shareholdings in Salcon, and the shareholding held by himself and his child (Datin Goh) via Naga Muhibah in Salcon. He is also the father in law of Dato' Leong. Hence, he is deemed interested in the Proposed Disposal.

Datin Goh is a major shareholder of our Company by virtue of her shareholdings in Naga Muhibah, the shareholdings held by her spouse (Dato' Leong) and her children (Ms. Leong Yi Ping and Ms. Leong Yi Ming) in Salcon. She is also the spouse of Dato' Leong and daughter of Dato' Seri (Dr.) Goh. Hence, she is deemed interested in the Proposed Disposal.

Premised on the above, Dato' Leong and Dato' Seri (Dr.) Goh, being the Interested Directors have abstained and will continue to abstain from all Board deliberations and voting in respect of the Proposed Disposal.

Further, Dato' Leong, Dato' Seri (Dr.) Goh and Datin Goh, being the Interested Major Shareholders will abstain from voting on the Proposed Disposal at the forthcoming EGM in respect of their direct and indirect shareholdings in Salcon and will also ensure that all persons connected to them will abstain from voting in respect of their direct and/or indirect interest, if any, on the resolution pertaining to the Proposed Disposal to be tabled at the forthcoming EGM.

The direct and indirect shareholdings of the Interested Directors and Interested Major Shareholders in our Company as at the LPD are as follows:

Interested Directors/ Major Shareholders	Direct		Indirect	
	No. of Shares	*%	No. of Shares	*%
Dato' Leong	3,800,000	0.56	⁽¹⁾ ⁽²⁾ 70,732,354	10.47
Dato' Seri (Dr.) Goh	2,427,777	0.36	⁽³⁾ ⁽⁴⁾ 70,415,688	10.42
Datin Goh	-	-	⁽³⁾ ⁽⁵⁾ ⁽⁶⁾ 74,532,354	11.03

Notes:

* Based on 675,776,690 Salcon Shares in issue as at the LPD after deducting 1,917,762 Salcon Shares held as treasury shares.

(1) Deemed interested through the shares held by his children (Ms. Leong Yi Ping and Ms. Leong Yi Ming) pursuant to Section 8 of the Act.

- (2) Deemed interested through the shares held by his spouse (Datin Goh) in Naga Muhibah pursuant to Section 8 of the Act.
- (3) Deemed interested through the shareholding in Naga Muhibah pursuant to Section 8 of the Act.
- (4) Deemed interested through the shares held by his child (Datin Goh) in Naga Muhibah pursuant to Section 8 of the Act.
- (5) Deemed interested through the shares held by her spouse (Dato' Leong) pursuant to Section 8 of the Act.
- (6) Deemed interested through the shares held by her children (Ms. Leong Yi Ping and Ms. Leong Yi Ming) pursuant to Section 8 of the Act.

Save as disclosed above, none of the Directors and/or major shareholders of Salcon and/or persons connected to the Directors and/or major shareholders of Salcon has any interest, direct or indirect, in the Proposed Disposal.

10. RELATED PARTY TRANSACTIONS

Save for the Proposed Disposal, there was no other related party transactions transacted with the Interested Directors and Interested Major Shareholders (including persons connected with them) for the 12 months preceding the LPD.

11. INDEPENDENT ADVISER

In view that the Proposed Disposal is deemed to be a related party transaction as set out in Section 9, Part A of this Circular, Affin Hwang IB was appointed as the Independent Adviser to undertake the following:

- (i) comment as to whether the Proposed Disposal is:
 - (a) fair and reasonable so far as the shareholders are concerned; and
 - (b) to the detriment of the Non-Interested Shareholders,and set out the reasons for such opinion, the key assumptions made and the factors taken into consideration in forming that opinion;
- (ii) advise the Non-Interested Shareholders whether they should vote in favour of the Proposed Disposal; and
- (iii) take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in relation to items (i) and (ii) above.

Please refer to the Independent Advice Letter as set out in Part B of this Circular.

12. AUDIT COMMITTEE'S STATEMENT

The Audit Committee (save for Dato' Seri (Dr.) Goh who has abstained from all deliberations and voting on the Proposed Disposal), having considered all aspects of the Proposed Disposal including but not limited to the rationale, salient terms of the Agreements, risk factors and effects of the Proposed Disposal, is of the opinion that the Proposed Disposal is:

- (i) in the best interest of Salcon;
- (ii) fair, reasonable and on normal commercial terms; and
- (iii) not detrimental to the interests of the Non-Interested Shareholders.

In arriving at the above view, the Audit Committee (save for Dato' Seri (Dr.) Goh) has taken into consideration, among others, the evaluation and recommendation by the Independent Adviser as contained in the Independent Advice Letter, as set out in Part B of this Circular, and has concurred with the views of the Independent Adviser.

13. DIRECTORS' STATEMENT

Our Board (save for the Interested Directors who have abstained from all deliberations and voting on the Proposed Disposal), having considered all aspects of the Proposed Disposal including but not limited to the rationale, salient terms of the Agreements, risk factors and effects of the Proposed Disposal, is of the opinion that the Proposed Disposal is in the best interest of Salcon.

Accordingly, our Board (save for the Interested Directors) recommends that you vote in favour of the resolution pertaining to the Proposed Disposal to be tabled at the forthcoming EGM.

14. OTHER INTENDED CORPORATE EXERCISES WHICH HAVE BEEN ANNOUNCED BUT NOT YET COMPLETED

Save for the Proposed Disposal which is subject of this Circular and as disclosed below, there are no other proposals which have been announced by our Company but not yet completed before the printing of this Circular:

- (i) On 28 February 2017, Circlic Interactive Tourism Sdn Bhd ("**CITSB**"), a 65%-owned subsidiary of Salcon Xinlian Group Limited which in turn a 51.02%-owned subsidiary of our Company had entered into an agreement with Shenzhen Wisdom Sports Industry Co. Ltd to form a joint venture through Wisdom Sports (M) Sdn Bhd (formerly known as Enrich Signature Sdn Bhd) ("**WASSB**"), a wholly-owned subsidiary of CITSB for the purpose of organising and managing belt and road marathon majors 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. As at the LPD, the proposed subscription has yet to be completed.

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

15. TENTATIVE TIMETABLE FOR IMPLEMENTATION

Barring any unforeseen circumstances, the Proposed Disposal is expected to be completed by the fourth quarter of 2017. The indicative timetable for the implementation of the Proposed Disposal is as follows:

Event	Tentative timing
The forthcoming EGM	29 August 2017
Fulfilment of the conditions precedent of the SPA	Early October 2017
Completion of the Proposed Disposal	End December 2017

16. EGM

The forthcoming EGM for the Proposed Disposal, the notice of which is enclosed in this Circular, will be held at Classics Ballroom, Level 3, Holiday Villa Hotel & Conference Centre Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Tuesday, 29 August 2017 at 11.00 a.m. or at any adjournment thereof, for the purpose of considering and if thought fit, passing the resolution pertaining to the Proposed Disposal.

If you are unable to attend and vote in person at the forthcoming EGM, you may complete, sign and return the enclosed proxy form in accordance with the instructions printed therein as soon as possible and in any event, so as to arrive at the registered address of our Company at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan, no later than 48 hours before the time fixed for holding the EGM or any adjournment thereof. The lodgement of the proxy form does not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

17. FURTHER INFORMATION

You are requested to refer to the Appendices set out in this Circular for further information.

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

TAN SRI DATO' TEE TIAM LEE
Executive Deputy Chairman

PART B

**INDEPENDENT ADVICE LETTER FROM AFFIN HWANG IB TO
THE NON-INTERESTED SHAREHOLDERS OF SALCON
IN RELATION TO THE PROPOSED DISPOSAL**

EXECUTIVE SUMMARY

Definitions or defined terms used in this Executive Summary have the same meaning as defined in the “Definitions” section of Part A of the Circular, except where the context requires otherwise or otherwise defined.

All references to “we”, “us” and “our” in this Executive Summary are to Affin Hwang IB, being the Independent Adviser for the Proposed Disposal.

This Executive Summary highlights the salient information of the Proposed Disposal. We advise all Non-Interested Shareholders to read and understand this Independent Advice Letter in its entirety, together with Part A of the Circular and the appendices for further information.

Non-Interested Shareholders should not rely solely on this Executive Summary before forming an opinion on the Proposed Disposal. You are advised to read and consider carefully the recommendation contained in this Independent Advice Letter before voting on the resolution relating to the Proposed Disposal to be tabled at the forthcoming EGM.

If you are in doubt as to the course of action to be taken, you should consult your stockbroker, solicitor, accountant, banker or other professional adviser immediately.

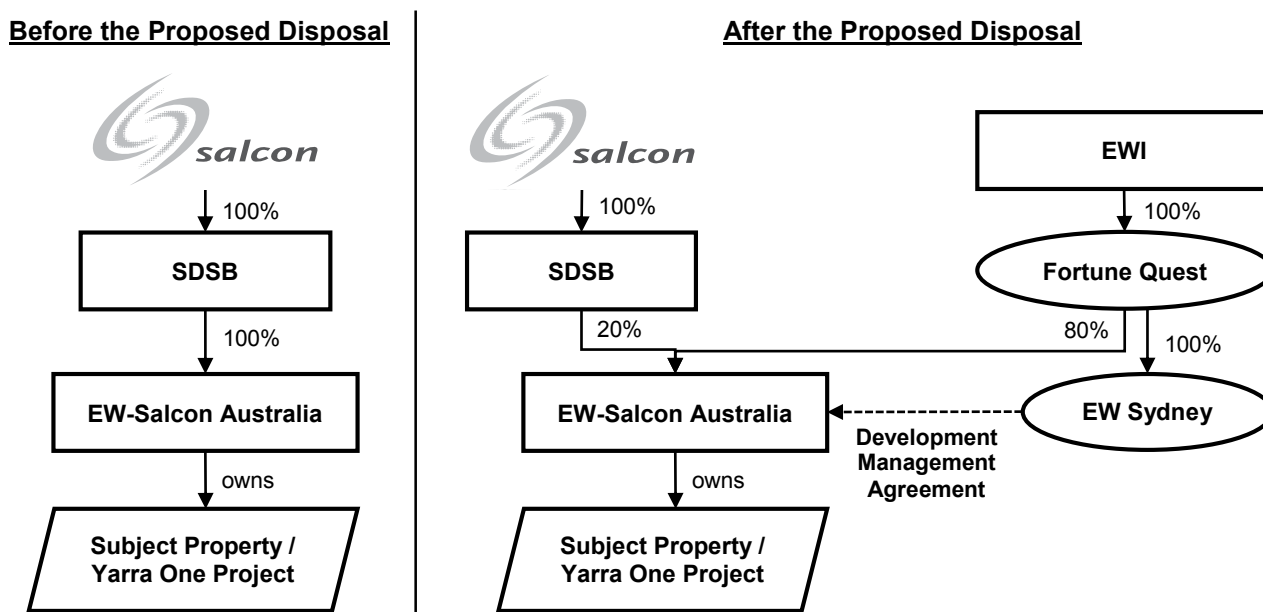
1. INTRODUCTION

On 10 April 2017, HLIB, on behalf of the Board, announced that SDSB had on 10 April 2017 entered into the SPA for the Proposed Disposal.

Upon the completion of the Proposed Disposal, the following agreements will be entered into:

- (i) the Shareholders’ Agreement, which sets out, among others:
 - the obligations of SDSB and Fortune Quest as EW-Salcon Australia Shareholders;
 - the business for the development;
 - the sale and/or lease of the Subject Property; and
 - the shareholdings of SDSB and Fortune Quest in EW-Salcon Australia; and
- (ii) the Development Management Agreement, in which EW-Salcon Australia as the landowner of the Subject Property will appoint EW Sydney as the Development Manager for the initial planning, development, coordination and marketing of the Yarra One Project.

The diagram below sets out the shareholding structure of EW-Salcon Australia before and after the Proposed Disposal:



EXECUTIVE SUMMARY

The Proposed Disposal is deemed a related party transaction pursuant to Paragraph 10.08 of the Main Market Listing Requirements in view of the interests of the following parties:

Interested Directors

- Dato' Leong; and
- Dato' Seri (Dr.) Goh.

Interested Major Shareholders

- Dato' Leong;
- Dato' Seri (Dr.) Goh; and
- Datin Goh.

Please refer to Section 9, Part A of the Circular for further information on the Interested Directors and Interested Major Shareholders.

2. EVALUATION OF THE PROPOSED DISPOSAL

<u>Section in this Independent Advice Letter</u>	<u>Section of evaluation</u>	<u>Affin Hwang IB's comments</u>												
6.1	Rationale for the Proposed Disposal	<p>The Proposed Disposal will allow Salcon to:</p> <ul style="list-style-type: none">▪ tap on the reputation, strength and experience of the EWI Group in the international property market, which is led by an experienced management team;▪ monetise the asset and unlock the value of its investment in EW-Salcon Australia; and▪ achieve greater financial strength and flexibility to pursue future potential acquisitions and/or investment opportunities.												
6.2	Evaluation of the Disposal Consideration	<ul style="list-style-type: none">▪ The market values of the Subject Property as assessed by the Valuer are as follows:<table><thead><tr><th><u>Valuation Method</u></th><th colspan="2"><u>Market value</u></th></tr><tr><td></td><th><u>AUD'000</u></th><th><u>RM'000</u></th></tr></thead><tbody><tr><td>Direct Comparison Approach</td><td>37,000</td><td>123,880</td></tr><tr><td>Hypothetical Development Approach</td><td>36,800</td><td>123,210</td></tr></tbody></table>	<u>Valuation Method</u>	<u>Market value</u>			<u>AUD'000</u>	<u>RM'000</u>	Direct Comparison Approach	37,000	123,880	Hypothetical Development Approach	36,800	123,210
<u>Valuation Method</u>	<u>Market value</u>													
	<u>AUD'000</u>	<u>RM'000</u>												
Direct Comparison Approach	37,000	123,880												
Hypothetical Development Approach	36,800	123,210												

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EXECUTIVE SUMMARY

Section in this Independent Advice Letter	Section of evaluation	Affin Hwang IB's comments
6.2	Evaluation of the Disposal Consideration (<i>Cont'd</i>)	<ul style="list-style-type: none">▪ We noted the following:<ul style="list-style-type: none">(i) The Valuer assigned the market value of the Subject Property at AUD37,000,000 or RM123,879,700 (exclusive of GST), which is the upper end of the range, in which the Valuer considers reasonable given that the Direct Comparison Approach and Hypothetical Development Approach resulted in similar assessment respectively;(ii) As at the LPD, the total Advances from SDSB to EW-Salcon Australia is AUD19,840,520 (RM66,428,045);(iii) EW-Salcon Australia was incorporated on 27 June 2016 and as at the LPD, the audited financial statements of EW-Salcon Australia are not available; and(iv) Based on the latest unaudited accounts of EW-Salcon Australia for the FPE 31 March 2017, EW-Salcon Australia recorded net liabilities of AUD831,236.▪ In view that the Proposed Disposal is a related party transaction, the Disposal Consideration of AUD120,000 (RM401,772) is fair in view that EW-Salcon Australia is in a net liabilities position.
6.3	Salient terms of the SPA	<p>The salient terms of the SPA mutually agreed by SDSB and Fortune Quest are as follows:</p> <ul style="list-style-type: none">▪ Disposal Consideration and method of payment;▪ Conditions precedent;▪ Details on the Completion;▪ Fortune Quest's completion obligations;▪ Repayment of advances to SDSB by Fortune Quest on behalf of EW-Salcon Australia;▪ Termination; and▪ Release of Salcon Corporate Guarantee.

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EXECUTIVE SUMMARY

Section in this Independent Advice Letter	Section of evaluation	Affin Hwang IB's comments
6.3	Salient terms of the Shareholders' Agreement	<p>The salient terms of the final form of the Shareholders' Agreement are summarised as follows:</p> <ul style="list-style-type: none">▪ Termination;▪ Board composition;▪ Directors' voting rights;▪ Quorum requirements;▪ Decision making process by the Board of Directors of EW-Salcon Australia;▪ Matters to be effected by resolution;▪ First right of refusal and sale to third party;▪ Events of default on obligations;▪ External financing and shareholders' funding; and▪ Requisite share capital.
6.3	Salient terms of the Development Management Agreement	<p>The salient terms of the final form of the Development Management Agreement are summarised as follows:</p> <ul style="list-style-type: none">▪ Appointment of Development Manager;▪ Reporting and authority of Development Manager;▪ Terms of appointment; and▪ Termination.
6.4	Utilisation of proceeds	<ul style="list-style-type: none">▪ Salcon intends to utilise the Disposal Consideration of AUD120,000 (RM401,772) to defray the estimated expenses in relation to the Proposed Disposal.▪ the Repayment Sum to be received by SDSB is expected to be utilised for the following:<ul style="list-style-type: none">(i) reinvestment into the Yarra One Project upon receiving a Capital Call Notice; and/or(ii) any future investments which may or may not be in the similar or complimentary industries to the Salcon Group's existing businesses.▪ We noted that the breakdown and timeframe for the utilisation of the Repayment Sum has yet to be determined at this juncture.
6.5	Risk factors in relation to the Proposed Disposal	<p>Risk factors relating to the Proposed Disposal are:</p> <ul style="list-style-type: none">▪ Non-completion of the Proposed Disposal; and▪ Risks associated with associate company.

EXECUTIVE SUMMARY

Section in this Independent Advice Letter	Section of evaluation	Affin Hwang IB's comments
6.6	Effects of the Proposed Disposal	<p>(i) Share capital and substantial shareholders' shareholdings</p> <p>No effect.</p> <p>(ii) NA, NA per Share and gearing</p> <ul style="list-style-type: none">▪ no material effects to the consolidated NA of Salcon;▪ the proforma NA per Share will remain unchanged at RM0.71; and▪ the proforma gearing will decrease from 0.33 times to 0.15 times after the Proposed Disposal. <p>(iii) Earnings and EPS</p> <p>The Proposed Disposal is expected to realise a net gain attributable to owners of the Company of approximately RM2.00 million, representing approximately 0.30 sen based on 675,776,690 Salcon Shares (excluding treasury shares) as at the LPD.</p>

3. CONCLUSION AND RECOMMENDATION

We have assessed the Proposed Disposal and have set out our evaluation in **Section 6 of this Independent Advice Letter**, which is summarised in **Section 7 of this Independent Advice Letter**.

Non-Interested Shareholders should carefully consider the merits and demerits of the Proposed Disposal based on all relevant and pertinent factors as set out in Part A of the Circular, this Independent Advice Letter and other publicly available information prior to making a decision to vote on the resolution pertaining to the Proposed Disposal.

Based on the information available to us up to the LPD for the purpose of our overall assessment and evaluation of the Proposed Disposal, we are of the view that the Proposed Disposal is **FAIR AND REASONABLE** and is **NOT DETRIMENTAL** to the Non-Interested Shareholders.

Accordingly, we recommend that you **VOTE IN FAVOUR** for the resolution pertaining to the Proposed Disposal to be tabled at the forthcoming EGM.

Registered Office:

27th Floor, Menara Boustead
69, Jalan Raja Chulan
50200 Kuala Lumpur

14 August 2017

To: The Non-Interested Shareholders of Salcon

Dear Sir / Madam,

SALCON BERHAD

INDEPENDENT ADVICE LETTER TO THE NON-INTERESTED SHAREHOLDERS OF SALCON IN RELATION TO THE PROPOSED DISPOSAL

This Independent Advice Letter has been prepared to accompany Part A of the Circular. Definitions or defined terms used in this Independent Advice Letter have the same meaning as defined in the “Definitions” section of Part A of the Circular, except where the context requires otherwise or otherwise defined.

All references to “we”, “us” and “our” in this Independent Advice Letter are to Affin Hwang IB, being the Independent Adviser for the Proposed Disposal.

1. INTRODUCTION

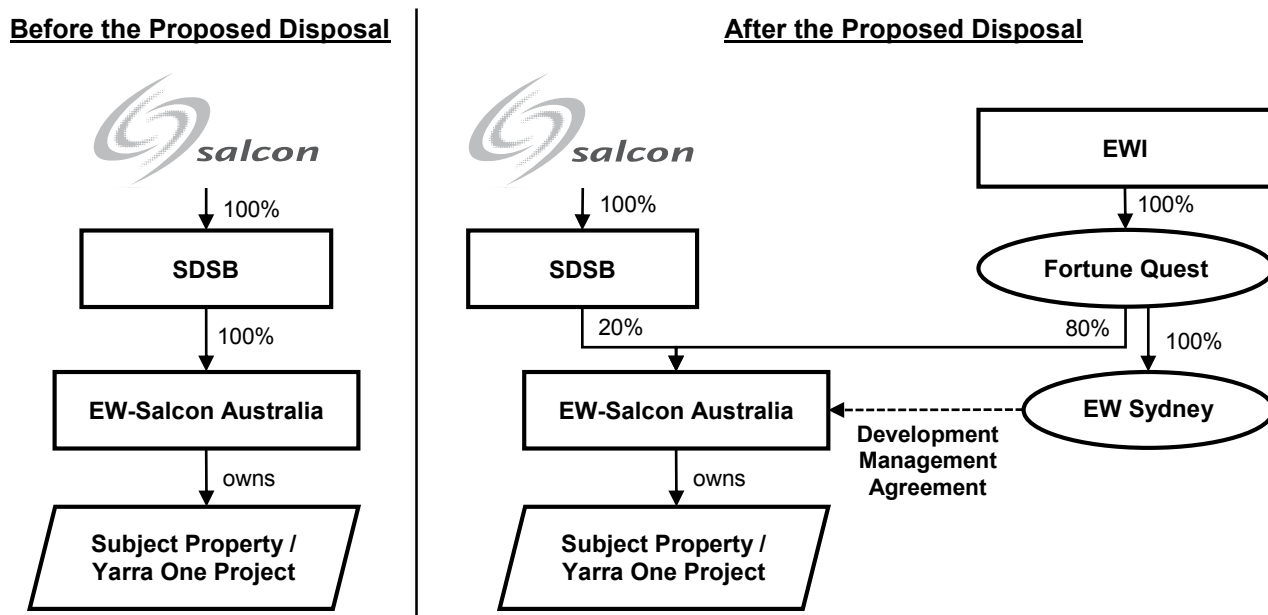
On 10 April 2017, HLIB, on behalf of the Board, announced that SDSB had on 10 April 2017 entered into the SPA for the Proposed Disposal.

In conjunction with the Proposed Disposal, the following agreements will be entered into upon the completion of the Proposed Disposal:

- (i) the Shareholders’ Agreement, which sets out, among others:
 - the obligations of SDSB and Fortune Quest as EW-Salcon Australia Shareholders;
 - the business for the development;
 - the sale and/or lease of the Subject Property; and
 - the shareholdings of SDSB and Fortune Quest in EW-Salcon Australia; and
- (ii) the Development Management Agreement, in which EW-Salcon Australia as the landowner of the Subject Property will appoint EW Sydney as the Development Manager for the initial planning, development, coordination and marketing of the Yarra One Project.

The Proposed Disposal is deemed a related party transaction pursuant to Paragraph 10.08 of the Main Market Listing Requirements in view of the interests of the Interested Directors and Interested Major Shareholders as highlighted in **Section 9, Part A of the Circular**.

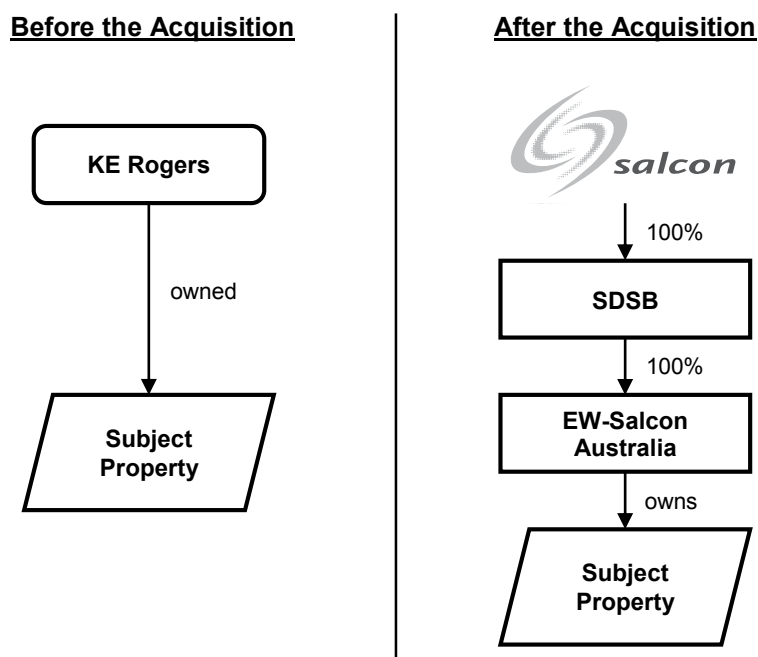
The diagram below sets out the shareholding structure of EW-Salcon Australia before and after the Proposed Disposal:



In compliance with Paragraph 10.08(2)(c) of the Main Market Listing Requirements, the Board (save for the Interested Directors) appointed Affin Hwang IB on 24 March 2017 to act as the Independent Adviser to provide an independent evaluation for the Proposed Disposal to the Board (save for the Interested Directors) and Non-Interested Shareholders.

We wish to highlight that prior to Salcon entering the SPA for the Proposed Disposal, EW-Salcon Australia had on 29 June 2016, entered into a contract of sale with KE Rogers to acquire the Subject Property for a total cash consideration of AUD37,880,000. The Acquisition was completed on 29 March 2017.

As at 31 March 2017, the net book value for the Subject Property is AUD40,334,595, which includes the land transfer duty incurred in relation to the Acquisition.



The purpose of this Independent Advice Letter is to:

- (i) provide the Non-Interested Shareholders with an independent evaluation of the Proposed Disposal and to form an opinion as to whether the Proposed Disposal is fair and reasonable in so far as the Non-Interested Shareholders are concerned;
- (ii) advise whether the Proposed Disposal is detrimental to the Non-Interested Shareholders; and
- (iii) provide our recommendation in relation to the resolution pertaining to the Proposed Disposal to be tabled at the Company's forthcoming EGM.

Further information on the Proposed Disposal is set out in **Section 2, Part A of the Circular**.

YOU ARE ADVISED TO READ THIS INDEPENDENT ADVICE LETTER TOGETHER WITH PART A OF THE CIRCULAR AND THE APPENDICES AND CONSIDER CAREFULLY THE EVALUATION AND RECOMMENDATION CONTAINED IN THIS INDEPENDENT ADVICE LETTER BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED DISPOSAL TO BE TABLED AT THE FORTHCOMING EGM.

IF YOU ARE IN DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, SOLICITOR, ACCOUNTANT, BANKER OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

2. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

The details of the Interested Directors and Interested Major Shareholders are set out in **Section 9, Part A of the Circular**.

(i) Interested Directors

The Interested Directors are as follows:

Interested Directors	Description of interests
Dato' Leong	<ol style="list-style-type: none">(i) the Executive Director of Salcon;(ii) a major shareholder of Salcon by virtue of the following:<ul style="list-style-type: none">▪ his direct shareholdings in Salcon;▪ the shareholdings held by his children (Ms. Leong Yi Ping and Ms. Leong Yi Ming) in Salcon; and▪ the shareholdings held by his spouse (Datin Goh) in Salcon via Naga Muhibah; and(iii) a major shareholder of EWI by virtue of the following:<ul style="list-style-type: none">▪ his direct shareholdings in EWI; and▪ his indirect shareholdings in EWI held via Eco World Capital (International) Sdn Bhd, Eco World Development Group Berhad, Sinarmas Harta Sdn Bhd and Syabas Tropikal Sdn Bhd.

Interested Directors	Description of interests
Dato' Seri (Dr.) Goh	<ul style="list-style-type: none"> (i) the Chairman, Non-Independent Non-Executive Director of Salcon; (ii) a major shareholder of Salcon by virtue of the following: <ul style="list-style-type: none"> ▪ his direct shareholdings in Salcon; and ▪ the shareholdings in Salcon held by himself and his child (Datin Goh) via Naga Muhibah; and (iii) the father in law of Dato' Leong.

The Interested Directors have abstained and will continue to abstain from all Board deliberations and voting in respect of the Proposed Disposal.

The Interested Directors will also abstain from voting in respect of their direct and/or indirect shareholdings in the Company on the resolution in relation to the Proposed Disposal to be tabled at the forthcoming EGM.

The Interested Directors have undertaken to ensure that all persons connected to them will abstain from voting in respect of their direct and/or indirect interest, if any, on the resolution in relation to the Proposed Disposal to be tabled at the forthcoming EGM.

(ii) Interested Major Shareholders

The Interested Major Shareholders are as follows:

Interested Major Shareholders	Description of interests
Dato' Leong	As disclosed above.
Dato' Seri (Dr.) Goh	As disclosed above.
Datin Goh	<ul style="list-style-type: none"> (i) a major shareholder of Salcon by virtue of the following: <ul style="list-style-type: none"> ▪ her shareholdings in Naga Muhibah; and ▪ the shareholdings in Salcon held by her spouse (Dato' Leong) and her children (Ms. Leong Yi Ping and Ms. Leong Yi Ming); and (ii) the spouse of Dato' Leong and daughter of Dato' Seri (Dr.) Goh.

The Interested Major Shareholders will abstain from voting in respect of their direct and/or indirect shareholdings in the Company on the resolution in relation to the Proposed Disposal to be tabled at the forthcoming EGM.

The Interested Major Shareholders have undertaken to ensure that all persons connected to them will abstain from voting in respect of their direct and/or indirect interest, if any, on the resolution in relation to the Proposed Disposal to be tabled at the forthcoming EGM.

3. SCOPE AND LIMITATIONS OF OUR EVALUATION OF THE PROPOSED DISPOSAL

We have not been involved in the formulation, deliberation and negotiation of the terms of the Proposed Disposal. Our scope as independent adviser is limited to expressing an independent opinion on the Proposed Disposal based on information and documents provided to us or which are available to us, including the following:

- (i) the information contained in Part A of the Circular and the appendices attached thereto;
- (ii) the SPA, Shareholders' Agreement and Development Management Agreement;
- (iii) the Valuation Certificate and Valuation Report;
- (iv) other relevant information and documents furnished to us by the Directors and senior management of the Salcon Group ("**Management**") or from our discussions with the Management; and
- (v) other relevant publicly available information.

We have relied on the Board and the Management to take due care to ensure that all the information, documents and representations in respect of the Salcon Group and the Proposed Disposal provided to us by them to facilitate our evaluation of the Proposed Disposal are accurate, complete and free from material omission. We have not undertaken any independent investigation or verification into the business and affairs of the Salcon Group and all relevant parties involved in the Proposed Disposal. However, after making all reasonable enquiries and to the best of our knowledge and belief, we acknowledge that this Independent Advice Letter constitutes a full and true disclosure of all material facts concerning the Proposed Disposal, and we are satisfied that the information used is free from material omission. We believe that the information used is reasonable, accurate and complete as at the LPD. Our advice should be considered in the context of the entirety of this Independent Advice Letter.

In preparing this Independent Advice Letter, we have taken into consideration those factors that we believe are relevant and important to the Non-Interested Shareholders for the assessment of the Proposed Disposal.

Since our evaluation as set out in this Independent Advice Letter is rendered solely for the benefit of the Non-Interested Shareholders as a whole, we have not taken into consideration any specific investment objectives, financial and tax position, risk profiles, financial situation and particular needs of any individual shareholder or any specific group of shareholders.

If you are in doubt as to the action to be taken or require specific advice in relation to the Proposed Disposal in the context of your individual investment objectives, financial and tax position, risk profiles, financial situation or particular needs, we recommend that you consult your stockbroker, solicitor, accountant, banker or other professional adviser immediately.

Our evaluation and opinion as set out in this Independent Advice Letter are based on prevailing equity capital market, economic, industry, regulatory, monetary, socio-political and other conditions (if applicable), and the information/documents made available to us as at the LPD. Such conditions may change over a short period of time.

The members of the Board have seen and approved the contents of this Independent Advice Letter and collectively and individually accept full responsibility for the accuracy and completeness of all statements and information stated in this Independent Advice Letter. After having made all reasonable enquiries and to the best of the Board's knowledge and belief, the Board confirms all statements and information in this Independent Advice Letter are free from material omission and:

- (i) no statement and information in this Independent Advice Letter is inaccurate or incomplete;

- (ii) there are no other facts and information, the omission of which would make any statement or information in this Independent Advice Letter unreasonable, inaccurate or incomplete; and
- (iii) all relevant material facts and information, including those required under the Main Market Listing Requirements, have been disclosed in this Independent Advice Letter.

The responsibility of the Board in respect of the Independent Advice Letter is to ensure that all information in relation to the Salcon Group and the Proposed Disposal that is relevant to Affin Hwang IB's evaluation, has been accurately and completely disclosed to Affin Hwang IB and is free from material omission.

We will notify the Non-Interested Shareholders after the issuance of this Independent Advice Letter up to the forthcoming EGM, if we:

- (i) become aware of a significant change affecting the information set out in this Independent Advice Letter;
- (ii) have reasonable grounds to believe that a material statement in this Independent Advice Letter is misleading or deceptive; or
- (iii) have reasonable grounds to believe that there is a material omission in this Independent Advice Letter.

Salcon will immediately notify the Non-Interested Shareholders by way of an announcement to Bursa Securities if there are any material change in circumstances that would affect the consideration or the accuracy or the completeness of the information contained in this Independent Advice Letter. If circumstances require, a supplementary Independent Advice Letter will be sent to the Non-Interested Shareholders.

4. DECLARATION OF CONFLICT OF INTEREST

Save for our role as the Independent Adviser for the Proposed Disposal, Affin Hwang IB does not have any other professional relationship with Salcon in the past two (2) years prior to the date of execution of the SPA.

Affin Hwang IB confirms that it is not aware of any conflict of interest that exists or is likely to exist in relation to its role as the Independent Adviser for the Proposed Disposal as at the LPD.

5. CREDENTIALS AND EXPERIENCE OF AFFIN HWANG IB

Affin Hwang IB is a participating organisation of Bursa Securities and provides a range of services including corporate finance advisory, debt capital markets advisory, structured lending and stockbroking and research. Our corporate finance advisory team provides a full range of corporate finance advisory services including mergers and acquisitions, corporate and debt restructuring, initial public offerings, equity fund raisings and independent advisory opinions.

Affin Hwang IB had, over the past one (1) year prior to the date of execution of the SPA and up to the LPD, issued independent advice opinions in relation to four (4) related party transactions that include acquisitions and disposals by certain public listed companies, with a total transaction value of RM1.92 billion as well as two (2) take-over offers pursuant to the Rules on Take-overs, Mergers and Compulsory Acquisitions issued by the Securities Commission Malaysia.

The details of our past experience are as follows:

- (i) unconditional mandatory take-over offer by Anchorscape Sdn Bhd (“**ASB**”) through Kenanga Investment Bank Berhad to acquire all the remaining ordinary shares of KUB Malaysia Berhad not already held by ASB, Temasek Padu Sdn Bhd and its persons acting in concert (“**KUB Offer Share**”) at a cash offer price of RM0.35 per KUB Offer Share, where our independent advice letter was issued on 10 July 2017;
- (ii) unconditional mandatory take-over offer by Hengan (Malaysia) Investments Company Limited (“**Hengen Malaysia**”) through AmInvestment Bank Berhad to acquire all the remaining ordinary shares in Wang-Zheng Berhad (excluding treasury shares) not already owned by Hengen Malaysia (“**Wang-Zheng Offer Share**”) for a cash offer price of RM1.14 per Wang-Zheng Offer Share, where our independent advice letter was issued on 10 July 2017;
- (iii) disposal by Hap Seng Consolidated Berhad (“**HSCB**”) of 100% of the equity interest in Hap Seng Logistics Sdn Bhd to LSH Logistics Limited for a cash consideration of RM750.00 million, where our independent advice letter was issued on 17 May 2017;
- (iv) acquisition by Magna City Shah Alam Sdn Bhd, a wholly-owned subsidiary of Magna Prima Berhad, of a piece of leasehold land measuring approximately 5.25 acres, located at Lot 737, Seksyen 13, Bandar Shah Alam, District of Petaling, Selangor Darul Ehsan for a purchase consideration of RM43.00 million from Regalia Raintree Sdn Bhd, where our independent advice letter was issued on 7 September 2016;
- (v) disposal by Hap Seng Star Sdn Bhd (“**HSS**”) (a wholly-owned subsidiary of Hap Seng Auto Sdn Bhd which in turn is a subsidiary of HSCB) of 51% of the issued share capital of Hap Seng Commercial Vehicle Sdn Bhd (“**HSCV**”) to Lei Shing Hong Commercial Vehicles Limited (“**LSHCV**”) for a cash consideration of RM382.50 million; and disposal by HSS of the balance of 49% or part thereof of the issued share capital of HSCV for a cash consideration of up to RM367.50 million pursuant to the exercise of the put option granted by LSHCV to HSS, where our independent advice letter was issued on 5 May 2016; and
- (vi) acquisition by HSCB of the entire issued share capital of Malaysian Mosaics Sdn Bhd from Gek Poh (Holdings) Sdn Bhd for a cash consideration of RM380.00 million, where our independent advice letter was issued on 5 May 2016.

Based on the above, we are competent in carrying out our role and responsibilities as the Independent Adviser to advise the Non-Interested Directors and Non-Interested Shareholders in relation to the Proposed Disposal.

6. EVALUATION OF THE PROPOSED DISPOSAL

In evaluating the Proposed Disposal, we have taken into consideration the following:

No.	Analysis	Section in this Independent Advice Letter
(i)	Rationale for the Proposed Disposal	Section 6.1
(ii)	Evaluation of the Disposal Consideration	Section 6.2
(iii)	Salient terms of the SPA, Shareholders’ Agreement and Development Management Agreement	Section 6.3
(iv)	Utilisation of proceeds	Section 6.4
(v)	Risk factors in relation to the Proposed Disposal	Section 6.5
(vi)	Effects of the Proposed Disposal	Section 6.6

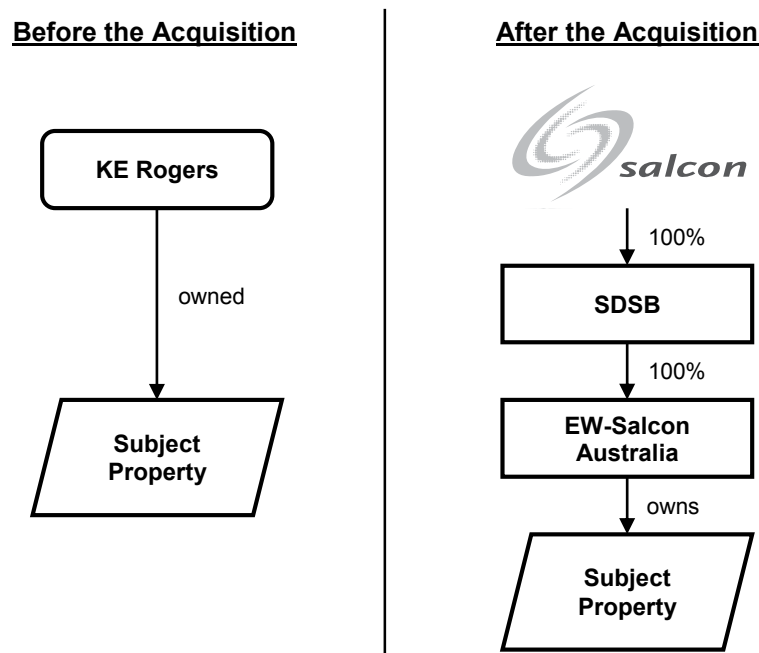
6.1 RATIONALE FOR THE PROPOSED DISPOSAL

We note the rationale for the Proposed Disposal as set out in **Section 4, Part A of the Circular** as summarised below:

- (i) **The Proposed Disposal was entered into to tap on the reputation, strength and experience of the EWI Group in the international property market, which is led by an experienced management team**

We noted that the core business of the Salcon Group is in the provision of water and wastewater engineering services in Malaysia and overseas, and presently, Salcon's property development segment is expected to generate revenue in the FYE 31 December 2017 upon the completion of its "rés280" project in Selayang, Selangor. The "rés280" project was the first project undertaken by the Salcon Group and besides the "rés280" project and the Yarra One Project, the Salcon Group does not have any other property development projects.

On 27 June 2016, EW-Salcon Australia was incorporated as SDSB's wholly-owned subsidiary with the intention to undertake property development activities in Australia. Subsequently, on 29 June 2016, EW-Salcon Australia entered into a contract of sale with KE Rogers to acquire the Subject Property for a total cash consideration of AUD37.88 million. The Acquisition was completed on 29 March 2017.



Further information on the Subject Property is set out in **Section 2.3, Part A of the Circular**.

We noted that the Acquisition was completed on 29 March 2017 and the SPA for the Proposed Disposal was entered into by SDSB on 10 April 2017. Based on our discussions with the Management, we understand that Salcon initially intended to develop the Subject Property on its own and has provided financial assistance to EW-Salcon Australia through advances to carry out its business activities for the Yarra One Project.

However, Salcon has since decided to undertake the Yarra One Project through the Proposed Disposal due to the following:

- the Salcon Group does not have a track record in the Australian property market;
- the challenges in securing project financing at a margin of financing and rate that are favourable to the Salcon Group; and
- the opportunity arose to partner with the EWI Group to tap its reputation, strength and experience in the international property market.

The Yarra One Project to be undertaken by EW-Salcon Australia is the Salcon Group's first overseas property development and the Proposed Disposal will enable EW-Salcon Australia to tap on the reputation, strength and experience with the EWI Group in the international property market to establish a presence in the Australian property market. In conjunction with the Proposed Disposal, EW Sydney will be appointed as the Development Manager for the initial planning, development, coordination and marketing of the Yarra One Project.

We noted from EWI's prospectus dated 9 March 2017 that EW Sydney (the development manager to be appointed for the Yarra One Project) is currently developing a mixed residential and commercial project in Sydney, Australia known as West Village, Parramatta with an estimated gross development value of approximately AUD314.8 million.

Following the above, the Proposed Disposal will enable Salcon to leverage on the EWI Group's branding, marketing channels and customer base to ensure the successful sales of the apartments under the Yarra One Project.

(ii) The Proposed Disposal will provide opportunity for Salcon to monetise the asset and unlock the value of its investment in EW-Salcon Australia

We noted the following from **Section 2.4, Part A of the Circular**:

- (a) As at the LPD, the total Advances from SDSB to EW-Salcon Australia is AUD19,840,520; and
- (b) On the Completion Date, Fortune Quest will pay Salcon the following:
 - the Disposal Consideration of AUD120,000 (RM401,772); and
 - 80% of the Advances from SDSB to EW-Salcon Australia up to the Unconditional Date.

Upon the completion of the Proposed Disposal, Salcon is expected:

- to realise a net gain attributable to the owners of the Company of approximately RM2.00 million; and
- to receive cash from the repayment of 80% of the Advances in EW-Salcon Australia through the Repayment Sum. For illustration purposes, 80% of the total Advances as at the LPD amount to approximately AUD15,872,416 (RM53,142,436).

(iii) **The Proposed Disposal will provide greater financial strength and flexibility to the Salcon Group to pursue future potential acquisitions and/or investment opportunities**

As at 31 March 2017, EW-Salcon Australia has bank borrowings amounting to AUD24.62 million, which is currently being consolidated in the financial statements of the Salcon Group. Upon the completion of the Proposed Disposal, the deconsolidation of EW-Salcon Australia will significantly reduce the gearing of the Salcon Group.

In addition, in accordance with the terms of the SPA, SDSB and Fortune Quest will procure to release Salcon as the corporate guarantor in relation to the existing bank borrowings obtained by EW-Salcon Australia for the Acquisition.

Following the above, the reduction in gearing of Salcon Group is expected to strengthen the Salcon Group's capital structure as well as provide the Salcon Group with greater flexibility to raise funds for future potential acquisitions and/or investment opportunities, should a suitable acquisition or investment arise.

In addition, the successful completion of the Yarra One Project and the expected sales to be generated therefrom is expected to contribute positively to the future earnings of the Salcon Group in view that Salcon will maintain 20% equity interest in EW-Salcon Australia.

Affin Hwang IB's comments:

Based on the discussion of the rationale above, we are of the view that the rationale for the Proposed Disposal is reasonable.

6.2 EVALUATION OF THE DISPOSAL CONSIDERATION

We note from **Section 2.4, Part A of the Circular** that the Disposal Consideration was arrived at after the negotiations between SDSB and Fortune Quest on a willing-buyer willing-seller basis after taking into consideration the unaudited net liabilities of EW-Salcon Australia as at 31 March 2017 of AUD831,236.

We also noted that EW-Salcon Australia was incorporated on 27 June 2016 and as at the LPD, the audited financial statements of EW-Salcon Australia are not available. Notwithstanding this, we are of the view that the basis in determining the Disposal Consideration based on the unaudited net liabilities is reasonable in view of the following:

- the principal activity of EW-Salcon Australia is property development;
- the net book value of the Subject Property as at 31 March 2017 stood at AUD40,334,595 represents more than 90% of the total assets of EW-Salcon Australia; and
- the Subject Property was recently valued by the Valuer on 1 June 2017.

We also note from **Section 2.3.3, Part A of the Circular** that the Subject Property is intended to be developed into:

- 268 apartments on levels 1 to 26 (unit size ranging from 50 square metres ("m²") to 224 m²) ("**Yarra Apartments**");
- 4 levels of basement car park with 179 bays ("**Basement Car Park**") and 172 separate storage units ("**Storage Cages**");
- single retail unit on the ground floor with gross lettable retail area of 239 m² ("**Yarra Retail Unit**"); and
- 3 commercial suites on levels 1, 2 and 3 with gross lettable retail area of 830 m² in aggregate ("**Yarra Offices**").

The Valuer adopted the following valuation methods to value the Subject Property:

- (i) Direct Comparison Approach; and
- (ii) Hypothetical Development Approach.

When assessing the market value of the Subject Property based on the abovementioned valuation methodologies, the Valuer considered the critical factors and assumptions as follows:

(i) Direct Comparison Approach

The Valuer has taken into consideration the sale prices of the similar properties transacted in the open market and the factors considered by the Valuer are as follows:

- Prevailing market conditions with specific consideration to potential unit pricing, sale rates and development costs;
- Land area and potential densities/unit yield;
- Zoning status under the Local Authority Planning Scheme;
- Development approvals;
- Likely scheme cost contributions, where applicable;
- Access and proximity to local transport corridors including freeways and rail facilities;
- Immediate competition and profile of developers active within the general localities;
- Servicing constraints;
- Environmental constraints; and
- Location.

The Valuer analysed the sale prices of the comparable transactions based on a rate per m² of land area or potential unit sales and an appropriate rate was attributed to the Subject Property.

Affin Hwang IB's comments:

We have reviewed the Direct Comparison Approach as set out in the Valuation Report and are satisfied that the factors considered by the Valuer above are reasonable.

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(ii) **Hypothetical Development Approach**

The Valuer has taken into consideration the factors and key assumptions as follows:

(a) **The gross and net realisation assessment of the Yarra One Project**

- the prices of the existing apartment sales and the apartment sales which are under construction in the surrounding area of the Subject Property;
- the estimated sale price for the basement car park and the additional storage cages after engaging in discussions with selling agents in the locality; and
- the sale prices of the retail strata units and the commercial strata units in the surrounding area of the Subject Property;

(b) **The total cost of the Yarra One Project**, which include the development costs, statutory costs, finance costs, land purchase transaction fees and holding costs;

(c) **The prospective cash flow** to be generated from the Yarra One Project; and

(d) **The estimated developer's margin**, which represents the required returns and risk profile of the Yarra One Project.

Affin Hwang IB's comments:

We have reviewed the Hypothetical Development Approach as set out in the Valuation Report and are satisfied that the factors and key assumptions adopted above are reasonable.

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6.2.1 Direct Comparison Approach

The comparable transactions considered by the Valuer are as follows:

	Subject Property	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5
Address	16-22 Claremont Street, South Yarra, Melbourne, Australia	6-8 Claremont Street, South Yarra, Melbourne, Australia	37 & 39-41 Claremont Street, South Yarra, Melbourne, Australia	103-105 High Street, Prahran, Melbourne, Australia	250 Sturt Street, Southbank, Melbourne, Australia	7-15 Home Street, Elsternwick, Melbourne, Australia
Zoning	Commercial 1 Zone	Commercial 1 Zone	Mixed Use Zone	Commercial 1 Zone	Capital City Zone	Commercial 1 Zone
Valuation date / Sale date	June 2017	September 2015	July 2015	August 2016	November 2016	November 2016
Valuation price / Sale price (AUD)	37,000,000	14,600,000	14,055,000	10,000,000	10,800,000	12,660,000
Land area	2,128 m ²	1,030 m ²	970 m ²	850 m ²	832 m ²	1,239 m ²
Frontage	52 metres	26 metres	24 metres	50 metres	24 metres	45 metres
Permit issued	Yes	No	No	Yes	Yes	No
No. of storeys	26	28	21 (proposed)	9	16	-
Density	1 : 7.9 m ²	1 : 9.7 m ²	1 : 3.0 m ²	1 : 18.1 m ²	1 : 9.1 m ²	-
Analysis (AUD per m ²)	AUD17,386	AUD14,175	AUD14,490	AUD11,765	AUD12,981	AUD10,218
Number of units allowable	268	106 [~]	324 [*]	47	91	- [^]
Analysis (AUD per unit site permitted)	AUD138,060	AUD137,736	AUD43,380	AUD212,766	AUD118,681	- [^]

Adjustments[#] for the availability of planning permits, density, approved height, zoning, shape / frontage, location, market movement and site differences.

Notes:

- ~ Comparable 1 was sold without a planning permit and the planning application was lodged for the development of 106 apartments over 28 levels, which is pending approval.
- * Comparable 2 was sold without a planning permit and the planning application was lodged for the development of 324 apartments over 32 levels. However, the planning application has been rejected by the relevant authority.
- ^ Comparable 5 was sold without a planning permit and will continue to operate for the next couple of years until planning approval is sought. As such, the number of units allowable and AUD per unit site permitted are not available.

(Source: Valuation Certificate)

The adjustments to arrive at the assessed AUD per m² and AUD per unit site permitted for the Subject Property in view of the differences in the characteristics, are as follows:

Adjustments	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5
Planning permit	No permit	No permit	-	-	No permit
Density & approved height	Lower density	-	Lower density and lower approved height	Lower density and lower approved height	Lower density and lower approved height
Zoning	-	-	-	-	-
Topography	-	-	-	-	-
Shape / Frontage	Shorter frontage	Shorter frontage	Shorter frontage	Shorter frontage	-
Location	-	-	Inferior location	Inferior location	Inferior location
Site differences	-	-	Lesser flexibility	-	Lesser flexibility
Adjustments	+20%	+17%	+45%	+31%	+66%

Assessed rates for the Subject Property

AUD per m² of the land area

AUD per unit site permitted

AUD17,000

AUD140,000

Comparison to the comparable transactions

AUD per m² of the land area

AUD14,175

Higher

AUD14,490

Higher

AUD11,765

Higher

AUD12,981

Higher

AUD10,218

Higher

AUD per unit site permitted of the comparable transactions

AUD137,736

Higher

AUD43,380

Higher

AUD212,766

Lower

AUD118,681

Higher

-

-

(Source: Valuation Certificate)

Based on the analysis above, we noted the following:

- (a) the Valuer has taken into consideration the range of comparable transactions' sale prices as the market benchmark, details of which are as follows:
- the range of the comparable transactions' existing sales prices per m² of between AUD10,218 to AUD14,490 per m²;
 - the range of the comparable transactions' existing sale prices per unit site permitted of between AUD43,380 to AUD212,766 per unit site permitted; and
- (b) the Valuer made adjustments to the market benchmark sale prices as discussed above to arrive at the assessed rates for AUD per m² and AUD per unit site permitted for the Subject Property to account for the differences in the characteristics as tabulated above.

Following the adjustments, the Valuer assessed the following rates and values for the Subject Property as follows:

	<u>Assessed rate</u>	<u>Total</u>
Site area	2,128 m ² @ AUD17,000 per m ²	AUD36,179,400
No. of units	268 units @ AUD140,000 per unit site permitted	AUD37,520,000

Our analysis on the adjustments is as follows:

	<u>Comparable 1</u>	<u>Comparable 2</u>	<u>Comparable 3</u>	<u>Comparable 4</u>	<u>Comparable 5</u>
<i>AUD per m² of the land area</i>	AUD14,175	AUD14,490	AUD11,765	AUD12,981	AUD10,218
<i>Adjustments</i>	+20%	+17%	+45%	+31%	+66%
<i>Adjusted AUD per m² of the land area</i>	<u>AUD17,010</u>	<u>AUD16,953</u>	<u>AUD17,059</u>	<u>AUD17,005</u>	<u>AUD16,962</u>
<i>AUD per unit site permitted</i>	AUD137,736	AUD43,380	AUD212,766	AUD118,681	- [^]
<i>Adjustments</i>	+20%	+17%	+45%	+31%	+66%
<i>Adjusted AUD per unit site permitted</i>	<u>AUD165,283</u>	<u>AUD50,755</u>	<u>AUD308,511</u>	<u>AUD155,472</u>	<u>-</u>

Note:

[^] Comparable 5 was sold without a planning permit and will continue to operate for the next couple of years until planning approval is sought. As such, the number of units allowable is not available to arrive at the AUD per unit site permitted.

The Valuer broadly adopted the midpoint of **AUD37,000,000 (RM123,879,700)** (exclusive of GST), which translates into the adopted rates of AUD17,386 per m² and AUD138,060 per unit site permitted.

Affin Hwang IB's comments:

We are of the view that the Direct Comparison Approach used by the Valuer to assess the market value of the Subject Property is reasonable, in view that there are adequate comparable market transactions of similar type of properties, which represent the market benchmark to gauge the market value of the Subject Property.

Although the Valuer adopted a higher rate per m² for the Subject Property (i.e. AUD17,386 per m²), we noted that the value per unit site permitted of AUD138,060 falls within the range of the AUD per unit site permitted of the comparable transactions.

6.2.2 Hypothetical Development Approach

Under the Hypothetical Development Approach, the Valuer has adopted “**as if complete**” assuming the Yarra One Project is completed and the expected sales therefrom is generated. The Yarra One Project comprise a residential-led mixed development as follows:

- Yarra Apartments;
- Basement Car Park and Storage Cages;
- Yarra Retail Unit; and
- Yarra Offices.

In assessing a value under the Hypothetical Development Approach, the Valuer has taken into consideration the sales evidence of the comparable types of apartments and the comparable types of development.

The summary of the Valuer’s assessment on the gross and net realisation, total costs and developer’s margin are as follows:

(i) **Gross and Net Realisation Assessment**

Yarra Apartments

The Valuer assessed the value of the Yarra Apartments by comparing them with the following:

- the existing apartment sales; and
- the apartment sales “off the plan” (which are under construction),

all located in the proximity of the Subject Property within the Forrest Hill Precinct.

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The existing apartment sales and the sales of the apartments which are under construction considered by the Valuer are as follows:

Existing apartment sales

Project name	Claremont Manor	Lucia	Yarra House	Central South Yarra
Address	3-9 Claremont Street, South Yarra, Melbourne, Australia	8 Daly Street, South Yarra, Melbourne, Australia	18 Yarra Street, South Yarra, Melbourne, Australia	2-4 Yarra Street, South Yarra, Melbourne, Australia
Description	19 level mixed-use development with 5 offices and 3 retail spaces	Two 20-storey apartment towers with 3 levels of basement carpark	25 level mixed-use development with ground floor retail	30 level apartment tower with lower level car park and ground level retail space
Average price per m ²	AUD10,280	AUD10,050	AUD10,445	AUD8,247

Apartment sales “off the plan” (which are under construction)

Project name	55 Claremont	Capitol Grand	4248	Rockley Garden	Esque	Royal Como
Address	55 Claremont Street, South Yarra, Melbourne, Australia	241 Toorak Road, South Yarra, Melbourne, Australia	42-48 Claremont Street, South Yarra, Melbourne, Australia	339 Toorak Road, South Yarra, Melbourne, Australia	649 Chapel Street, South Yarra, Melbourne, Australia	663 Chapel Street, South Yarra, Melbourne, Australia
Description	17 level apartment building	Apartment building	21 level apartment building with 8 office suites	8 level apartment building	18 level apartment building with a 4 level basement	21 level apartment building with ground floor retail
Range of average price per m ²	AUD10,316 to AUD14,686	AUD10,842 to AUD25,385	AUD9,068 to AUD15,702	AUD9,519 to AUD12,727	AUD8,400 to AUD11,438	AUD8,611 to AUD18,128

(Source: Valuation Certificate)

Based on the above, the summary of the range of average price per m² is as follows:

	<u>Range of average price per m²</u>
	<u>AUD</u>
Existing apartment sales	8,247 to 10,445
Apartment sales "off the plan" (which are under construction)	8,400 to 25,385

We noted that the Valuer has made adjustments to account for the differences in terms of the:

- development characteristics;
- size of the apartments;
- location;
- facilities;
- quality of fittings;
- views; and
- other relevant matters,

to arrive at the gross realisation for the Yarra Apartments.

In assessing the average value for each type of the Yarra Apartments, the Valuer has taken into consideration the following:

- type of apartment;
- living area range;
- adopted value range; and
- value per m² for the living area range,

details of which are as follows:

<u>Apartment type</u>	<u>No. of units</u>	<u>Living area range m²</u>	<u>Adopted value range</u>	<u>Value per m² for the living area range</u>
1 Bed & 1 Bath	52	50 - 67	AUD430,000 - AUD575,000	AUD8,060 - AUD9,900
2 Bed & 1 Bath	16	63 - 65	AUD580,000 - AUD670,000	AUD9,206 - AUD10,308
2 Bed & 2 Bath	166	67 - 94	AUD640,000 - AUD1,120,000	AUD8,933 - AUD13,800
3 Bed & 2 Bath	8	99 - 102	AUD1,277,000 - AUD1,487,000	AUD12,899 - AUD14,578
3 Bed & 3 Bath	23	102 - 158	AUD1,425,000 - AUD2,270,000	AUD13,058 - AUD14,913
4 Bed & 3/4 Bath	3	205 - 224	AUD3,170,000 - AUD3,570,000	AUD15,314 - AUD15,938
Total	<u>268</u>			

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Based on the above, the summary of the gross realisation after taking into consideration the adopted average value is as follows:

Apartment type	Average living area	Average adopted value[^]	Average value per m² for the living area[^]	No. of units	Total
	m²	AUD	AUD		AUD
1 Bed & 1 Bath	53	475,385	9,028	52	24,720,000
2 Bed & 1 Bath	63	620,313	9,788	16	9,925,000
2 Bed & 2 Bath	76	856,910	11,216	166	142,247,000
3 Bed & 2 Bath	101	1,385,125	13,731	8	11,081,000
3 Bed & 3 Bath	118	1,644,652	13,963	23	37,827,000
4 Bed & 3/4 Bath	212	3,321,333	15,667	3	9,964,000
Total				268	235,764,000

Note:

[^] *The average adopted value and the average value per m² for the living area was arrived at after taking into consideration the respective adopted value of each apartment due to the following differences:*

- *the different sizes of the living area;*
- *the different floor levels; and*
- *with or without car park spaces and storage cages.*

We noted the following:

- **the average adopted value for Yarra Apartments was calculated after taking into consideration the average value per m² for the living area to arrive at the gross realisation of the Yarra Apartments; and**
- **the average value per m² for the living area fall within the range of the average price per m² of the existing apartment sales and the sales of the apartments which are under construction.**

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Basement Car Park and Storage Cages

There are 179 car park spaces and 172 storage cages, of which 8 car park spaces and 52 storage cages are unallocated.

The Valuer assessed the values of these 8 car park spaces and 52 storage cages:

- AUD80,000 per car park space;
- AUD5,000 for a small sized storage cage;
- AUD7,000 for a medium sized storage cage; and
- AUD20,000 for a large sized storage cage

The assessed value for car park spaces is based on the discussions with selling agents in the locality and the Valuer has considered a nominal amount applicable to the additional storage cages.

The Valuer assessed various values to the 52 storage cages and have arrived at a total value of AUD364,000. In assessing the gross realisation value for these storage cages, the Valuer has assigned an average sale value of AUD7,000.

In summary, the gross realisation value for the unallocated car park spaces and storage cages are as follows:

	<u>No. of units</u>	<u>Assessed value per unit</u>	<u>Gross realisation</u>
		AUD	AUD
Unallocated car park spaces	8	80,000	640,000
Unallocated / additional storage cages	52	7,000	364,000

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Yarra Retail Unit

Based on **Section 2.3.3, Part A of the Circular**, we noted that EW-Salcon Australia intends to sell the Yarra Retail Unit instead of retaining it for rental income.

As such, in assessing the value of the Yarra Retail Unit, the Valuer has taken into consideration the sales of retail strata units in the surrounding of South Yarra in terms of market net income and market yield as follows:

	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5
Address	1R/1A Yarra Street, South Yarra, Melbourne, Australia	1B/7 Yarra Street, South Yarra, Melbourne, Australia	Ground Floor, 10 Yarra Street, South Yarra, Melbourne, Australia	Ground Floor, 21 Daly Street, South Yarra, Melbourne, Australia	Ground Floor, 12-14 Claremont Street, South Yarra, Melbourne, Australia
Tenant	Oaks Hotels	Restaurant	MRA Fitness Group Pty Ltd	Fancy Nance & Little Frankies	Adriano Zumbo
Market net income (AUD per m²)	747	734	417	482	812
Market yield (%)	6.23	6.18	6.88	5.33	6.67

(Source: Valuation Certificate)

Based on the above, the summary of the range of the market net income and market yield is as follows:

	Range of market net income	Range of market yield
Sales of retail strata units	AUD per m² 417 to 812	% 5.33 to 6.88

Based on the above, the Valuer assessed the value for the Yarra Retail Unit as follows:

	<u>Yarra Retail Unit</u>
Gross lettable retail area ("GLRA") (m ²)	239
Price per GLRA (AUD)	622
Net market income (AUD)	148,560
Capitalisation rate (%)	6.00
Indicated value (AUD) [^]	2,476,000
Less:	
Adjustments (AUD)*	(91,128)
Market value (AUD)	<u>2,384,872</u>
Adopted value (AUD)	<u>2,380,000</u>

(Source: Valuation Certificate)

Notes:

[^] The indicated value of the Yarra Retail Unit was calculated based on the net market income divided by the capitalisation rate.

* The adjustments comprise of the present value of rental incentives of 3 months, let up period of 3 months and leasing commissions of 12%.

We are of the view that the price per GLRA and the capitalisation rate adopted by the Valuer are reasonable in view of the following:

- the price per GLRA for the Yarra Retail Unit of AUD622 falls within the range of market net income of AUD417 to AUD812; and
- the capitalisation rate for the Yarra Retail Unit of 6.00% falls within the range of the market yield of 5.33% to 6.88%.

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Yarra Offices

Based on **Section 2.3.3, Part A of the Circular**, we noted that EW-Salcon Australia intends to sell the Yarra Offices instead of retaining them for rental income.

As such, in assessing the value of the Yarra Offices, the Valuer has taken into consideration the sales of commercial strata units in the surrounding of South Yarra in terms of market net income and market yield as follows:

	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5
Address	18/25 Claremont Street, South Yarra, Melbourne, Australia	701/10 Yarra Street, South Yarra, Melbourne, Australia	906/9 Yarra Street, South Yarra, Melbourne, Australia	510/12-14 Claremont Street, South Yarra, Melbourne, Australia	506/12-14 Claremont Street, South Yarra, Melbourne, Australia
Tenant	Ingrams Accountants	Judgement Union Aus	Consulting Firm	Short term lease	Thurlestone Shipping Ltd
Market net income (AUD per m ²)	465	300	400	420	488
Market yield (%)	7.35	7.18	5.75	7.12	7.28

(Source: Valuation Certificate)

Based on the above, the summary of the range of the market net income and market yield is as follows:

	Range of market net income	Range of market yield
Sales of commercial strata units	AUD per m ² 300 to 488	% 5.75 to 7.35

Based on the assessment above, the Valuer assessed the values for the Yarra Offices as follows:

	Yarra Offices		
	Office 1	Office 2	Office 3
GLRA (m ²)	267	282	281
Price per GLRA (AUD)	419	368	343
Net market income (AUD)	111,960	103,860	96,485
Capitalisation rate (%)	6.75	7.00	7.00
Indicated value (AUD) [^]	1,658,667	1,483,714	1,378,357
Less:			
Adjustments (AUD)*	(68,677)	(63,708)	(61,004)
Market value (AUD)	1,589,990	1,420,006	1,317,353
Adopted value (AUD)	1,590,000	1,420,000	1,320,000

(Source: Valuation Certificate)

Notes:

[^] The indicated value of the Yarra Offices was calculated based on the respective net market income divided by the respective capitalisation rates.

* The adjustments comprise of the present value of rental incentives of 3 months, let up period of 3 months and leasing commissions of 12%.

We are of the view that the price per GLRA and the capitalisation rates adopted by the Valuer are reasonable in view of the following:

- the prices per GLRA for the Yarra Offices range between AUD343 to AUD419 fall within the range of market net income of between AUD300 to AUD488; and
- the capitalisation rates for the Yarra Offices of 6.75% and 7.00% fall within the range of the market yield of 5.75% to 7.35%.

Summary

In summary, the Valuer assessed the gross and net realisation “as if complete” as follows:

	AUD'000
Yarra Apartments	235,764
Unallocated car park spaces (8 car park spaces x AUD80,000)	640
Additional storage cages (52 additional storage cages x AUD7,000)	364
Yarra Retail Unit	2,380
Yarra Offices	4,330
Total gross realisation	243,478
Less: Selling costs ^(a)	(8,704)
Less: GST based on 1/11 ^{th(b)}	(21,524)
Net realisation	213,249

Notes:

(a) The Valuer adopted a total selling cost of 3.58% of the total gross realisation to account for sales commission on all apartments and the retail units as well as marketing and advertising (excluding coordination of marketing and administration fee charged by EW Sydney pursuant to the Development Management Agreement).

(b) The Valuer assessed the residential apartments inclusive of GST and assessed the commercial and retail units exclusive of GST. The residential apartments were assessed inclusive of GST as required by the law for GST purposes in Australia. The Valuer has not adopted the margin scheme and applied the general tax method being 1/11th of their gross realisation for the apartments.

(ii) **Total Costs**

We noted the total cost was assessed by the Valuer based on the following parameters:

<u>Items</u>	<u>Total cost</u>
	AUD'000
Development costs ^(a)	124,646
Statutory costs ^(b)	2,960
Finance costs ^(c)	16,841
Purchase costs ^(d)	2,325
Land holding costs ^(e)	2,452
Less: GST input credits	(15,718)
Total cost	<u>133,506</u>

Notes:

(a) *The development costs comprise the following:*

	<u>AUD'000</u>
<i>Total construction price (including GST)</i>	107,800
<i>Construction contingency (including GST)</i>	5,390
<i>Authority contribution and fees</i>	980
<i>Professional and consultant fees (including GST)</i>	4,312
<i>Development manager fees (including GST)</i>	3,234
<i>Coordination of marketing and administration fees (including GST)</i>	2,930
Total	<u>124,646</u>

(b) *The statutory costs include the allowance for a Public Open Space Contribution for South Yarra of 8%.*

(c) *The finance cost is based on an adopted interest rate of 6.50% for all costs including line fees, application fees, etc.*

(d) *The purchase costs include the estimated stamp duty and the legal costs / due diligence costs for the Acquisition.*

(e) *The land holding cost includes the estimated land tax payable and the Council rates payable throughout the project period.*

(iii) **Estimated developer's margin**

The estimated developer's margin of 22.50% ("**Estimated Developer's Margin**") was arrived at after taking into consideration the following:

- planning approval has been obtained hence, there is no planning risk if developed in accordance with the endorsed plans;
- the development is situated in the inner suburb of South Yarra. There are a number of apartments proposed and under construction within the area. Furthermore, a number of competing developments are largely presold demonstrating proven demand for the area;
- the development of 272 units (including retail and commercial units) is a large project;
- the proposed development is expected to run for approximately four (4) years;

- current economic conditions, interest rates and buyer profile for the area;
- a preliminary cost estimate has been prepared by Hickory Group however, the costs have not been verified by a quantity surveyor and the therefore risk remains that the costs will be higher than what has been adopted.

We noted that the total estimated costs amount to approximately AUD133.51 million (excluding the land purchase cost of approximately AUD40.43 million);

- the sales rate may not be achieved if market conditions deteriorate. In this event, the project will take longer resulting in a higher interest payment; and
- there have been a number of recent changes and government announcements that will impact investors and foreign purchasers.

(Source: Valuation Certificate)

The summary of the Valuer's assessment is as follows:

	<u>AUD'000</u>
Net realisation	213,249
Less: Total costs	(133,506)
Less: Estimated Developer's Margin	<u>(39,312)</u>
Indicated value (inclusive of GST)	40,431
Less: GST	(3,676)
Indicated value (exclusive of GST)	<u>36,755</u>

Based on the above, the Valuer assessed the market value of the Subject Property at **AUD36,800,000 (RM123,210,080)** under the Hypothetical Development Approach.

Affin Hwang IB's comments:

Based on the above, we are of the view that the Hypothetical Development Approach used by the Valuer to assess the market value of the Subject Property is reasonable.

We have reviewed the factors and assumptions adopted by the Valuer as highlighted above and are of the view that the factors and assumptions are reasonable, in view of the following:

- **the gross and net realisation assessment is based on the following:**
 - ❖ **the existing apartment sales;**
 - ❖ **the sales of apartments which are under construction;**
 - ❖ **the sales of retail strata units; and**
 - ❖ **the sales of commercial strata units,**
- in which all of the above represent the market benchmark;**
- **some of the total costs are actual and have been incurred. In addition, an additional allocation of 5% of the total estimated construction cost, being the construction contingency, has been taken into account for any potential increase in the construction cost;**

- the estimated developer's margin has taken into consideration the risk profile such as:
 - ❖ the size of the Yarra One Project;
 - ❖ the estimated duration of the development of approximately four (4) years;
 - ❖ the sales rate which may not be achieved if the market condition deteriorates; and
 - ❖ Australian government regulation in relation to the investors and foreign purchasers.

In summary, the assessed market values of the Subject Property based on the two valuation methods are as follows:

Valuation Method	Market value	
	AUD'000	RM'000
Direct Comparison Approach	37,000	123,880
Hypothetical Development Approach	36,800	123,210

Affin Hwang IB's comments:

We noted the following:

- The Valuer assigned the value of the Subject Property at **AUD37,000,000 or RM123,879,700** (exclusive of GST), which is the upper end of the range, in which the Valuer considers reasonable given that the Direct Comparison Approach and Hypothetical Development Approach resulted in similar assessment respectively;
- The total Advances from SDSB to EW-Salcon Australia is AUD19,840,520 which was provided between 27 June 2016 up to the LPD to partially fund the Acquisition, payment of land transfer duty and operating expenses for Yarra One Project;
- EW-Salcon Australia was incorporated on 27 June 2016 and as at the LPD, the audited financial statements of EW-Salcon Australia are not available; and
- Based on the latest unaudited accounts of EW-Salcon Australia for the FPE 31 March 2017, EW-Salcon Australia recorded net liabilities of AUD831,236.

In view that the Proposed Disposal is a related party transaction, the Disposal Consideration of AUD120,000 (RM401,772) is fair in view that EW-Salcon Australia is in a net liabilities position.

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6.3 SALIENT TERMS OF THE SPA, SHAREHOLDERS' AGREEMENT AND DEVELOPMENT MANAGEMENT AGREEMENT

Our comments on the salient terms of the SPA are as follows:

<u>Salient terms of the SPA</u>	<u>Affin Hwang IB's comments</u>
<p>(i) Disposal Consideration and method of payment</p> <p>The Disposal Consideration is AUD120,000.</p> <p>SDSB and Fortune Quest acknowledge that the market value of the Subject Property may fluctuate in the period between the date of SPA and the Completion Date but the Disposal Consideration will remain fixed unless varied in writing and signed by both parties.</p> <p>The Disposal Consideration is payable by Fortune Quest to SDSB on the Completion Date in same day cleared funds in the manner specified by SDSB to Fortune Quest and free of any deduction, withholding, set-off or counterclaim.</p>	<p>On the Completion Date, Fortune Quest will pay SDSB the following:</p> <ul style="list-style-type: none">▪ the Disposal Consideration of AUD120,000; and▪ the Repayment Sum up to the Unconditional Date. <p>We note that the market value of the Subject Property may fluctuate between the date of the SPA and the Completion Date.</p> <p>Notwithstanding that the Disposal Consideration will remain fixed, this term provides flexibility to both parties to vary the Disposal Consideration.</p> <p>Based on the above, we are of the view that this term is reasonable.</p>
<p>(ii) Conditions precedent</p> <p>Completion of the Proposed Disposal is conditional on the satisfaction or waiver (as the case may be) of the following conditions precedent:</p> <p>(a) Shareholders' approval</p> <p>SDSB obtaining the approval of the shareholders of Salcon in a general meeting for:</p> <ul style="list-style-type: none">(aa) the Proposed Disposal; and(bb) entering into and perform the Development Management Agreement.	<p>We are of the view that this term is reasonable as it will ensure that the non-interested shareholders of Salcon are given the opportunity to assess the merits and demerits of the Proposed Disposal prior to voting on the resolution pertaining to the Proposed Disposal at the forthcoming EGM of Salcon considering that the Proposed Disposal is a related party transaction.</p>

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(ii) Conditions precedent (Cont'd)**(b) Finance approval**

SDSB obtaining, on terms reasonably acceptable to Fortune Quest, consent from the Financier in relation to the Proposed Disposal.

The Financier has given its consent to the Proposed Disposal via its letter dated 27 July 2017, subject to the following:

- (aa) the completion of the Proposed Disposal occurring on the Completion Date;
- (bb) Fortune Quest or its holding company providing a corporate guarantee in favour of the Financier in respect of EW-Salcon Australia's obligations under the facility agreement dated 20 March 2017, limited to AUD25,000,000 on such terms and in a form to the satisfaction of the Financier, within 90 days from the Completion Date; and
- (cc) any other conditions the Financier may require, as advised to EW-Salcon Australia in writing.

(c) Due diligence

Fortune Quest being reasonably satisfied with the results of its due diligence enquiries in respect of EW-Salcon Australia including, but not limited to, the financial, contractual, trading and taxation position of EW-Salcon Australia, which enquiries must be completed within 2 months from the date of SPA.

As at the LPD, the due diligence enquiries in respect of EW-Salcon Australia have been completed and there are no non-satisfactory findings.

(d) Secondary consent

EW-Salcon Australia obtaining the consent from the Council of the City of Stonnington for amendment to the Planning Permit pursuant to a letter from SJB Planning Pty Ltd (ACN 007 427 554) to the Statutory Planning Division of the City of Stonnington dated 24 October 2016.

(Collectively, referred to as "**Conditions Precedent**").

EW-Salcon Australia has an existing bank borrowing previously obtained for the acquisition of the Subject Property, which is presently secured through a corporate guarantee of Salcon.

It is common that the consent of the Financier is required for the release of Salcon as corporate guarantor, following the change of controlling shareholder of EW-Salcon Australia.

Based on the above, we are of the view that this term is reasonable.

In addition, we also noted that the consent from the Financier has been obtained on 27 July 2017 subject to certain conditions, in which we are of the view that these conditions are reasonable.

We are of the view that this term is reasonable as it is common to conduct due diligence enquiries for similar type of transaction.

The valuation of the Subject Property is based on the assumption that the proposed plans prepared by the architect will be the actual development.

Although the Planning Permit has been issued for the Subject Property, EW-Salcon Australia has submitted plans and reports for endorsement together with a request for amendments via secondary consents on 24 October 2016.

As such, this condition is included to ensure that the amendment to the Planning Permit is obtained prior to the Completion Date.

Based on the above, we are of the view that this term is reasonable.

Salient terms of the SPA

Affin Hwang IB's comments

(ii) Conditions precedent (*Cont'd*)

SDSB and Fortune Quest must take all necessary actions and use reasonable endeavours: (i) to satisfy the Conditions Precedent; or (ii) to the extent permitted under the SPA, to waive the requirement to meet such Conditions Precedent; before 5.00pm on the Cut-Off Date.

We noted that the Conditions Precedent which have yet to be fulfilled include:

- the endorsement and secondary consent of the relevant authorities for the amendments to the Planning Permit; and
- the approval of the shareholders of Salcon, in which the Company will seek at its upcoming EGM.

We noted that the Conditions Precedent must be fulfilled within four (4) months from the date of the SPA or such other date as both parties may mutually agree.

We are of the view that the above agreed arrangement to satisfy the Conditions Precedent is reasonable.

(iii) Completion

The completion of the Proposed Disposal will take place on a date (within the Completion Period) to be notified in writing by Fortune Quest to SDSB ("**Completion Notice**") which will not be earlier than 5 Business Days from the delivery of the Completion Notice. The Completion Period is 3 months from the Unconditional Date or such longer period as SDSB and Fortune Quest may mutually agree in writing.

We are of the view that this term is reasonable as it is to ensure that both parties agree to the Completion Date for the Proposed Disposal.

In the event that Fortune Quest does not notify SDSB of the Completion Date, the Completion Date will be the last Business Day of the Completion Period.

(iv) Fortune Quest's completion obligation

Against receipt of all the documents and performance from/by SDSB on the Completion Date, Fortune Quest must:

We are of the view that this term is reasonable as it is to ensure that Fortune Quest executes and delivers the relevant documents to satisfy the completion of the SPA.

- (a) pay the Disposal Consideration to SDSB;
- (b) deliver its executed Shareholders' Agreement to SDSB; and
- (c) deliver the Development Management Agreement executed by EW Sydney to EW-Salcon Australia.

In addition, Fortune Quest will, on behalf of EW-Salcon Australia, repay to SDSB a sum equivalent to 80% of the Advances in AUD.

(v) Advances**(a) Advances**

As at 31 March 2017, SDSB has advanced to EW-Salcon Australia a sum of AUD17,642,740.51 and may, at any time before the Unconditional Date with prior written notice to Fortune Quest, advance further amount to EW-Salcon Australia for the purpose of carrying on of EW-Salcon Australia's business.

We are of the view that this term is reasonable as it is to ensure that advances from SDSB will enable EW-Salcon Australia to have sufficient working capital to carry on its business activities prior to the Unconditional Date.

(b) Repayment of Advances

Not later than 5 Business Days after Unconditional Date, SDSB will deliver a letter addressed to Fortune Quest ("**SDSB's Letter**") together with EW-Salcon Australia's management accounts as at the Unconditional Date, confirming the total outstanding amount of the Advances in AUD due and owing by EW-Salcon Australia to SDSB. SDSB undertakes with Fortune Quest that it will not make any further shareholder's advances to EW-Salcon Australia with effect from the Unconditional Date. On the Completion Date, Fortune Quest will for and on behalf of EW-Salcon Australia repay the Repayment Sum in AUD, as may be indicated by SDSB in SDSB's Letter.

We are of the view that this term is reasonable as it allows the Repayment Sum to be finalised based on the Unconditional Date in view that Salcon will continue to provide financial assistance to EW-Salcon Australia from the date of SPA until the Unconditional Date.

(c) Discharge and satisfaction of SDSB's Advances

Upon the payment of Repayment Sum being acknowledged in writing by SDSB, the Repayment Sum will be deemed discharged and satisfied in full. The Repayment Sum and the balance of the Advances will be capitalised by EW-Salcon Australia into EW-Salcon Australia Shares and repay to SDSB and Fortune Quest proportionately.

We are of the view that this term is reasonable as it is to ensure that the shareholdings in EW-Salcon Australia is proportionately allocated 80% (Fortune Quest) and 20% (Salcon).

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Salient terms of the SPA

Affin Hwang IB's comments

(vi) Termination

(a) SDSB's default

If prior to the Completion Date, SDSB is in default or breaches any of the terms and conditions of the SPA, Fortune Quest will be entitled to terminate the SPA by written notice, whereupon SDSB will within 5 Business Days of such notice, refund to Fortune Quest all moneys, if any, paid by Fortune Quest under the SPA. Thereafter, the SPA will be null and void and be of no further force or effect and neither party will have any further claim or claims against the other save and except for the cost incurred or to be incurred by the Pro-Tem Personnel pursuant to **Section 2.1, Part A of the Circular** and antecedent breach in relation to any rights accrued prior to such notice.

(b) Fortune Quest's default

If prior to the Completion Date, Fortune Quest is in default or breaches any of the terms and conditions of the SPA, SDSB will be entitled to terminate the SPA by written notice, whereupon SDSB will within 5 Business Days of such notice, refund to Fortune Quest all moneys, if any, paid by Fortune Quest under the SPA and SDSB will be entitled to dispose of or deal with the EW-Salcon Australia Shares at its absolute discretion. Thereafter, the SPA will be null and void and be of no further force or effect and neither party will have any further claim or claims against the other save and except for any costs incurred or to be incurred by the Pro-Tem Personnel pursuant to **Section 2.1, Part A of the Circular** and antecedent breach in relation to any rights accrued prior to such notice.

These termination terms provide the circumstances of which the SPA can be terminated by SDSB or Fortune Quest.

We are of the view that these terms are reasonable as it serves to safeguard the interest of SDSB and Fortune Quest accordingly.

(vii) Corporate guarantee

(a) SDSB and Fortune Quest acknowledge that the land loan obtained by EW-Salcon Australia from the Financier ("**Land Loan**") in relation to the Acquisition is presently secured by, *inter alia*, a corporate guarantee by Salcon ("**Salcon Corporate Guarantee**") and agree to procure the release of the Salcon Corporate Guarantee as expeditiously as possible and in any event no later than 6 months from the Completion Date.

(b) SDSB and Fortune Quest agree that following the Completion Date and prior to the release of the Salcon Corporate Guarantee, Fortune Quest will, and will procure its holding company to at all times indemnify SDSB and/or Salcon against any actions, proceedings and claims arising against SDSB and/or Salcon in respect of the Salcon Corporate Guarantee.

We are of the view that this term is reasonable as it serves to protect the interests of Salcon by ensuring Salcon is released as the corporate guarantor to EW-Salcon Australia after the completion of the Proposed Disposal.

We are of the view that this indemnification term is reasonable as it is to safeguard the interests of SDSB and/or Salcon until such time the release of the Salcon Corporate Guarantee is effective.

Our comments on the salient terms of the Shareholders' Agreement are as follows:

Salient terms of the Shareholders' Agreement	Affin Hwang IB's comments
<p>(i) Termination</p> <p>The Shareholders' Agreement will terminate:</p> <p>(a) when, as a result of transfers of EW-Salcon Australia Shares made in accordance with Shareholders' Agreement, only one party remains as legal and beneficial holder of the issued share capital in EW-Salcon Australia;</p> <p>(b) when a resolution is passed by EW-Salcon Australia Shareholders or EW-Salcon Australia's creditors, or an order is made by a court or other competent body, that will lead to EW-Salcon Australia being wound up and its assets being distributed among EW-Salcon Australia's creditors, the EW-Salcon Australia Shareholders and/or other contributors; or</p> <p>(c) on the date agreed by all EW-Salcon Australia Shareholders in writing.</p>	<p>We are of the view that this term is reasonable as it sets out the circumstances which allow the Shareholders' Agreement to be terminated.</p> <p>Should any of the events materialise, it is reasonable for the Shareholders' Agreement to be terminated.</p>
<p>(ii) Directors</p> <p>EW-Salcon Australia must have a minimum of 1 director and a maximum of 5 directors appointed to its board of director ("EW-Salcon Australia Board") at any time.</p> <p>Each of the EW-Salcon Australia Shareholders is entitled to appoint one (1) director to the EW-Salcon Australia Board for every 20% of the EW-Salcon Australia Shares it holds ("Nominating Shareholder").</p> <p>For as long as Fortune Quest holds more than 50% of the EW-Salcon Australia Shares, the chairman of the EW-Salcon Australia Board will be appointed by Fortune Quest from amongst the directors nominated by Fortune Quest. The chairman will not have a casting vote in addition to any vote as a director.</p>	<p>We are of the view that this term is reasonable as it sets out the parameters for the appointment of Directors in EW-Salcon Australia by the EW-Salcon Shareholders in proportion to their shareholdings.</p>
<p>(iii) Voting</p> <p>Each director has 1 vote at the EW-Salcon Australia Board meetings.</p>	<p>We are of the view that this term is reasonable which enables each director of EW-Salcon Australia having equal voting rights at the board meeting of EW-Salcon Australia.</p>

Salient terms of the Shareholders' Agreement

Affin Hwang IB's comments

(iv) Quorum requirements

- (a) The quorum necessary before a EW-Salcon Australia Board meeting can take place is a majority of the directors appointed to the EW-Salcon Australia Board (provided that at least one director from each Nominating Shareholder is present).
- (b) In the event that there is no quorum for any board meeting, such meeting will be postponed to be convened 5 Business Days later at the same place and at the same time, and at least 3 Business Days' notice will be given to each director. The quorum necessary before an adjourned meeting can take place is majority of the directors appointed to the EW-Salcon Australia Board. In the event that there is no quorum at such adjourned board meeting, the meeting will be dissolved.

This term will require 1 director from both Fortune Quest and SDSB respectively to be present before a EW-Salcon Australia Board meeting can take place.

We are of the view that this term is reasonable to ensure that both parties participate in the decisions relating to EW-Salcon Australia's business or corporate matters.

(v) Decisions of the Board

All decisions of the EW-Salcon Australia Board, or any matter requiring the vote, resolution, consent or approval of the EW-Salcon Australia Board, must be approved by simple majority of votes cast by those directors who are present at the EW-Salcon Australia Board meeting and who are entitled, at the time the decision is made, to vote on the decision or matter.

We are of the view that this term is reasonable as it is a common term.

(vi) Reserved matters

The following matters can only be effected by a resolution of the EW-Salcon Australia Board in respect of which at least one director nominated by Fortune Quest and at least one director nominated by SDSB shall have voted in favour of such resolution:

- (a) change in the business of EW-Salcon Australia;
- (b) change in maximum number of directors;
- (c) changes to the constitution or constituent documents;
- (d) winding-up or reconstruction of EW-Salcon Australia;
- (e) change in share capital;
- (f) acquisition or any subsequent winding-up or sale of subsidiary or associated company;
- (g) investment, partnership or joint venture or legally binding arrangement which the payment obligation exceeding AUD100,000 other than in the ordinary course of business;
- (h) granting loan, guarantee or any financial assistance to third party;

After the completion of the Proposed Disposal, Salcon will own 20% equity interest in EW-Salcon Australia, which will be an associated company of Salcon.

We are of the view that this term is reasonable as it is to ensure that proper resolution is passed by the nominated directors of SDSB and Fortune Quest for the events highlighted.

(vi) Reserved matters (Cont'd)

- (i) entering into contracts with related party of the EW-Salcon Australia Shareholders;
- (j) acceptance or incurrence of any credit facilities or borrowings granted by any financial institution or third-party and the creation of security over EW-Salcon Australia' assets other than in the ordinary course of business;
- (k) declaration or payment of any dividend or the making of any distribution or return of capital;
- (l) sale or disposal of assets of EW-Salcon Australia other than in the ordinary course of business; and
- (m) litigation, claims, arbitration proceedings involving EW-Salcon Australia which exceeds AUD100,000.

(vii) First right of refusal and sale to third party

- (a) Where one of the EW-Salcon Australia Shareholders ("**Selling Shareholders**") proposes to transfer its EW-Salcon Australia Shares, the other EW-Salcon Australia Shareholder ("**Other Shareholders**") will have a first right of refusal to acquire EW-Salcon Australia Shares that the Selling Shareholder wishes to transfer before EW-Salcon Australia Shares can be sold to a third party purchaser ("**Third Party Purchaser**") at a price and on terms no more favourable than the terms offered to the Other Shareholders.

Any transfer of the EW-Salcon Australia Shares and advances by the Selling Shareholder to a Third Party Purchaser will be conditional on:

- (aa) the Third Party Purchaser entering into a deed of accession under which it becomes a party to the Shareholders' Agreement; and
- (bb) the Third Party Purchaser complying with all other requirements that the EW-Salcon Australia Board may reasonably impose in connection with the transfer of the EW-Salcon Australia Shares and advances.

This term will require that any EW-Salcon Australia Shareholder that wishes to exit their investment in EW-Salcon Australia, offer its EW-Salcon Australia Shares to the other party before it can be sold to a third party purchaser on similar terms.

This term will also require that any new shareholder of EW-Salcon Australia will have to enter into the Shareholders' Agreement with the existing shareholder as well as to comply with the requirements imposed by the EW-Salcon Australia's Board in connection with the transfer to the EW-Salcon Australia Shares and advances.

We are of the view that this term is reasonable as it is to ensure that any new shareholders of EW-Salcon Australia meet the requirements of the existing terms of the Shareholders' Agreement.

Salient terms of the Shareholders' Agreement

Affin Hwang IB's comments

(viii) Events of default

If a EW-Salcon Australia Shareholder ("**Defaulting Party**"):

- (a) commit any material breach of its obligations under the Shareholders' Agreement and will fail to remedy such breach within 30 days from the service of any written notice by the other Shareholders complaining of such breach; or
- (b) subject to an insolvency event; or
- (c) sells, transfers or otherwise disposes of its legal and/or beneficial interest in and/or control of any shares in EW-Salcon Australia to any person otherwise than in accordance with the provisions of the Shareholders' Agreement;

then in any such event the other Shareholder ("**Innocent Party**") will, without prejudice to such other rights and remedies as it may have, and at its option, be entitled to:

- (A) give notice in writing ("**Default Notice**") to the Defaulting Party requiring the Defaulting Party either:
 - (aa) to purchase all of the Innocent Party's EW-Salcon Australia Shares and its advances at 110% of the value of such advances and the net tangible asset value of such shares, or
 - (bb) to sell all of the Defaulting Party's EW-Salcon Australia Shares and its advances to the Innocent Party at 90% of the value of such advances and the net tangible asset value of such shares; or
- (B) serve a dissolution notice in writing in respect of EW-Salcon Australia on the Defaulting Party and immediately thereafter both EW-Salcon Australia Shareholders will, and will procure EW-Salcon Australia to, where practicable, having regard to the requirements of any relevant authorities, take all such steps as may be necessary to forthwith wind up EW-Salcon Australia voluntarily. Upon the winding up of EW-Salcon Australia, the provisions of the Shareholders Agreement will terminate with immediate effect but without prejudice to any rights and liabilities which will have accrued or been incurred up to that time, provided that the Defaulting Party will be entitled to only 90% of its Agreed Proportion (as defined below in item (ix)(a)) of the proceeds or assets to be distributed in cash or in specie to the EW-Salcon Australia Shareholders and the remaining 10% of such proceeds or assets which would otherwise be distributed to the Defaulting Party, will be distributed to the Innocent Party.

We are of the view that this term is reasonable as it protects the interest of each party in the event either party commits a default or breach of the Shareholders' Agreement.

It is also noted that the remedies for a default or breach are the same for both parties.

Salient terms of the Shareholders' Agreement

Affin Hwang IB's comments

(ix) External financing and shareholders funding

- (a) EW-Salcon Australia Shareholders confirm that it is their intention that, whenever practicable, the funding requirements of EW-Salcon Australia will be obtained by EW-Salcon Australia through commercial borrowings from external financiers. If it will not be possible to obtain such external financing or the effect of such borrowings will cause the gearing of EW-Salcon Australia to exceed such levels as are prudent, then subject to complying with item (vi) above and any applicable laws, regulations or requirements of a stock exchange to which EW-Salcon Australia Shareholders or their respective holding companies may be subject to, EW-Salcon Australia Shareholders will provide the requisite finance by way of shareholder's loans, subscription for ordinary shares and/or subscription for other shares in EW-Salcon Australia ("**Shareholders Funding**") in the agreed proportion between EW-Salcon Australia Shareholders ("**Agreed Proportion**"). If required in connection with the external financing, EW-Salcon Australia Shareholders will, subject to complying with any applicable laws, regulations or requirements of a stock exchange to which EW-Salcon Australia Shareholders or their respective holding companies may be subject to, provide, or cause their respective holding companies, to provide corporate guarantee or any security or other form of credit support whatsoever in the Agreed Proportion but EW-Salcon Australia will not require any of its directors to provide any personal guarantee.

For avoidance of doubt, "**Agreed Proportion**" means 80% for Fortune Quest and 20% for SDSB, or subject to and in accordance with the provisions of the Shareholders' Agreement, such other adjusted proportion as will reflect the shareholding of the EW-Salcon Australia Shareholders from time to time in EW-Salcon Australia.

- (b) Subject to complying with any applicable laws, regulations or requirements of a stock exchange to which EW-Salcon Australia Shareholders or their respective holding companies may be subject to, all Shareholders Funding will:
- (aa) (in the event that Shareholders Funding is provided by way shareholders' loan) accrue interest at a rate to be agreed between the EW-Salcon Australia Shareholders and failing such agreement will be based on the prevailing commercial borrowing rate for overdraft loans of more than AUD100,000 as charged by Westpac Banking Corporation from time to time; and

We are of the view that this term is reasonable as it will ensure that any additional funding provided by the EW-Salcon Australia Shareholders will be provided in proportion based on their shareholdings in EW-Salcon Australia.

(ix) **External financing and shareholders funding (Cont'd)**

(bb) (in the event that the Shareholders Funding is provided by way of subscription for preference shares in EW-Salcon Australia) have a preferential dividend at such rate and payable at such times as EW-Salcon Australia Shareholders and EW-Salcon Australia may reasonably agree prior to the issuance of such preference shares;

and the repayment of such Shareholders Funding or any redemption, buyback or reduction of capital as a return of Shareholders Funding will be subject to any requirements of the external financiers and subject to any laws, rules, regulations, directives or requirements of relevant authorities.

(x) **Requisite Share Capital**

The share capital of EW-Salcon Australia may be increased from time to time to a level and within such period of time as will be required by the relevant authorities and/or the external financiers ("**Requisite Share Capital**"), and subject to the issuance of Capital Call Notice, the EW-Salcon Australia Shareholders will subscribe and pay in full for such EW-Salcon Australia Shares in their Agreed Proportion within the requisite period set out in the Capital Call Notice.

If any EW-Salcon Australia Shareholder is unable or fails to fund its Agreed Proportion of the Requisite Share Capital ("**Non-Paying Shareholder**") within the period imposed by EW-Salcon Australia in the Capital Call Notice then the other EW-Salcon Australia Shareholder who has made payment for its Agreed Proportion of the Requisite Share Capital ("**Paying Shareholder**") may, but will not be obliged to, and without prejudice to any of the Paying Shareholder's rights and remedies under the Shareholders Agreement, subscribe for all of the remaining unpaid portion for the Requisite Share Capital in excess of its Agreed Proportion ("**Unpaid Portion**"). Upon payment of the Unpaid Portion by the Paying Shareholder, EW-Salcon Australia will issue to the Paying Shareholder such number of EW-Salcon Australia Shares that the Non-Paying Shareholder would otherwise have been entitled to.

In the event of a proposed increase in the share capital of EW-Salcon Australia, each EW-Salcon Australia Shareholder would be given the right to subscribe for new EW-Salcon Australia Shares in proportion to its shareholdings. Should they fail to fund its Agreed Proportion, the other EW-Salcon Australia Shareholder will be given the right to subscribe for the remaining unpaid portion of the other party.

We are of the view that this term is reasonable as it is to ensure that the business activities of EW-Salcon Australia is able to continue with sufficient working capital.

Our comments on the salient terms of the Development Management Agreement are as follows:

Salient terms of the Development Management Agreement

Affin Hwang IB's comments

(i) **Appointment**

EW Sydney is to be appointed the Development Manager for the fees and other charges in the manner set out in **Section 2.1, Part A of the Circular** to be paid by EW-Salcon Australia. The Services are as set out in **Section 2.1, Part A of the Circular**. The scope of the Services may be varied and modified subject to mutual agreement of EW-Salcon Australia and EW Sydney.

For the avoidance of doubt, the Services will not in any way require the Development Manager to act as an estate agent or agent as defined in the Australia Estate Agents Act 1980.

Upon the completion of the Proposed Disposal, it is noted that a Development Management Agreement will be entered into between EW-Salcon Australia and EW Sydney.

Under the Development Management Agreement, EW Sydney will be appointed as the Development Manager for the Yarra One Project, and the fees payable to EW Sydney are as follows:

- a project planning & control, conceptual design & planning and project implementation administration fee ("**Project Construction Fee**"), which was agreed at a rate of 3.00% of the contract costs based on the claims certified by architects and/or engineers of the Yarra One Project until the completion and final accounts (including those secured prior to the date of the Development Management Agreement); and
- a coordination of sales, marketing, credit control, customer care, project accounting and general administration fee ("**Coordination of Marketing & Administrative Fee**"), which was agreed at a rate of 1.20% of the net sale price less discounts and/or rebates given to end-purchasers (including those secured prior to the date of the Development Management Agreement).

50% of the Coordination of Marketing & Administrative Fee is payable upon the exchange of contracts of sales with the end-purchasers and the remaining 50% is payable upon settlement of the sale price by the end-purchasers.

We noted the following:

- (i) under Australia & New Zealand Real Property Guidance Notes, the most common method of fee is charged based on a percentage basis on the total development cost (including land, building, interest etc), which usually ranges between 1% to 3% depending upon the complexity and size of the project; *(Source: Australia & New Zealand Valuation and Property Standards)*
- (ii) the scope of work for EW Sydney as the Development Manager is also wider than the typical scope as a Development Manager, which include coordination of marketing and administration matters; and
- (iii) the Project Construction Fee and Coordination of Marketing & Administrative Fee payable to EW Sydney by EW-Salcon Australia have taken into consideration the Estimated Developer's Margin of 22.50% (as defined in **Section 6.2.2 (iii) of this Independent Advice Letter**).

Based on the above, we are of the view that Project Construction Fee and Coordination of Marketing & Administrative Fee payable to EW Sydney by EW-Sydney is reasonable.

Salient terms of the Development Management Agreement

Affin Hwang IB's comments

(ii) Reporting and authority of Development Manager

This term would require EW Sydney to report the progress of the Yarra One Project at the board meeting of EW-Salcon Australia.

The Development Manager will, at each EW-Salcon Australia Board meeting, report to the EW-Salcon Australia Board on the progress of the Yarra One Project. The Development Manager will ensure that the Yarra One Project is implemented and carried out in accordance with the proposed business plan and budget ("**Approved Business Plan and Budget**") which has been approved by the EW-Salcon Australia Board and accepted by EW-Salcon Australia. The Development Manager will have the authority and discretion to deal with all matters in accordance with the Development Management Agreement provided the Development Manager:

We are of the view that this term is reasonable to ensure that SDSB and Salcon are continuously kept abreast of the updates on the Yarra One Project.

- (a) observes and does not exceed the Approved Business Plan and Budget or the limits of authority of the Development Manager for the performance of the Services which will be within the approval limits as may be determined or varied by the EW-Salcon Australia Board from time to time, as the case may be; and
- (b) observes and performs its duties and obligations under the Development Management Agreement.

(iii) Term of Appointment

We are of the view that this term is reasonable as it is common to terminate the appointment of the Development Manager after their role ends 6 months from the issuance of the occupation certificate for the Yarra One Project.

The appointment of the Development Manager will commence on the date of the Development Management Agreement (which is expected to be the completion of the Proposed Disposal) and will terminate on the expiry of the period of 6 months from the issuance of the occupation certificate for the Yarra One Project unless earlier terminated by EW-Salcon Australia or EW Sydney in accordance with item (iv) below.

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Salient terms of the Development Management Agreement

Affin Hwang IB's comments

(iv) Termination

The Development Management Agreement may be terminated by EW-Salcon Australia or EW Sydney by written notice to the other upon the occurrence of any of the following events:

- (a) if EW-Salcon Australia or EW Sydney materially breaches any of its representations, warranties, covenants or undertakings under the Development Management Agreement and such breach is not rectified or remedied by the defaulting party within 60 days from the date of written notice from the innocent party requiring the defaulting party to remedy the breach or such longer period as EW-Salcon Australia or EW Sydney may mutually agree having regard to the nature of the breach;
- (b) if the SPA and/or the Shareholders' Agreement is terminated in accordance with the provisions contained in the respective agreements;
- (c) in the event of any winding-up proceedings being instituted against EW-Salcon Australia or EW Sydney or any court order or resolution for the winding up of EW-Salcon Australia or EW Sydney is granted, or upon the appointment of any receiver, administrator, trustee, nominee, supervisor or judicial manager over any part of the undertaking or assets of EW-Salcon Australia or EW Sydney; or
- (d) if the Development Manager ceases to be a subsidiary of EWI.

We are of the view that this term is reasonable as it states the circumstances of which the Development Management Agreement can be terminated by EW-Salcon Australia or EW Sydney.

Based on the salient terms of the SPA, Shareholders' Agreement and Development Management Agreement as well as our comments as set out above, we are of the view that the salient terms are reasonable.

6.4 UTILISATION OF PROCEEDS

Salcon intends to utilise the Disposal Consideration of AUD120,000 (RM401,772) to defray the estimated expenses in relation to the Proposed Disposal.

As at the LPD, the total Advances from SDSB to EW-Salcon Australia is AUD19,840,520. On the Completion Date, Fortune Quest will repay 80% of the total Advances owing by EW-Salcon Australia to SDSB. For illustration purposes, 80% of the total Advances as at the LPD amount to approximately AUD15,872,416.

The actual amount of the Repayment Sum will be finalised as at Unconditional Date and Fortune Quest will pay the Repayment Sum on the Completion Date.

We noted from **Section 5, Part A of the Circular** that the Repayment Sum is expected to be utilised for the following:

- (i) reinvestment into the Yarra One Project upon receiving a Capital Call Notice; and/or
- (ii) any future investments which may or may not be in the similar or complimentary industries to the Salcon Group's existing businesses.

We also noted that the breakdown and timeframe for the utilisation of the Repayment Sum has yet to be determined at this juncture.

As such, we are of the view that it is reasonable for Salcon to place the Repayment Sum in interest-bearing deposit accounts with financial institutions or short-term money market instrument(s) pending utilisation of the Repayment Sum.

6.5 RISK FACTORS IN RELATION TO THE PROPOSED DISPOSAL

We noted the risk factors associated with the Proposed Disposal as set out in **Section 6, Part A of the Circular**:

(i) Non-completion of the Proposed Disposal

There is no assurance that all of the Conditions Precedent are going to be fulfilled within the timeframe as set out in the SPA. If any one of the Conditions Precedent is not fulfilled, the Proposed Disposal might be terminated.

The Board will take reasonable steps to ensure that the Conditions Precedent are met within the stipulated timeframe and that every effort is made to obtain all the necessary approvals for the Proposed Disposal.

As at the LPD, we note that the conditions precedent which remain outstanding are as follows:

- the endorsement and secondary consent of the relevant authorities for the amendments to the Planning Permit for the Subject Property; and
- the approval of the shareholders of Salcon for the Proposed Disposal.

The Board and Management will take all reasonable steps to ensure all the Conditions Precedents are met within the stipulated timeframe.

(ii) Risks associated with associate company

The business goals and interests of the EW-Salcon Australia Shareholders may diverge over the course of implementation of the Yarra One Project. After the completion of the Proposed Disposal, the Salcon Group will only hold 20% equity interest in EW-Salcon Australia. Without majority control in EW-Salcon Australia, the Salcon Group may not be able to influence the management, operation and performance of EW-Salcon Australia in a manner which would be favourable to the Salcon Group.

Should any disagreements arise between the EW-Salcon Australia Shareholders, there can be no assurance that these disagreements can be resolved in a manner favourable to Salcon. In addition, these disagreements could significantly affect the financial condition and results of the operations of Salcon Group.

Notwithstanding the above, we are of the view that the Shareholders' Agreement which is expected to be entered into after the completion of the Proposed Disposal to regulate the relationship between SDSB, Fortune Quest and EW-Salcon Australia will ensure the successful completion of the Yarra One Project to benefit all parties.

In addition, the Shareholders' Agreement allows Salcon to appoint one (1) Director in EW-Salcon Australia to participate in the decisions relating to EW-Salcon Australia business activities or corporate matters. The Shareholders' Agreement also includes reserved matters that requires voting in favour from at least one (1) director nominated by Fortune Quest and one (1) director nominated by SDSB to effect any resolution.

We noted that Salcon will make the necessary efforts to mitigate the risk factors identified above and we are of view that these risk factors in relation to the Proposed Disposal are common for the similar type of the transaction.

Based on the above, we are of the view that the risk factors in relation to the Proposed Disposal are not detrimental to the Non-Interested Shareholders.

6.6 EFFECTS OF THE PROPOSED DISPOSAL

In evaluating the Proposed Disposal, we have taken note of the effects of the Proposed Disposal as set out **Section 7, Part A of the Circular**.

(i) Share capital and substantial shareholders' shareholdings

The Proposed Disposal will not have any effect on the share capital and substantial shareholders' shareholdings of Salcon as the Proposed Disposal does not involve any issuance of Salcon Shares.

(ii) NA, NA per share and gearing

Based on the latest audited consolidated statements of financial position of Salcon for the FYE 31 December 2016, the proforma effects of the Proposed Disposal on the NA, NA per Salcon Share and gearing are as follows:

- (a) there will be no material effects to the consolidated NA of Salcon;
- (b) proforma NA per Share will remain unchanged at RM0.71; and
- (c) proforma gearing will decrease from 0.33 times to 0.15 times.

(iii) Earnings and EPS

Upon completion of the Proposed Disposal, the Salcon Group is expected to realise a net gain attributable to owners of the Company of approximately RM2.00 million. The EPS of the Salcon Group is expected to increase by approximately 0.30 sen, based on 675,776,690 Salcon Shares (excluding treasury shares) as at the LPD.

Based on the above, we are of the view that the effects of the Proposed Disposal are not to the detriment of the Non-Interested Shareholders.

7. CONCLUSION AND RECOMMENDATION

We have assessed and evaluated the terms of the Proposed Disposal and have set out our evaluation in **Section 6 of this Independent Advice Letter**, as summarised in the table below. Non-Interested Shareholders should consider the merits and demerits of the Proposed Disposal carefully based on all relevant and pertinent factors including those set out below and other considerations as set out in this Independent Advice Letter, Part A of the Circular together with the appendices and other publicly available information prior to making a decision to vote on the resolution pertaining to the Proposed Disposal.

Section in this Independent Advice Letter	Section of evaluation	Affin Hwang IB's comments
6.1	Rationale for the Proposed Disposal	<p>The Proposed Disposal will allow Salcon to:</p> <ul style="list-style-type: none"> ▪ tap on the reputation, strength and experience of the EWI Group in the international property market, which is led by an experienced management team; ▪ monetise the asset and unlock the value of its investment in EW-Salcon Australia; and ▪ achieve greater financial strength and flexibility to pursue future potential acquisitions and/or investment opportunities. <p>We are of the view that the rationale for the Proposed Disposal is reasonable.</p>
6.2	Evaluation of the Disposal Consideration	The Disposal Consideration of AUD120,000 is fair in view that EW-Salcon Australia is in a net liabilities position.
6.3	Salient terms of the SPA, Shareholders' Agreement and Development Management Agreement	After evaluating the salient terms of the SPA, Shareholders' Agreement and Development Management Agreement, we are of the view that the salient terms are reasonable.
6.4	Utilisation of proceeds	<ul style="list-style-type: none"> ▪ Salcon intends to utilise the Disposal Consideration of AUD120,000 (RM401,772) to defray the estimated expenses in relation to the Proposed Disposal. ▪ the Repayment Sum to be received by SDSB is expected to be utilised for the following: <ul style="list-style-type: none"> (i) reinvestment into the Yarra One Project upon receiving a Capital Call Notice; and/or (ii) any future investments which may or may not be in the similar or complimentary industries to the Salcon Group's existing businesses. ▪ We noted that the breakdown and timeframe for the utilisation of the Repayment Sum has yet to be determined at this juncture. As such, we are of the view that it is reasonable for Salcon to place the Repayment Sum in interest-bearing deposit accounts with financial institutions or short-term money market instrument(s) pending utilisation of the Repayment Sum.

Section in this Independent Advice Letter	Section of evaluation	Affin Hwang IB's comments
6.5	Risk factors in relation to the Proposed Disposal	<ul style="list-style-type: none"> ▪ We noted that Salcon will make the necessary efforts to mitigate the risk factors identified and we are of view that these risk factors in relation to the Proposed Disposal are common for the similar type of the transaction. ▪ We are of the view that the risk factors in relation to the Proposed Disposal are not detrimental to the Non-Interested Shareholders.
6.6	Effects of the Proposed Disposal	<p>(i) Share capital and substantial shareholders' shareholdings</p> <p>No effect.</p> <p>(ii) NA, NA per Share and gearing</p> <ul style="list-style-type: none"> ▪ no material effects to the consolidated NA of Salcon; ▪ the proforma NA per Share will remain unchanged at RM0.71; and ▪ the proforma gearing will decrease from 0.33 times to 0.15 times after the Proposed Disposal. <p>(iii) Earnings and EPS</p> <p>The Proposed Disposal is expected to realise a net gain attributable to owners of the Company of approximately RM2.00 million, representing approximately 0.30 sen based on 675,776,690 Salcon Shares (excluding treasury shares) as at the LPD.</p> <p>Accordingly, we are of the view that the effects of the Proposed Disposal are not to the detriment of the Non-Interested Shareholders.</p>

After taking into consideration our overall assessment and evaluation of the Proposed Disposal based on the information available to us up to the LPD, we are of the view that the Proposed Disposal is **FAIR AND REASONABLE** and is **NOT DETRIMENTAL** to the Non-Interested Shareholders.

Accordingly, we recommend that you **VOTE IN FAVOUR** of the resolution pertaining to the Proposed Disposal to be tabled at the forthcoming EGM.

Yours faithfully,
for and on behalf of
AFFIN HWANG INVESTMENT BANK BERHAD

JOHAN HASHIM
Head
Corporate Finance

KENNY YONG
Director
Corporate Finance