



2016  
ANNUAL REPORT

Creating Opportunities

TO BE A **WORLD**  
**LEADER IN WATER** AND  
**SANITATION** SERVICES

# VISION MISSION

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



## CORE VALUES

### **TEAMWORK**

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

### **COMMITMENT**

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

### **PROFESSIONALISM**

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

### **RESPECT**

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

### **RESULTS**

We strive towards maximizing stakeholders' values and returns.

# 14<sup>th</sup>

## ANNUAL GENERAL MEETING

Wednesday, 14 June 2017 at 10.30 a.m.  
Victorian Ballroom, Level 1, Holiday Villa  
Hotel & Conference Centre, 9 Jalan SS12/1,  
47500 Subang Jaya, Selangor Darul Ehsan



### Cover Rationale

At Salcon, we have a broad spectrum of leading-edge technologies to generate new possibilities for expanding our range of offerings and establishing recurrent income streams.

The diversity of our business activities provides us with countless opportunities to contribute to the betterment of society. Geared for rapid growth, we look forward to making a more profound impact in the future.

04

Corporate  
Information

05

Financial  
Highlights

06

Corporate  
Structure

12

Profile of  
Directors

10

Board of  
Directors

18

Profile of  
the Key Senior  
Management

# CONTENTS



**26**

Chairman's  
Statement

**28**

Management  
Discussion &  
Analysis

**38**

Corporate  
Responsibility  
Report

**71**

Corporate  
Governance  
Statement

**86**

Audit  
Committee  
Report

**88**

Statement  
of Risk  
Management  
and Internal  
Control

**92**

Financial  
Statements

**189**

Particulars of  
Group  
Properties

**194**

Analysis of  
Shareholdings

**198**

Notice of  
Fourteenth  
Annual  
General  
Meeting

Proxy Form



# Corporate Information

## BOARD OF DIRECTORS

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

**Tan Sri Dato' Tee Tiam Lee** / Executive Deputy Chairman

**Dato' Leong Kok Wah** / Executive Director

**Dato' Dr. Freezailah bin Che Yeom** / Independent Non-Executive Director

**Dato' Choong Moh Kheng** / Independent Non-Executive Director

**Chan Seng Fatt** / Independent Non-Executive Director

### AUDIT COMMITTEE

Chan Seng Fatt  
(Chairman)

Dato' Dr. Freezailah bin Che Yeom

Dato' Seri (Dr.) Goh Eng Toon

### NOMINATION COMMITTEE

Dato' Dr. Freezailah bin Che Yeom  
(Chairman)

Dato' Seri (Dr.) Goh Eng Toon

Dato' Choong Moh Kheng

### REMUNERATION COMMITTEE

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

Dato' Dr. Freezailah bin Che Yeom

Dato' Choong Moh Kheng

### RISK MANAGEMENT COMMITTEE

Chan Seng Fatt  
(Chairman)

Dato' Leong Kok Wah

Jamiluddin Amini Bin Sulaiman

Ooi Cheng Swee @

Wee Kwee Swee

Law Woo Hock

### COMPANY SECRETARIES

Wong Wai Foong

(MAICSA 7001358)

Joanne Toh Joo Ann

(LS 0008574)

### REGISTERED OFFICE

15<sup>th</sup> Floor, Menara Summit  
Persiaran Kewajipan, USJ 1

47600 UEP Subang Jaya

Selangor Darul Ehsan

Tel : 603-8024 8822

Fax : 603-8024 8811

### HEAD OFFICE

15<sup>th</sup> Floor, Menara Summit  
Persiaran Kewajipan, USJ 1

47600 UEP Subang Jaya

Selangor Darul Ehsan

Tel : 603-8024 8822

Fax : 603-8024 8811

### AUDITORS

KPMG PLT (AF 0758)

Chartered Accountants

Level 10, KPMG Tower

8 First Avenue, Bandar Utama

47800 Petaling Jaya

Selangor Darul Ehsan

### PRINCIPAL BANKERS

Hong Leong Bank Berhad

Malayan Banking Berhad

Standard Chartered Bank

Malaysia Berhad

United Overseas Bank

(Malaysia) Berhad

### SHARE REGISTRAR

Tricor Investor & Issuing House  
Services Sdn Bhd (11324H)

Unit 32-01, Level 32, Tower A

Vertical Business Suite

Avenue 3, Bangsar South

No. 8, Jalan Kerinchi

59200 Kuala Lumpur

Tel : 603-2783 9299

Fax : 603-2783 9222

### STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia  
Securities Berhad

(Listed since 3 September 2003)

Sector: Trading/Services

Stock Name : SALCON

Stock Code : 8567

### WEBSITE

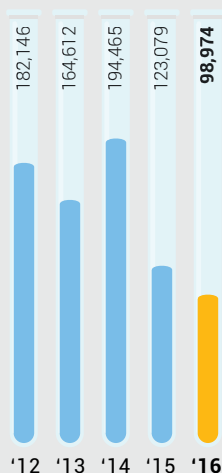
[www.salcon.com.my](http://www.salcon.com.my)

# Financial Highlights

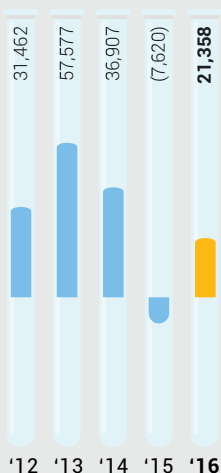
	2012 (restated)	2013 (restated)	2014	2015	2016
Revenue (RM '000)	182,146	164,612	194,465	123,079	98,974
Profit /(Loss) Before Tax (RM '000)	(1,411)	(30,756)	5,656	19,839	(11,687)
Profit /(Loss) After Tax (RM '000)	31,462	57,577	36,907	(7,620)	21,358
Profit Attributed to Owners of the Company (RM '000)	11,282	24,944	4,608	5,540	11,844
Total Assets (RM '000)	1,227,276	1,206,580	950,387	950,743	727,337
Total Liabilities (RM '000)	585,231	486,224	308,421	346,782	204,269
Total Equity Attributable to Owners of the Company (RM '000)	416,555	506,419	540,416	576,748	483,982
No. of Shares Issued ('000)	521,738	608,304	674,640	677,694	677,694
Net Assets per Share Attributable to Owners of the Company (RM)	0.80	0.83	0.80	0.85	0.71
Basic Earnings per Share (sen)	2.21	4.50	0.71	0.82	1.81
Dividend per Share (sen)	1.0	3.0	3.0	2.0	*
Return on Equity (%)	2.71	4.93	0.85	0.96	2.45
Share Price (Min) (RM)	0.405	0.395	0.555	0.555	0.545
Share Price (Max) (RM)	0.640	0.725	1.010	0.955	0.685

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

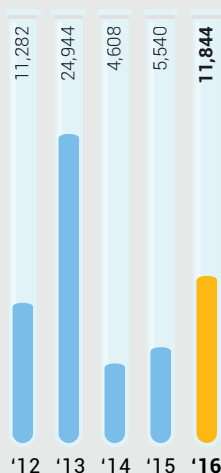
Revenue  
(RM '000)



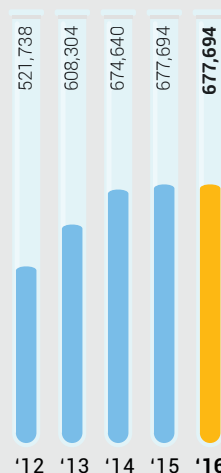
Profit /(Loss) After Tax  
(RM '000)



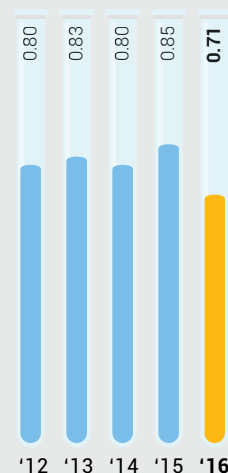
Profit Attributed to Owners  
of the Company  
(RM '000)



No. of Shares Issued

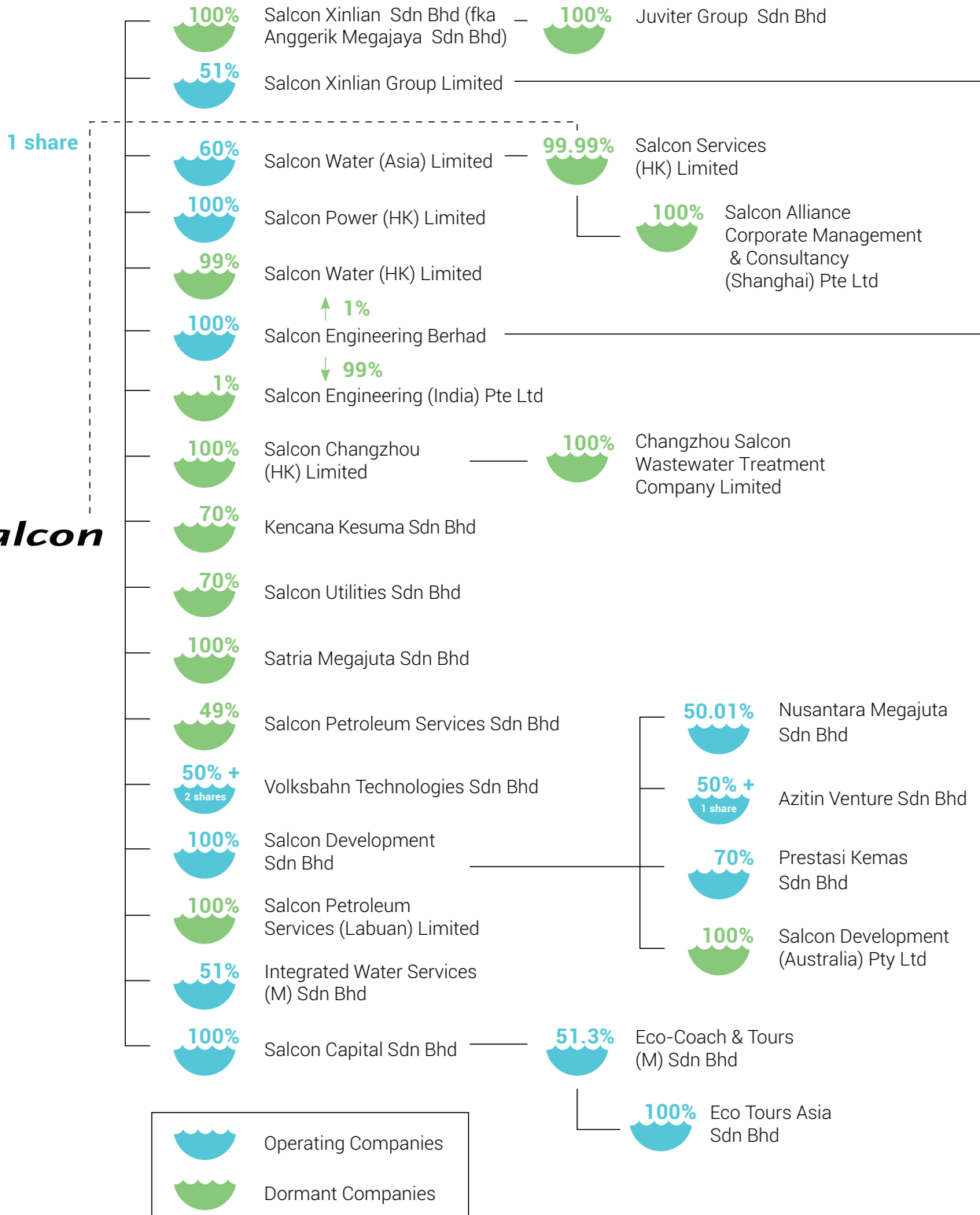


Net Assets per Share Attributable  
to Owners of the Company

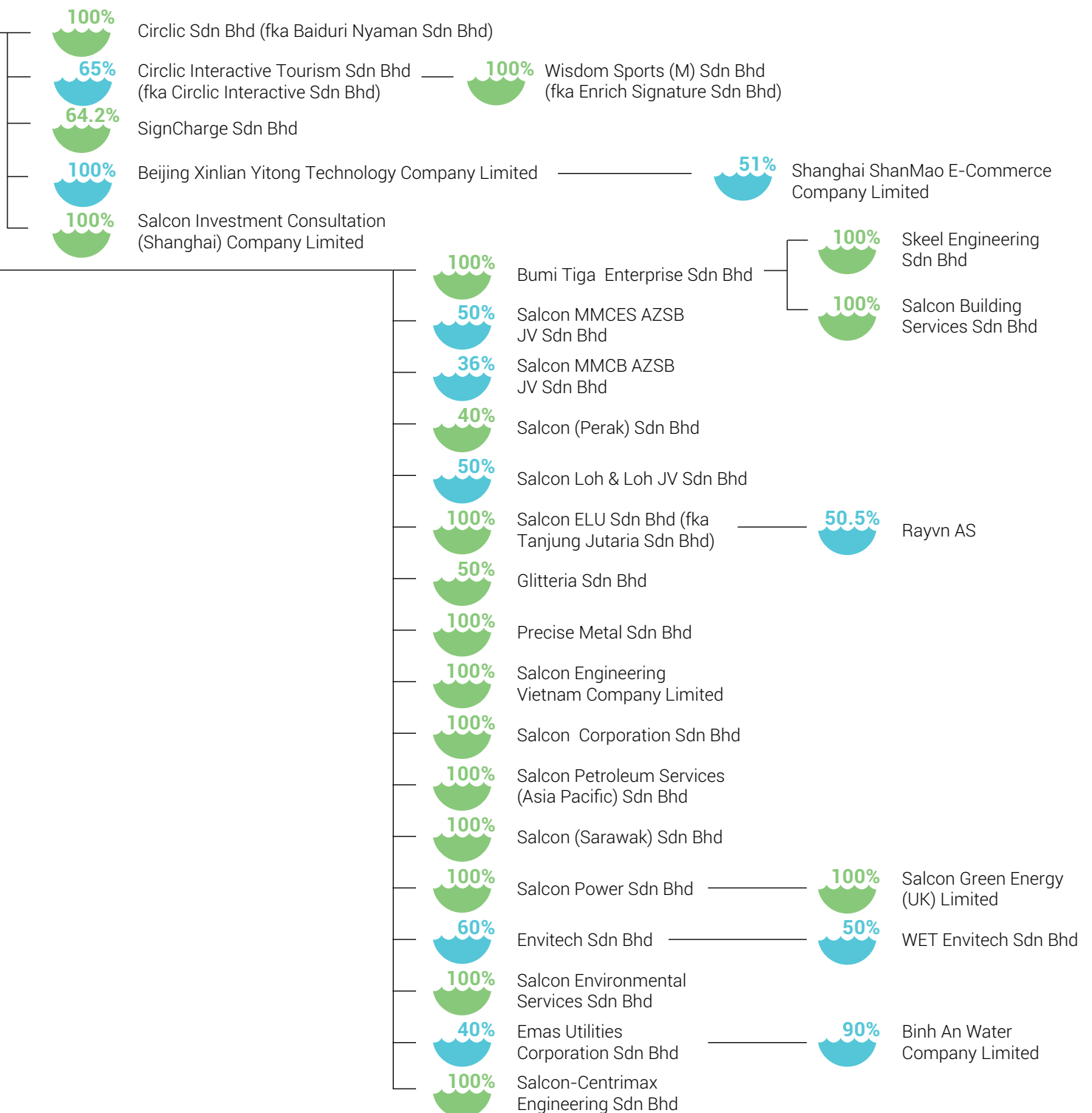


# Corporate Structure

as at 31 March 2017

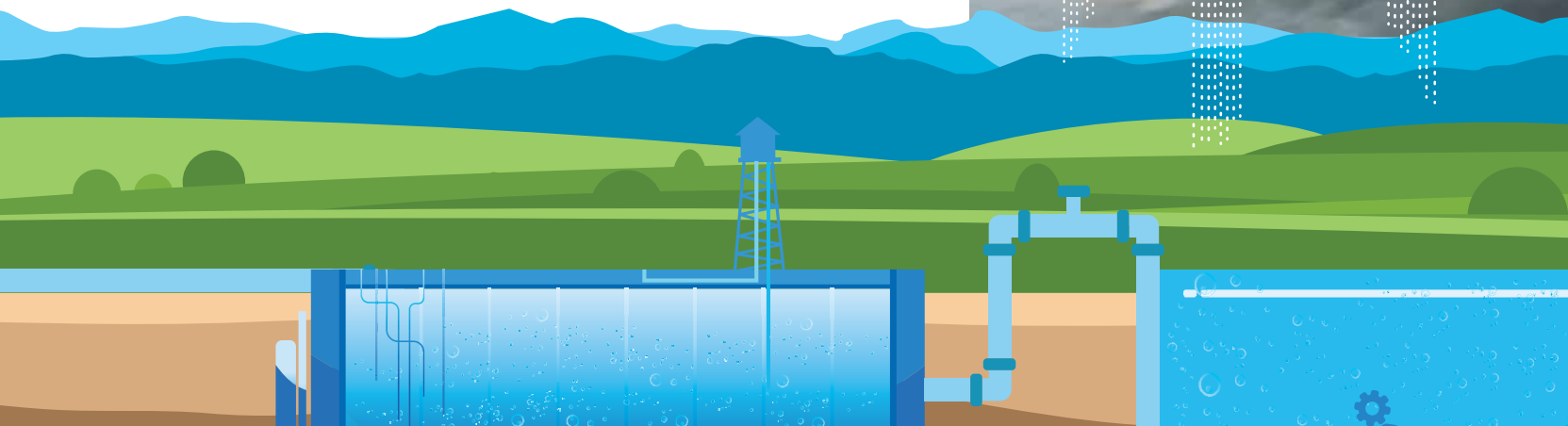


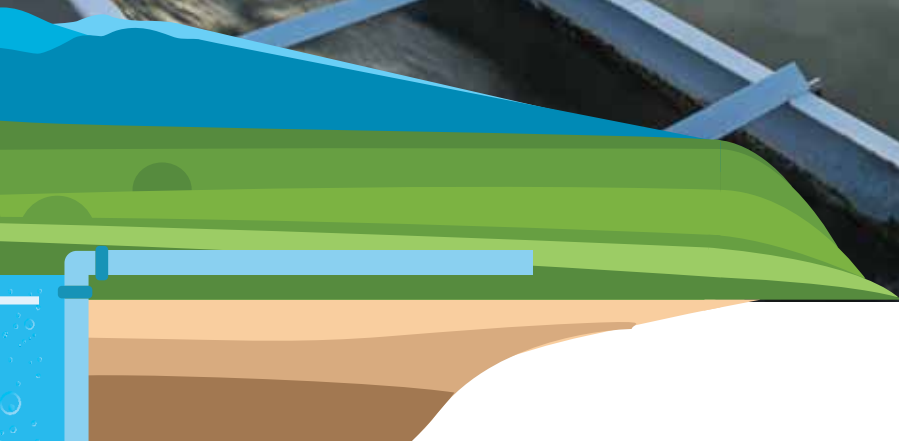




# OPPORTUNITIES FOR GROWTH

Our innovate spirit intensifies our growth momentum. We provide end-to-end water and wastewater solutions, including management and downstream activities such as the reduction of non-revenue water, customer billing and collection.





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# Board of Directors

**DATO' CHOONG MOH KHENG**  
Independent Non-Executive Director

**TAN SRI DATO' TEE TIAM LEE**  
Executive Deputy Chairman

**DATO' LEONG KOK WAH**  
Executive Director



**CHAN SENG FATT**  
Independent Non-Executive Director

**DATO' SERI (DR.) GOH ENG TOON**  
Chairman, Non-Independent  
Non-Executive Director

**DATO' DR. FREEZAILAH BIN CHE YEOM**  
Independent Non-Executive Director



# Profile of Directors

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

*Chairman, Non-Independent Non-Executive Director*



**Dato' Seri (Dr.) Goh Eng Toon**, aged 83, male, was appointed to the Board of Salcon Berhad ("Salcon") on 15 June 2005 as the Vice Chairman. He was appointed the Chairman of Salcon on 18 October 2007.

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

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

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

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

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

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

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

## Tan Sri Dato' Tee Tiam Lee

*Executive Deputy Chairman*

**Tan Sri Dato' Tee Tiam Lee**, aged 59, male, was appointed to the Board of Salcon on 1 January 2010.

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

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

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

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

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

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



## Dato' Leong Kok Wah

*Executive Director*



**Dato' Leong Kok Wah**, aged 63, male, was appointed to the Board of Salcon on 1 January 2010.

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

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

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

Dato' Leong is a member of Risk Management Committee.



## Dato' Dr. Freezailah bin Che Yeom

*Independent Non-Executive Director*

**Dato' Dr. Freezailah bin Che Yeom**, aged 77, male, was appointed to the Board of Salcon on 21 July 2003.

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

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

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

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

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

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

Dato' Dr. Freezailah is the Chairman of Nomination Committee and a member of the Audit Committee and Remuneration Committee of the Company.



## Chan Seng Fatt

*Independent Non-Executive Director*



**Chan Seng Fatt**, aged 53, male, a Chartered Accountant of the Malaysian Institute of Accountants was appointed to the Board of Salcon on 17 December 2014.

Mr. Chan Seng Fatt has an extensive career exposure spanning more than 25 years covering various aspects of experience namely external and management auditing, financial management, corporate finance, stockbroking and senior level operation and general management.

Mr Chan Seng Fatt has held several senior positions in various private and public companies. He joined Multi-Purpose Holdings Berhad in 1998 as the Internal Auditors for 3 years before serving Asian Pac Holdings Berhad from 1991 to 1993 as the Group Accountant. From 1993 to 1997 he was the Financial Controller for Pengkalen Securities Sdn Bhd and later appointed as the General Manager of Halim Securities Sdn Bhd in 1997 before joining K&N Kenanga Berhad in 1999 as a Remisier. Mr Chan Seng Fatt was the Chief Financial Officer for Johore Tenggara Oil Palm Berhad from 2001 to 2002. He then

joined Tradewinds Group in 2003 as the Senior General Manager, Finance of Tradewinds (M) Berhad and was promoted to Chief Financial Officer in 2004. He was then posted to Tradewinds Plantation Berhad as the Acting Chief Executive Officer cum Chief Financial Officer in 2006. Thereafter, he was promoted to Chief Executive Officer of Tradewinds Plantation Bhd in October 2007 and held the position till December 2012.

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

Mr Chan is the Chairman of Audit Committee and Risk Management Committee of the Company.

## Dato' Choong Moh Kheng

*Independent Non-Executive Director*

**Dato' Choong Moh Kheng**, aged 61, male, was appointed to the Board of Salcon on 3 January 2011.

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

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

Dato' Choong is currently the Managing Director of Pembinaan Punca Cergas Sdn Bhd ("PPC"). He is also the founder director and Joint Managing Director of PPC group of companies. His active involvement in the industry includes being the Honorary Treasurer of the Road Engineering Association of Malaysia (REAM).

Dato' Choong is a member of Nomination Committee and Remuneration Committee of the Company.



Notes:-

1. All Directors are Malaysian.
2. There is no family relationship between the Directors and/or major shareholders of the Company except the following:-
  - (a) Datin Goh Phaik Lynn, who is a major shareholder of the Company by virtue of her interest in Naga Muhibah Sdn Bhd, is the spouse of Dato' Leong Kok Wah and the daughter of Dato' Seri (Dr.) Goh Eng Toon; and
  - (b) Dato' Leong Kok Wah is the son-in-law of Dato' Seri (Dr.) Goh Eng Toon.
3. None of the Directors has entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company.
4. None of the Directors has been convicted for offences (other than traffic offences) within the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 31 December 2016.

# Profile of the Key Senior Management

<b>Name</b>	<b>Ooi Cheng Swee @ Wee Kwee Swee</b>
<b>Age</b>	<b>63</b>
<b>Gender</b>	<b>Male</b>
<b>Nationality</b>	<b>Malaysian</b>

## Name of Company

Salcon Berhad

## Designation

Chief Operating Officer

## Date of first appointment to key senior management position

6 June 2011

## Qualification

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

## Working experience

Ir. Ooi Cheng Swee has 38 years of working experience in infrastructure works, drainage, road and bridge engineering design, construction supervision of water supply schemes, water supply distribution study and operations of water treatment plants.

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

<b>Name</b>	<b>Law Woo Hock</b>
<b>Age</b>	<b>52</b>
<b>Gender</b>	<b>Male</b>
<b>Nationality</b>	<b>Malaysian</b>

## Name of Company

Salcon Berhad

## Designation

Chief Financial Officer

## Date of first appointment to key senior management position

1 November 2005

## Qualification

1. Fellow member of The Association of Chartered Certified Accountants (ACCA), UK.
2. A member of Malaysian Institute of Accountants (MIA).

## Working experience

Law Woo Hock has more than 25 years of working experience in the field of corporate finance, finance management and taxation.

Prior to joining Salcon, he held various senior positions in large conglomerates and established group including Hong Leong Industries Bhd, CP Group and Ireka Corporation Bhd.

<b>Name</b>	<b>Jamiluddin Amini b. Sulaiman</b>
<b>Age</b>	<b>49</b>
<b>Gender</b>	<b>Male</b>
<b>Nationality</b>	<b>Malaysian</b>

#### **Name of Company**

Salcon Engineering Berhad

#### **Designation**

Director - Engineering & Proposal

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

29 June 2010

#### **Qualification**

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

#### **Working experience**

Jamiluddin Amini b. Sulaiman has been involved in the engineering and construction of various water treatment plants in the last 26 years, which include project management, design, procurement, construction, commissioning and operation. In his current capacity, he oversees the operation of Engineering & Proposal Division which is primarily responsible in preparing detailed engineering design and tender/proposal for water supply projects.

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

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

<b>Name</b>	<b>Yap Sui Pon</b>
<b>Age</b>	<b>63</b>
<b>Gender</b>	<b>Male</b>
<b>Nationality</b>	<b>Malaysian</b>

#### **Name of Company**

Salcon Engineering Berhad

#### **Designation**

Project Director

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

5 October 2010

#### **Qualification**

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

#### **Working experience**

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

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

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

## Profile of the Key Senior Management

<b>Name</b>	<b>Lee Thim Loy</b>
<b>Age</b>	<b>68</b>
<b>Gender</b>	<b>Male</b>
<b>Nationality</b>	<b>Malaysian</b>

### Name of Company

Envitech Sdn Bhd

### Designation

Managing Director

### Date of first appointment to key senior management position

30 August 1984

### Qualification

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

### Working experience

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

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

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

<b>Name</b>	<b>Low Beng Peow</b>
<b>Age</b>	<b>70</b>
<b>Gender</b>	<b>Male</b>
<b>Nationality</b>	<b>Malaysian</b>

### Name of Company

Envitech Sdn Bhd

### Designation

Executive Director

### Date of first appointment to key senior management position

30 August 1984.

### Qualification

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

### Working experience

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

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

<b>Name</b>	<b>Dato' Mohammad Hakim Low bin Abdullah</b>
<b>Age</b>	<b>53</b>
<b>Gender</b>	<b>Male</b>
<b>Nationality</b>	<b>Malaysian</b>

#### **Name of Company**

Volksbahn Technologies Sdn Bhd

#### **Designation**

Chief Executive Officer

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

May 2014

#### **Qualification**

Bachelor of Business Administration and International Marketing from Eastern Michigan University US.

#### **Working experience**

Dato' Mohammad Hakim Low Bin Abdullah has more than 20 years of Telco Industry experience in senior positions with Malaysian and International Companies such as Wembley Industries, Lucent Technologies, Sapura Digital, Commverge Solutions and KargoCard. In his various commercial roles, he spearheaded the introduction and boost of sales for new products and services for the telecommunication and consumer industry.

Besides being the Managing Director and Co-Founder of Volksbahn Technologies Sdn Bhd, he sits on the Board of Directors of various companies as a strategic and commercial advisor.

<b>Name</b>	<b>Christoph Zilian</b>
<b>Age</b>	<b>51</b>
<b>Gender</b>	<b>Male</b>
<b>Nationality</b>	<b>Deutsch</b>

#### **Name of Company**

Volksbahn Technologies Sdn Bhd

#### **Designation**

Executive Director

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

May 2014

#### **Qualification**

- Folkwang University of Arts Essen – Master
- European School of Management and Technology Berlin - MBA

#### **Working experience**

Christoph Zilian has more than 20 years of experience in International Business, Engineering and Technology Services. Prior to focusing on the Malaysian market, he was responsible for delivering ICT services to Fortune 500 customers as responsible for Asia Pacific.

In Malaysia he held various C-Level positions with local companies in management consulting, systems integration and managed services. His current focus is on developing new business and service models for smart urban environments, Internet of Things and Cloud Computing.

## Profile of the Key Senior Management

<b>Name</b>	<b>Vergis Mathews A/L V V Mathew</b>
<b>Age</b>	<b>56</b>
<b>Gender</b>	<b>Male</b>
<b>Nationality</b>	<b>Malaysian</b>

### Name of Company

Eco-Coach & Tours (M) Sdn Bhd

### Designation

Chief Executive Officer

### Date of first appointment to key senior management position

1997 - Managing Director

### Qualification

ACCA (UK Variance)

### Working experience

Vergis Mathews has extensive career experience in various industries including transportation or logistic business for more than 20 years, film production, advertising and marketing, and audit and corporate tax.

Vergis Mathews was an Associate partner in Paul Charles & Associates from 1 February 1980 to 30 June 1986 before leaving for Coopers & Lybrand, London, United Kingdom as Audit Senior from 1 July 1986 to end 1991. He then joined the film production industry from 1 March 1992 to 30 March 2000 as Finance and Business Development Director.

In year 1997, he was appointed as Managing Director of Eco-Coach and Tours (M) Sdn Bhd to the Fleet Operation and seconded by Petronas NGV to assist the Chairman of Commonwealth Games 1998 Rt. Gen. Tan Sri Hashim Ali on the logistic coordination and needs for 2000 unit/fleet vehicles XVI Kuala Lumpur, 1998 Commonwealth Games.

<b>Name</b>	<b>Thomas Alexander Sjøberg</b>
<b>Age</b>	<b>39</b>
<b>Gender</b>	<b>Male</b>
<b>Nationality</b>	<b>Norwegian</b>

### Name of Company

Salcon Petroleum Services Sdn Bhd

### Designation

Chief Operating Officer

### Date of first appointment to key senior management position

22 April 2015

### Qualification

Master in Geophysics from University of Oslo

### Working experience

Thomas Alexander Sjøberg is a geophysicist by background and has more than 15 years of technical, operational and managerial experience in the upstream oil and gas industry.

Thomas Alexander Sjøberg was previously the President for EMGS Asia Pacific, a publicly listed Norwegian company doing CSEM acquisition and processing. He has broad international experience in both business development and operations for Oil & Gas.

Thomas Alexander Sjøberg has been based in Malaysia for more than 10 years and has in that time-period brought in several Norwegian companies to Malaysia and grown the business for the larger Asia Pacific region.



<b>Name</b>	<b>Liew Swee Choong</b>
<b>Age</b>	<b>54</b>
<b>Gender</b>	<b>Male</b>
<b>Nationality</b>	<b>Malaysian</b>

#### Name of Company

Prestasi Kemas Sdn Bhd

#### Designation

General Manager

#### Date of first appointment to key senior management position

16 June 2014

#### Qualification

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

#### Working experience

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

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

Notes:

All key senior management do not have:

- i. Directorship in other public companies
- ii. Any family relationship with any director and/or major shareholder of Salcon Berhad
- iii. Any conflict of interests with Salcon Berhad
- iv. Other than traffic offences, none of the key senior management had been convicted for offences within the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 31 December 2016.

<b>Name</b>	<b>See Che Chi</b>
<b>Age</b>	<b>47</b>
<b>Gender</b>	<b>Male</b>
<b>Nationality</b>	<b>Malaysian</b>

#### Name of Company

Salcon Xinlian Group Limited

#### Designation

Chief Executive Officer

#### Date of first appointment to key senior management position

9 January 2017

#### Qualification

Attended University of Calgary Canada from 1990-1993 in Computer Science (BSc)

#### Working experience

See Che Chi, has more than 20 years of experience in various fields in the Information and Communications Technology (ICT). His experience covered fintech/banking, mobile payment, e-commerce/M-commerce, retail marketing, security solution and tourism.

He was the founder Group Chief Executive Officer of the following companies:

- (i) Marimari.com, an online travel website and first IBM E-business partner for travel industry in Malaysia from 1997 to 1999;
- (ii) Hotelplatform Inc, a China and regional online hotel regeneration and distribution systems for 3,000 hotels in Asia Pacific, from China, Korea, Japan to South East Asia from 1999 to 2002.
- (iii) Bellwrights Sdn Bhd, a telecommunication service provider in Malaysia and mobile solution provider for retail industry from 2002 to 2005.
- (iv) SignCharge Ltd, a mobile payment and mobile identity solution provider in Malaysia and China, in partnership with China Financial Certification Authority (a subsidiary of China Unionpay), CITIC Telecom Ltd (a subsidiary of CITIC Group in China) and SICAP of Swisscom, in Switzerland from 2011 to 2015.

See Che Chi was the Executive Director of Trustgate Berhad from 2006 to 2010, a company providing security solution and digital certificates to local banks and government agencies.

# OPPORTUNITIES FOR PROGRESS

Our passion inspires us to conceptualize property developments that lead the way forward. By thinking outside of the box, we are creating value for property purchasers.





# Chairman's Statement

Dear Shareholders,

It gives me great pleasure to present to you the Annual Report and Audited Financial Statements of Salcon Berhad (“Company”) and its group of companies (“Group”) for the financial year ended 31 December 2016 on behalf of the Board of Directors.

Malaysia's economy has maintained a steady growth rate in 2016 despite falling revenue from a weaker commodities market. In this current economic environment, Salcon has maintained a resilient performance and improved shareholder value by expanding and diversifying into strategic business opportunities whilst fortifying our role as the premier water and wastewater infrastructure provider in Malaysia and overseas.

## REWARDING OUR SHAREHOLDERS

In view of the Group's steady performance this year, I am pleased to announce that the Board has recommended a final dividend of one (1) treasury share for every eighteen (18) existing ordinary shares held in the Company.

The dividends will be paid by way of distribution in specie of shares.

## GROWING LONG TERM SHAREHOLDER VALUE

Creating shareholder value is a key priority for the Group and, going forward, we will continue to invest in the business to support growth via a 3 pronged strategy of strong execution of projects, rebalancing our portfolio and maintaining an appropriate risk profile in order to generate sustainable returns.

The Group will continue to capitalize on its' more than 40 years of experience in the water and wastewater industry in Malaysia and overseas to cement its position as the premier water and wastewater company in the region. We are proud to be the lead partner in the single largest water contract in Malaysia, the Langat 2 Water Treatment Project which will assist to alleviate water supply in the Klang Valley, upon its completion. We will continue to develop and execute projects using global best practices that ensure consistent project returns.

The Group will maintain a strong focus and has the capability to evaluate growth opportunities where long-term shareholder

value can be created. In this regard, we seek to balance our portfolio to complement our traditional core business in key growth markets such as technology services and China tourism e-commerce. This diversification has resulted in a unique portfolio of businesses which gives the Group a significant opportunity to grow in new markets, new technologies and new geographies.

By maintaining an appropriate risk profile, in the long term, the Group is confident of the growth opportunities of our diversified business model and the potential for further revenue growth, margin improvement, as well as continued returns to shareholders through dividends.

As we look forward, the opportunities for further improvement and value creation remain attractive. We are confident that our business model and strong balance sheet will form the foundation for our future progress and position Salcon well to deal with today's challenging economic and financial conditions.



For the second consecutive year, the Group has been included as a constituent of the FTSE4Good Bursa Malaysia Index.



**DATO' SERI (DR.) GOH ENG TOON**  
Chairman, Non-Independent  
Non-Executive Director

## COMMITMENT TO SUSTAINABLE BUSINESS PRACTICES

As part of our strategies in creating long term value for all stakeholders, we remain committed to prudently manage the impact of our business on the environment, to uplift the communities in which we operate in and to maintain an inclusive, respectful, and progressive working environment for our people.

The Group's performance in the areas of environmental, economic and governance has once again been clearly acknowledged by the market. For the second consecutive year, the Group has been included as a constituent of the FTSE4Good Bursa Malaysia Index.

Additionally, the Group was also awarded Asia's Best CSR Communication within Annual Report Award by the Asia Sustainability Reporting Awards 2016 in Singapore. Salcon was also shortlisted for the ACCA Malaysia Sustainability Reporting Awards (MasRa) 2016 held at Sime Darby Convention Centre. These recognitions are a clear testament of the Group's strong culture of corporate governance and we will continue to strive towards greater transparency and sustainability.

We will continue to dedicate our highest quality services and apply business best practices in Salcon to reach our goals in the future with confidence and enthusiasm.

## APPRECIATION

On behalf of the Board, I would like to extend our sincere gratitude to the Salcon management team and employees for their dedication and hard work over the past year. I would also like to thank the Group's investors, business partners, consultants, suppliers and customers for their continued support.

The Board and I would also like to extend our appreciation to the Ministry of Energy, Green Technology and Water (KETTHA), Pengurusan Aset Air Berhad (PAAB), Suruhanjaya Perkhidmatan Air Negara (SPAN) and to other various agencies for their co-operation and facilitation in growing our businesses.

We will continue to dedicate our highest quality services and apply business best practices in Salcon to reach our goals in the future with confidence and enthusiasm.

Yours sincerely,

**Dato' Seri (Dr.) Goh Eng Toon**  
Chairman  
Salcon Berhad

# Management Discussion and Analysis

## Business Overview

Salcon Berhad is an investment holding company with its core business in the provision of water and wastewater engineering services not only in Malaysia but also overseas. To date, it had successfully undertaken projects in Sri Lanka, Vietnam, Thailand and China. The Group has successfully completed more than 900 water and wastewater projects to date and is currently in the midst of implementing the single largest water contract in Malaysia, the Langat 2 Water Treatment Plant project.

In line with its commitment of enhancing long-term shareholder value, the Group, continuously reviews its business strategy and in recent years has embarked on strategies to diversify into businesses in the high growth segment by forging strategic partnerships, creating new platforms and making strategic acquisitions. Besides its traditional water and wastewater business, the Group has since expanded its portfolio to include Property Development in 2012 and most recently into Technology Services and China Tourism e-commerce. By continuously exploring potential growth areas and markets, the Group is able to ensure sustainable growth and returns especially in the current challenging economic and financial environment.

Moving forward, the Group is confident of the growth opportunities and potential for revenue growth in our diversified business portfolio by leveraging on the Group's financial strength and strategic partners for specialised knowledge and technologies in addition to Salcon's in-house expertise and proven track record not only in Malaysia but also overseas.

Although the Group is principally operating in Malaysia, it has business operations across the Asian region as tabulated below:

Divisions	Key Activities	Geographic Presence
Engineering & Construction	Design and build water/wastewater treatment plants, Operation & Maintenance (O&M) services, Non Revenue Water (NRW) management and control, customer billing & collection	Malaysia, Sri Lanka, Thailand, Vietnam
Property Development	Boutique property development targeting niche markets	Malaysia, Australia
Technology Services	Provision of Smart Urban Infrastructure Services for Telco Operators, Enterprises, SME, Property Developers and Government.	Malaysia – centered in the Klang Valley
China Tourism e-commerce	Sole and exclusive operator of the "Malaysian Tourism Pavilion" on the Alitrip tourism platform of Alibaba (China) Co. Ltd.	Malaysia, China
Transportation	Provision of transport services to multinational companies such as Intel, Western Digital Media and Paramit located in Kedah and Penang	Malaysia – Penang, Kedah





Construction of the Langkat 2 Water Treatment Plant with capacity of 1,130MLD is in good progress.

## Financial Performance

For the year under review, the Group recorded consolidated revenues of RM98.97 million, a decrease of 19.6% from RM123.07 million in FYE2015 due to the completion of various projects. Additionally, due to the adoption of equity accounting method on our major existing construction joint venture projects ie the Langkat 2 WTP and Langkat CSTP, revenue contributions from these 2 projects are not being recognised during the year.

Nevertheless, the Group recorded a Profit After Tax (PAT) at RM11.84 million, which is 113.8% higher than the previous year, resulting in an increase in Earnings Per Share (EPS) for the full year from 0.82 sen to 1.81 sen. This is mainly attributable to the exceptional gain of RM42.06 million from the completion of the disposal of Salcon Linyi (HK) Ltd. For the FYE 2016, the Group also recognised RM10.59 million in share of profits from the Langkat 2 Water Treatment Plant (WTP) and the Langkat Centralized Sewage Treatment Plant (CSTP) projects.

The Group declared a first and final dividend of one (1) treasury share for every eighteen (18) existing ordinary shares held in the Company.

During the year under review, the Group bought back 30,009,300 ordinary shares of RM0.50 each of its issued share capital from the open market, at an average cost of RM0.59 per share. The total consideration paid for the share buy-back amounted to RM17.99 million and was financed by internally generated funds.

The Group's financial position remains healthy with total cash and cash equivalents of RM215.9 million, notwithstanding that this is a reduction of 22.3% compared to the previous year due to dividend payment, shares buy-back and land purchase in Australia for property development purpose. The Group's gearing ratio remains low at 0.15 as at 31 December 2016 with borrowings totalling RM73.1 million.

## Engineering & Construction Division

### Financial Highlights

The Engineering & Construction Division was the Group's largest revenue contributor during the year under review with total revenues of RM83.1 million, representing 84% of the total consolidated revenues. Compared to the previous year, revenues recorded a drop of 11% as two (2) of the Group's main subsidiaries has completed most of its old projects during the year and new projects just kicked off.

However, the division's profit rose 275.7% this year from a loss of RM3.70 million to a profit of RM6.5 million. This turnaround was largely due to the Group's share of profit from the Langkat 2 WTP and Langkat CSTP, under joint venture arrangement.

As at 31<sup>st</sup> December 2016, the Group's total order book stood at RM1.28 billion comprising water and wastewater projects, both locally and overseas with RM645.6 million balance of works to be carried out.

### Operational Highlights

The business activities in the Engineering and Construction Division were implemented mainly by the Group's subsidiary, Salcon Engineering Berhad and Envitech Sdn. Bhd. Currently, the division is undertaking the single largest water contract in Southeast Asia, Langkat 2 WTP and the Langkat CSTP project, which is expected to be completed in 2018 and 2020 respectively. Physical progress of both projects have reached 72% and 36% respectively as at FYE 2016.



Langat Centralized Sewage Treatment Plant will accommodate an inflow of 920,000 P.E. upon its completion.

During the year under review, the Group secured nearly RM300.0 million worth of new contracts to replenish its order books, namely the Kuala Terengganu Utara Water Supply Scheme (KTU), Langat CSTP – Conversion of 10 sewage treatment plants into network pumping stations and the upgrading of Sg. Lebam, Johor water treatment plant & distribution system. The KTU project is valued at RM217.67 million and involves the engineering, procurement, construction and commissioning of the Kuala Terengganu Utara water treatment plant works in Kuala Terengganu. The Langat CSTP – Conversion of 10 sewage treatment plants into network pumping stations is valued at RM66.8 million whilst Sg Lebam Water Treatment Plant is awarded by PAAB with contract value of RM14.52 million.

These projects are currently on-going and implementation is progressing well.

The Group is also actively involved in tendering for overseas projects and building strategic alliances with potential partners and associates to carve out win-win partnerships to gain market share in the overseas market.



View of 120MLD Sg. Lebam Water Treatment Plant and distribution system in Johor was completed within schedule.

#### Looking Forward

The Group sees a better and fruitful year ahead for this division with the commencement of work of the new projects that have been successfully secured during the year. Its current outstanding order book of RM645.6 million is expected to keep the Group busy for the next 3 years.

Malaysia remains the core market for the Group's growth and expansion especially in the area of wastewater treatment where the Government is undertaking a programme towards the construction of centralised sewage treatment plants in various cities and major towns to meet the growing needs of the nation. The Group foresees playing a leading role in this area where our experience, expertise and track record will stand in good stead.

The Group sees a better and fruitful year ahead for this division with the commencement of work of the new projects that we have successfully secured during the year.



The Group will continue to seek suitable opportunities in the water and wastewater market both locally and overseas markets such as Sri Lanka, Vietnam, and Myanmar.

The Group has successfully completed four projects in Sri Lanka ie Hambantota Water Supply Project, Batticaloa Water Supply Project, Kelani Right Bank Water Supply Project and the Kandana Water Supply Project. With the excellent track record and successful completion of these projects, the Group is confident of securing more projects in Sri Lanka in the near future.

In the coming year, the Group's main priority is to replenish its order book, strive for excellence in quality as well as innovation in delivering its services while constantly looking at ways to increase operational efficiency.

## Concession Investments Division

### *China Concession*

The Group completed the disposal of its last China water concession in Linyi City, Shandong Province when Salcon Water (Asia) Ltd, entered into a Share Sale & Purchase Agreement with Orient Harmony Holdings Limited for the disposal of Salcon Linyi (HK) Limited. The sale was completed on 26 April 2016 with proceeds received on the same day.

With the completion of the disposal, the Group realised a net gain of RM42 million and this marks the final disposal of all Salcon's water and wastewater assets in China.

### *Vietnam Concession*

The Binh An water concession located in Ho Chi Minh City contributed a consistent recurring income to the Group since it commenced operations in 1999. For FYE 2016, this concession contributed a net profit of RM4.3 million to the Group.



*View of sedimentation tank at Kandana Water Treatment Plant in Sri Lanka.*

With the completion of the disposal, the Group realised a net gain of RM42 million and this marks the final disposal of all our water and wastewater assets in China.



### Property Development Division

#### Financial Highlights

The Property Development Division has yet to contribute financially in FYE 2016 due to the Group's adoption of the Malaysian Financial Reporting Standards (MFRS) to recognise revenue and profits only upon completion of a development. As a result, this division recorded a loss of RM4.9 million compared to a loss of RM3.2 million the previous year.

#### Operational Highlights

The Group's small office home office ("SOHO") development project in Selayang "rés280" is expected to be completed by the second half of 2017. Upon completion of this mixed residential and commercial development, an estimated Gross Development Value of RM157.5 million is expected for the Group.

The other property development projects on hand include Eco Midtown in Johor and Belfield Crest in Kuala Lumpur. With the recent softening of the Malaysian property market, the Group is reviewing the development strategy of both projects.

Given the general slowing down of the Malaysian property market, the Group has since diversified its property development portfolio overseas. During the year under review, the Group via its subsidiary Salcon Development (Australia) Pty Ltd acquired a plot of freehold commercial land in Melbourne, Australia. This acquisition will give the Group the opportunity to establish a presence in the Australia property market, where the demand for properties has remained strong in key cities such as Melbourne, in particular in the inner city areas. The land acquired is situated approximately 4 km south-east of the Melbourne Central Business District ("CBD") and is well serviced by public transport connections including the South Yarra Train Station and city trams. The Group intends to develop the property into a residential-led mixed use development project consisting of a 27 storey building.

#### Looking Forward

The Group looks forward to the maiden contribution from the property development division in FYE 2017, with the completion of its "rés280" project in Selayang.

The Group looks forward to the maiden contribution from the property development division in FYE 2017, with the completion of our rés280 project in Selayang.

## Other Divisions

### Transportation

The transportation division which is operated by Eco Coach & Tours (M) Sdn. Bhd. (Eco-Coach) has maintained a steady performance recording revenues of RM13.62 million, which is 13.7% of the Group's total revenue during the year under review.

During the year, Eco Coach has added 30 vans and 4 coaches to its fleet of vehicles to cater for the transportation need of multinational companies such as Intel, Western Digital Media, Paramit and B Braun Medical. To date, Eco Coach has a total of 102 vans, 35 coaches, 5 MPV, 25 limo services vehicles and 160 drivers.



*Transportation services has maintained a steady performance for the Group this year.*

Moving forward, the Group intends to look into new revenue streams from retail businesses and facilitate the mobile convergence for operators through its fibre optic backbone

### Technology Services

The Technology Services Division under Volksbahn Technologies Sdn Bhd (VBT) recorded revenues of RM1.92 million during the year derived from the site rental for shared infrastructure as well as bandwidth charges. However, due to the adoption of equity accounting method, the division has yet to contribute financially in FYE 2016. To date, the Group has signed up with Celcom Berhad, U Mobile Sdn Bhd and Digi Telecommunications Sdn Bhd to provide mobile backhaul services bundled with site rental for shared infrastructure. The Group looks to adding more sites from these mobile operators to increase income from this division.

During the year under review, VBT has also signed a Master Services Agreement with edotco Malaysia Sdn. Bhd. (edotco), one of Asia's biggest regional telecommunication infrastructure service provider under the Axiata group, to fiberize their cell sites, located between 2km to 5km radius from our fibre optic backbone along the LRT and monorail lines in Klang valley. edotco owns over 17,000 cell sites in the region with more than 10,000 located in Malaysia. For the first phase of the exercise, both edotco and VBT have identified 600 cell sites to be fiberised to provide mobile backhaul services to other telcos.

Moving forward, the Group intends to look into new revenue streams from retail businesses and facilitate mobile convergence for operators through its fibre optic backbone.



*The signing ceremony between Volksbahn Technologies Sdn. Bhd. and edotco Malaysia Sdn. Bhd. in September 2016.*

### *Solar Power Services*

The Group, via its subsidiary Salcon Power (HK) Limited has successfully completed the installation of solar photovoltaic systems on the rooftops for 1,664 residential houses in over 30 areas in the United Kingdom. The Salcon Power (HK) Limited recorded revenue of RM0.6 million for FYE2016.

### *China e-commerce Tourism*

In FYE2016, the Group via its wholly subsidiary Beijing Xinlian Yitong Technology Co Ltd (BXYT) ventured into China e-commerce tourism in collaboration with Alibaba group unit, Alitrip, as the exclusive operator of the online tourism and marketing platform namely Malaysia Tourism Pavilion (MTP). The MTP is endorsed by Tourism Malaysia and through this channel, the Group is able to provide an excellent platform for Malaysian travel trade players to get a bigger slice of the Chinese outbound market.

The Chinese population, especially its burgeoning middle-class, has an increasingly voracious appetite for travel, with more than 300 million Chinese travelling abroad last year alone, spending over US\$200 bil (RM840 bil) worldwide. Chinese travellers constituted the largest source of tourists to Malaysia, with 1.7 million arrivals in 2015 and more than 1.4 million arrivals in the first eight months of 2016. The Group targets to reach these tourists to market outbound and inbound tourism services as well as food and beverage vouchers and souvenirs.

The MTP is endorsed by Tourism Malaysia and through this channel, the Group is able to provide an excellent platform for Malaysian travel trade players to get a bigger slice of the Chinese outbound market.



*Beijing Xinlian Yitong Technology Co. Ltd. is appointed by Alibaba and endorsed by Tourism Malaysia to operate and manage the Malaysia Tourism Pavilion.*

## Business Outlook

The Group maintains a positive outlook for FYE 2017. Indeed, the Group has secured nearly RM300 million worth of new water and wastewater contracts last year, bringing its total outstanding order book to RM 645 million. In the Malaysia Budget 2017, a total fund of RM 2.0 billion has been allocated to improve capacity and address water supply issues in various states.

The Group is confident that it will be able to play a role in the nation's water supply needs and will build on our experience and expertise to leverage on the programmes and projects outlined in the 11<sup>th</sup> Malaysia Plan. We remain focused on building upon our key competitive strengths in the design and construction of water and wastewater upon treatment plants, laying of water and sewer pipelines, and growing in niche markets such as Non Revenue Water management and control.

Concurrently, the Group's diversification into technology services, property development and tourism e-commerce will boost our earnings growth in the medium to long term.

In technology services, telecommunications companies which are competing to provide faster and reliable bandwidth services will need to fiberise their networks. The competition between telecommunication companies which are driven by data growth and innovative new digital services, content and applications give the group extensive opportunities to fully utilize our fibre optic backbone which is strategically located in the heart of the Klang valley to secure more income-generating ventures.

As for the property division, with the slowing down of the Malaysian property market, the Group's acquisition of the freehold commercial land in Australia will enable the Group to establish a presence in the Australian property market. Additionally, our new ventures in China e-commerce and tourism will allow the Group to innovate travel by replicating Alitrip's success.

With these strategic initiatives in place, the Group has laid a strong foundation to further strengthen our performance and enhance value for our shareholders.



Concurrently, the Group's diversification into technology services, property development and tourism e-commerce will boost our earnings growth in the medium to long term.

# OPPORTUNITIES FOR CHANGE

By capitalizing on technological developments, we are enhancing the quality of life. The fibre optic infrastructure that we are installing in the Klang Valley provides smart city solutions that can transform lifestyles.





# Corporate Responsibility Report



MARKETPLACE



WORKPLACE



ENVIRONMENT



COMMUNITY

In line with our strategy to create long term values for all stakeholders, we remain committed to operate our business in an environmentally and socially responsible manner. We continue to incorporate long term sustainability best practices and the highest standards of ethics into our business operations, corporate culture, mission and core values.

During the Financial Year 2016, we have taken several strides forward in meeting our Corporate Responsibility (CR) milestones via:-

- 1) Formation of a Sustainability Committee to ensure accountability, oversight and review in the identification and management of sustainability matters
- 2) Introduction of the Group's Green Energy Policy
- 3) Expand our reporting scopes from Headquarters, Envitech Sdn Bhd (wastewater division) and water project sites to our other business units to include:
  - Eco-Coach & Tours Sdn Bhd (transportation division)
  - Prestasi Kemas Sdn Bhd (property development)
  - Volksbahn Technology Sdn Bhd (technology services)
  - Salcon Petroleum Services Sdn Bhd (oil and gas software marketing)
  - Circlio Interactive (Tourism) Sdn Bhd (online-to-offline commerce)

In ensuring an open, transparent and more comprehensive reporting to our stakeholders on our progress and performance throughout the year, this report is guided by the following:-

- FTSE4Good Bursa Malaysia Index Rating Guide
- Global Reporting Initiative GRI-G4 Sustainability Reporting Guidelines
- Bursa Malaysia Sustainability Reporting Guide and Toolkits
- ACCA Malaysia Sustainable Reporting Guidelines for Malaysian Companies

Going forward, we will continue to plan, implement and communicate our CR activities to our stakeholders in four focus areas which are Marketplace, Workplace, Environment and Community.



## Awards & Recognition

In FYE 2016, our sustainability performance was evaluated independently across our CR initiatives embracing environmental, social and governance practices by several esteemed organizations. We are honoured to be conferred coveted awards and recognitions from these prestigious bodies.



No.	Awards/ Recognition	Awarded by
1	Inclusion in FTSE4Good Bursa Malaysia Index (F4GBM Index) for the second consecutive year	FTSE Russell 
2	Conferred Asia's Best CSR Communication within Annual Report Award	2016 Asia Sustainability Reporting Awards (ASRA) 
3	Finalist for ACCA MaSRA 2016	ACCA Malaysia Sustainability Reporting Awards (MaSRA) 

These recognitions reflect the Group's strong culture of corporate governance and commitment to responsible business practices as well as independent third parties verification and confidence towards our sustainability performance.

## Sustainability Committee

As part of our journey in embedding and integrating sustainability into the Group's culture, a Sustainability Committee, which is chaired by the Chief Operating Officer (COO) of Salcon was formed with the objective of implementing the Group's CR strategies and planning in a more effective approach and create more sustainable values to the stakeholders. The COO monitors the sustainability progress of the Group and ensures it is integrated within our business strategies and operations as well as reports to the Board on the sustainability issues and updates.

The Board governs the sustainability of the Group. Sustainability issues are included and discussed in the Board Meeting's agenda to decide the Group's sustainability direction and action plans.

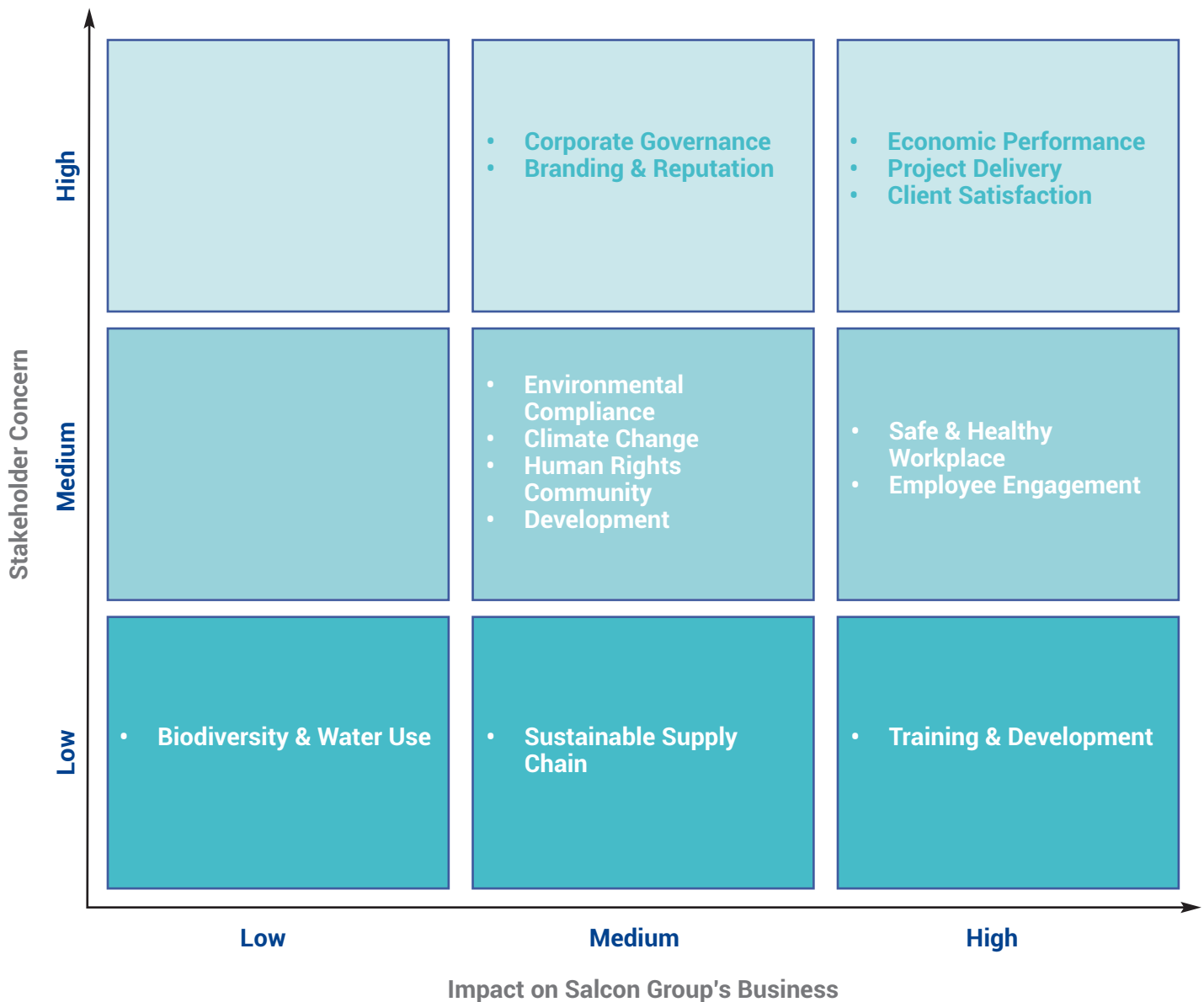
The members of the Sustainability Committee consist of Heads of Departments relevant to identification and management of material sustainability matters. The Corporate Affairs Department works closely with the COO and leads on CR strategies and planning, coordinates with the various departments and oversees materiality assessments.



### Materiality

By identifying material aspects throughout our business operations, we are able to articulate and positively influence our key environmental, social and governance impacts and identify sustainability risks and opportunities. This has enabled us to more effectively manage our sustainability performance as well as the reputation of the Group. Going forward, we plan to enhance our materiality assessment system by improving and strengthen stakeholder engagement in materiality assessment whilst at the same time obtaining feedback from different major stakeholders.

### Salcon Materiality Matrix



We have applied the GRI Sustainability Reporting Guidelines, Bursa Malaysia Sustainability Reporting Guide and the FTSE4Good ratings index to carry out the assessment of sustainability matters for our business and stakeholders. These material issues are important for the long-term sustainability and development of the Salcon Group and of society.

Sources of information used for this process include:-

- Issues identified by internal stakeholders
- Employee feedback and stakeholder surveys
- A literature review to identify key sustainability trends likely to affect the Group's business

#### Material areas identified for Sustainable Growth

- **Economic Performance, Project Delivery & Client Satisfaction**  
These issues are paramount in growing long term shareholder value and ensuring sustainable economic returns to our stakeholders
- **Corporate Governance, Branding & Reputation,**  
We adhere to the highest levels of corporate governance and are guided by Bursa Malaysia, FTSE4Good and other ESG ratings evaluations to ensure that our brand and reputation remain intact throughout the years.
- **Environmental Compliance, pollutions, climate change, human rights**  
We recognise that environmental, climate change and human rights issues are important to our stakeholders and we have in place responsible practices, policies and initiatives to minimise our environmental impacts as well as to support human rights issues. Please refer to the Environmental section of this report for further elaboration of our actions in these areas.
- **Safe & Healthy Workplace, Employee engagement**  
A safe & healthy workplace and an open and accommodating organizational culture contributes to the wellbeing and happiness of the Group's most important asset.
- **Sustainable Supply Chain**  
Promoting responsible procurement / Sustainable raw materials supply
- **Community Development**  
Creating job opportunities for local communities across our project sites
- **Training & Development**  
Equipping our employees with the relevant skills and investing on leadership development and technical expertise.
- **Biodiversity, Water Use**  
Biodiversity conservation and water use issues are important considerations at our project sites.

## Stakeholder Engagement

It is critical to understand the point of views and concerns of our broad and diverse stakeholders in order to improve decision making and accountability. By engaging with our stakeholders, the Group is able to understand and further align our business practices with societal needs and expectations, helping to drive long-term sustainability and shareholder value as well as detect potential business opportunities and manage risks at the early stage. We use varied communication channels with different groups of stakeholders and engage with them in a respectful, fair, transparent, inclusive and responsive manner to forge consensus on sustainability management issues and establish long-term cooperative relationship. In FYE 2016, we continued to gather diverse opinion through the following active communications with our major stakeholders.

Stakeholder Group	Engagement Approach	Frequency of Engagement	Achievements	Material Area Alignment (refer Materiality Index)
Employees	<ul style="list-style-type: none"> <li>Salcon Recreational Club</li> <li>Employee performance Review</li> <li>Internal newsletter</li> <li>Training opportunities ie Workplace Safety &amp; Health training, ISO training, leadership training</li> </ul>	<p>As needed Annually</p> <p>As needed As needed</p>	<ul style="list-style-type: none"> <li>Senior and mid management Team Alignment Programme held at Avillion Port Dickson to foster teamwork and improve work relations</li> <li>Company Annual trips, Family Days, and sports tournaments for better work-life balance.</li> <li>Long service awards, salary increment and bonus to reward performance and contribution</li> <li>Effective performance tracking, improved work efficiency and better career development</li> </ul>	<ul style="list-style-type: none"> <li>Employee Engagement</li> <li>Safe &amp; Healthy Workplace</li> <li>Training &amp; Development</li> <li>Human Rights</li> </ul>
Shareholders/ Investors	<ul style="list-style-type: none"> <li>Annual General Meeting</li> <li>Analysts/ bankers/ fund managers meeting</li> </ul>	<p>Annually As needed</p>	<ul style="list-style-type: none"> <li>Briefing to shareholders on economic performance, business direction and strategies</li> <li>Analyst presentations with positive feedback on information shared</li> <li>Site visits to project sites</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Governance</li> <li>Branding &amp; Reputation</li> <li>Economic Performance</li> </ul>
Clients/ Customers	<ul style="list-style-type: none"> <li>Client satisfaction survey</li> <li>Customers services (at billing services center in Sandakan office)</li> </ul>	<p>Annually Daily (working day)</p>	<ul style="list-style-type: none"> <li>Evaluate capability and deliverability of jobs and services as well as identify areas of improvements</li> <li>Regular project meetings</li> <li>Timely response to attend to customer at billing services center</li> </ul>	<ul style="list-style-type: none"> <li>Economic Performance</li> <li>Project Delivery</li> <li>Client Satisfaction</li> </ul>

Stakeholder Group	Engagement Approach	Frequency of Engagement	Achievements	Material Area Alignment (refer Materiality Index)
Regulators/ Government Authorities	<ul style="list-style-type: none"> <li>Corporate governance compliance such as Bursa Malaysia, Security Commissions and Quality Management (ISO 9001)</li> <li>Environmental compliance at project sites</li> </ul>	As needed	<ul style="list-style-type: none"> <li>Create reputable branding as well as keeping track with the current market regulations</li> <li>Biodiversity conservation at project sites and create minimal carbon footprint</li> <li>Effective resources management</li> <li>Better awareness on environmental issues and compliance knowledge among employees</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Governance</li> <li>Branding &amp; Reputation</li> <li>Environmental Compliance</li> <li>Pollutions</li> <li>Water use</li> <li>Climate change</li> </ul>
Business Partners/ Associate Partners	<ul style="list-style-type: none"> <li>Strategies planning meetings</li> </ul>	As needed	Conduct strategic business planning meetings to improve economic performance	<ul style="list-style-type: none"> <li>Economic Performance</li> </ul>
Local Community	<ul style="list-style-type: none"> <li>Charitable giving</li> <li>Internship opportunities</li> <li>Local employment</li> <li>Environmental education</li> </ul>	As needed As needed As needed Bi-monthly	<ul style="list-style-type: none"> <li>Build positive relationship with the community and attend to their needs</li> <li>Partnership with university college to provide internship opportunity</li> <li>Created local employment at project sites</li> <li>Conducted 5 Salcon Smart Water Programme and 1 Train The Trainers Programme</li> </ul>	<ul style="list-style-type: none"> <li>Community Development</li> <li>Human rights</li> </ul>
Suppliers/ Sub Contractors	<ul style="list-style-type: none"> <li>Suppliers &amp; sub-contractors evaluation</li> </ul>	Annually	Performance monitoring and Improve efficiency throughout supply chain	<ul style="list-style-type: none"> <li>Sustainable Supply chain</li> </ul>
Media	<ul style="list-style-type: none"> <li>Media releases</li> <li>One on One interviews</li> </ul>	As needed As needed	Reach out to public on company's strategic direction, future aspirations to promote company branding and reputation.	<ul style="list-style-type: none"> <li>Branding &amp; Reputation</li> </ul>
Non Governmental Organisations/ Industry Associations	<ul style="list-style-type: none"> <li>Partnership and support in community, and environmental sustainability</li> <li>Industry exhibitions and conferences</li> <li>Support NGOs</li> <li>Membership with Malaysia Water Association (MWA), Global Water Intelligence (GWI) and International Water Association (IWA)</li> </ul>	As needed As needed As needed Annually	<ul style="list-style-type: none"> <li>Mutual understanding on sustainable environmental and social growth as well as biodiversity conservation</li> <li>Keeping track with industry updates</li> <li>River &amp; water conservation and education</li> <li>Signed no-shark fin pledge with WWF for all corporate functions</li> </ul>	<ul style="list-style-type: none"> <li>Biodiversity</li> <li>Water Use</li> <li>Human Rights</li> </ul>



## Marketplace Sustainability



We are committed and strive to deliver the highest standards of corporate governance and transparency throughout our business operations to deliver sustainable growth to our stakeholders. These guiding principles have been with us throughout the years and we shall continue to conduct ourselves in an ethical, transparent and accountable manner.



*Datuk Seri Panglima Dr. Maximus Johnity Ongkili, Minister of Energy, Green Technology & Water, visited Salcon's booth at Asiawater Exhibition 2016*

### **Embedding Integrity & Ethical Business Practices**

Across each country in the Asia region in which the Group operates in, we are committed to adhere to the applicable national laws and regulations. In order to ensure transparent and accountable business practices to maximize corporate value. The Board oversees the following compliance policies and rules.

#### **Code of Ethics and Conducts:**

All employees are guided by the Group's Code of Ethics and Conduct (COEC) which is clearly communicated to all new recruits upon their joining the Group. Each employee is briefed clearly about the dos and don'ts as well as the Group's expectations on integrity in all areas of our business operations.

Under the COEC, we state our firm stand on zero tolerance on any form of bribery or corruption, whether direct or indirect. The Board sees bribery and corruption as a criminal action which will only bring negative impact to the reputations and values of the Group. We conduct yearly risk assessment to monitor and prevent fraud and corruption in the Group. In FYE 2016, no staff was disciplined or dismissed due to non-compliance with anti-corruption laws. The full copy of COEC is publicly available at [www.salcon.com.my](http://www.salcon.com.my).

Each employee is briefed clearly about the dos and don'ts as well as the Group's expectations of integrity in all areas of our business operations.

#### **Risk Management:**

We recognize that pre-emptive responses and systematic risk management is important in managing and reducing potential uncertainties and risk factors, especially in today's fast growing and changing global business environment. Salcon's Risk Management Committee is guided by the Integrated Risk Management Policy (IRMP) which is in compliance with the ISO31000. The committee consists of 2 directors and 3 senior management personnel from non-Audit Departments who report to the Board on risk management issues.

We safeguard our shareholders' investments by identifying and mitigating potential risks through the IRMP. With the Policy & Audit Charter, the Internal Audit & Risk Management Department, who assists the Risk Management Committee, will identify, analyze, evaluate, follow up and report on any non-compliance issues in the Group. This includes risk management assessments prior to the commencement of a new project.

### Healthy Economic Growth

We are committed to generate healthy and fruitful returns to our shareholders. During FYE 2016, the Group has recorded RM112.7 million gross economic value, a 29.5% decrease compared to the previous fiscal year.

#### Economic Data (Group Level)

Description	2014 (RM '000)	2015 (RM '000)	2016 (RM '000)
Revenue	194,465	123,079	98,974
Other income and interest income	55,867	37,114	13,823
Gross value generated	250,332	160,193	112,797
Our suppliers: Operation costs	(187,664)	(135,234)	(57,954)
Our employees: Salaries and benefits	(22,271)	(21,935)	(35,438)
Our lenders: Payment to lenders (financial cost)	(1,928)	(5,576)	(4,820)
The Government: Payment to Government	(3,742)	(9,369)	(4,896)
The Rakyat: Community Investments	(190)	(192)	(161)
Net-value added	34,537	(12,113)	(9,528)
Our shareholders: Payment to shareholders	(20,230)	(20,325)	(13,294)
Our Future: Economic Value Retained	14,307	(32,438)	(3,766)

#### Revenue by Country

Malaysia's operation is still the major contributor for the Group's revenue, which accounts for 90.4% of the total revenue.

Countries	2014 (RM '000)	2015 (RM '000)	2016 (RM '000)
Malaysia	134,864	81,387	89,471
Vietnam	28,388	13,927	207
Sri Lanka	22,567	11,877	8,483
Thailand	2,942	1,485	205
Others	5,704	14,403	608
<b>Total</b>	<b>194,465</b>	<b>123,079</b>	<b>98,974</b>



## Sustainable Supply Chain

We are committed to ensure a fair and neutral supply chain throughout the Group's operation to ensure the most cost-effective solutions and efficient deliverability.

Under our procurement policy, we work with suppliers or sub-contractors who are responsible, reliable and have met our stringent criteria to ensure that only quality products/services are being used for our projects. Our corporate values are clearly communicated to our suppliers and sub-contractors so that they understand our requirement and meet our standards. Every supplier and sub-contractor has to comply with our ISO policies ie ISO 9001 Project Quality manual, ISO 14001 Environmental Manual and OSHAS 18001 Manual and are required to acknowledge their acceptance and understanding of these policies upon the award of a project/contract by signing on a condensed version of the policy.

### Supplier Evaluations:

We review our suppliers' performance through annual supplier evaluations. A total of 197 suppliers were assessed in FYE 2016 and 71% of them achieved Excellent grades and none were blacklisted during the year under review.

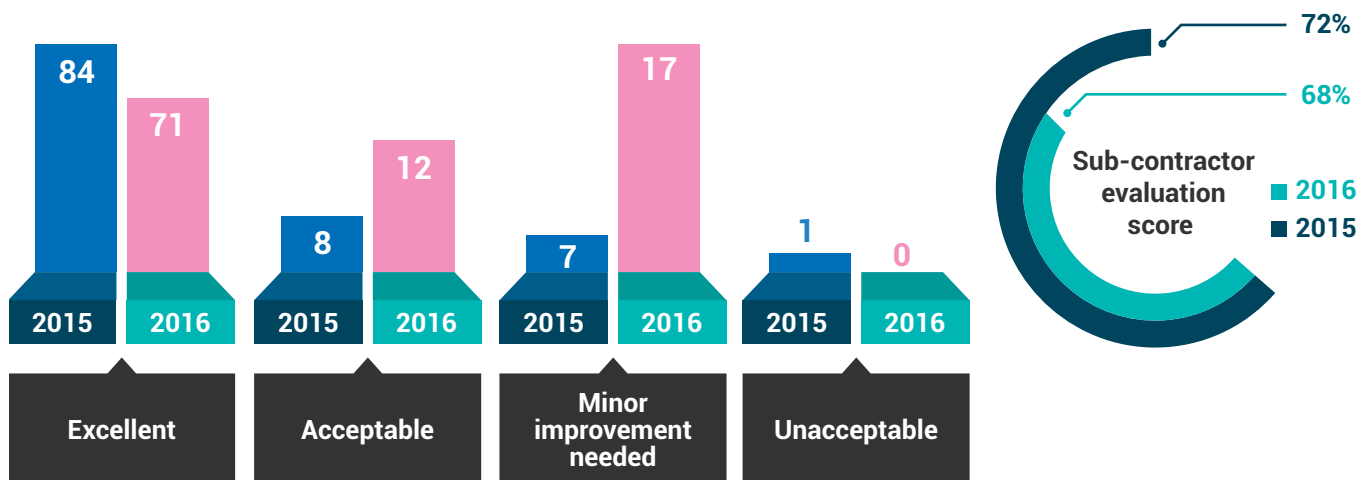
### Sub-Contractor Evaluations:

We keep track of our sub-contractors' performance yearly through our rating towards them. They were rated according to several criteria including pricing, workmanship, deliverable, cooperation and emergency response.

Our corporate values are clearly communicated to our suppliers and sub-contractors so that they understand our requirements and meet our standards.

## Supplier Performance Evaluations

### Percentage (%) in FYE 2015 & 2016



### Commitment to Our Clients

We seek to constantly improve ourselves to provide the best possible solutions to our clients. In order to meet our clients' expectations, we seriously listen to their feedback via the Client Satisfaction Survey which is conducted annually to review our performance, identify any shortfalls and take remedial action, where necessary.

Our Sungai Lebam Water Treatment Plant project and Kuala Terengganu Non-Revenue Water (NRW) projects were rated in FYE 2016 and our clients are 67% satisfied with our services in general which is below our benchmark of 75%. We have identified responsiveness as an area to improve and actions were discussed and taken to address this issue.

### Customer Service:

We operate a Customer Service Centre in Sandakan, Sabah, Malaysia under our NRW Division as part of our value-added service in the division. There are 5 officers at the centre handling billing and collection matters as well as attend to water issues raised by customers.

### Medium of Engagement

**Memberships:** We support various associations in the industry which share similar values with us. As a member of the International Water Association (IWA) and the Malaysia Water Association (MWA), we are able to keep track of the latest industry news and trends and gain insights or expand our networking through their activities. Besides this, we are also a member of Malaysia South-South Association (MASSA) and the Malaysia Investor Relations Association (MIRA).

**Website and Social Media:** In order to stay relevant in today's fast-paced world of technology, we utilise different channels to reach our stakeholders namely via the Group's corporate website ([www.salcon.com.my](http://www.salcon.com.my)) and Facebook page ([www.facebook.com/SalconBerhad](http://www.facebook.com/SalconBerhad)). All relevant updates of the Group are posted on these medium and stakeholders are welcome to reach out to us as well.

**Industrial Exhibitions and Conferences:** We support and participate in industrial exhibitions and conferences to keep ourselves updated with the latest industry knowledge as well as expand our networking in the industry. In FYE 2016, we participated in AsiaWater 2016 in Kuala Lumpur, Malaysia and LankaWater Expo 2016 in Colombo, Sri Lanka as an exhibitor. Both exhibitions are the largest in their respective nations.

**Get-together Activity:** As a gesture of appreciation to our clients and business partners, we hold various activities throughout the year. In FYE 2016, we held a Chinese New Year Get-together Luncheon and a Fruit Fiesta. Via such informal events, we have the opportunity to interact with our stakeholders in a relaxed manner and this allows us to better understand and improve our relationships with them.

Average time taken to handle each call maintained at

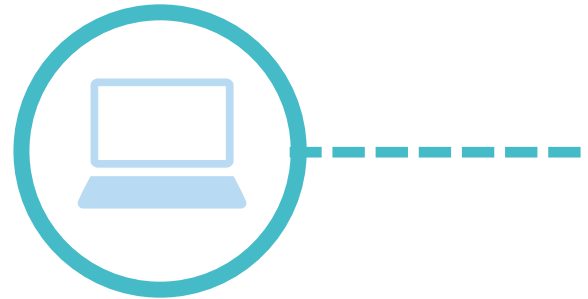
**1.5** minutes

We use different mediums to engage various types of marketplace stakeholders to maximize effective communications



Industrial exhibitions & conferences keep us updated with the latest industrial news and provide networking opportunities.

## Workplace Sustainability



As the company's greatest asset, it is important to provide our employees with support and encouragement to create a sense of belonging and to make them feel that they are an integral part of the Group. Thus, we are committed to provide a safe, healthy, fair and respectful workplace for everyone in the Group, with the objective of maximizing work productivity and achieving healthy work-life balance through the creation of a harmonious working environment.

### Respectful Culture & Fair Treatment

We strive to create and maintain a respectful and zero discrimination working environment for all our employees and adopt fair treatment to everyone, regardless of gender, ethnicity, age group, sexual orientation, disabilities, religion, political inclinations, union membership, nationality or marital status.

#### Respect for Human Rights:

We recognize the importance of human rights in our workforce as we believe a respectful workplace would create productive results. We comply with the local Employment Act in Malaysia and other countries in which we operate. We strictly prohibit human rights abuse among our employees and at the same time ensure equal opportunities in the workplace. We have a whistleblower system and grievance mechanism as the platform for our employees to report activities that may involve criminal conduct or violations of the Group's policies and guidelines.

We strive to create and maintain a respectful and zero discrimination working environment for all our employees and adopt fair treatment to everyone

Below are the Group's stand on human rights issues:

Principals & Practices	Description
Child labour Forced labour	We do not and will not recruit child labour and force labour in any of the countries which we operate and abide by all laws and regulations in countries and local communities where we conduct our business.
Political view	We have no restrictions on an employees' political view, so long as it does not affect the business and operations of the Group
Workforce welfare	We comply with all applicable wage laws of all employees, including minimum wages, overtime hours and working hours.
Workplace safety & health	We comply with OHSAS 18001 for all our project sites to ensure a safe and healthy workplace for our employees and sub-contractors

### Safe & Healthy Workplace

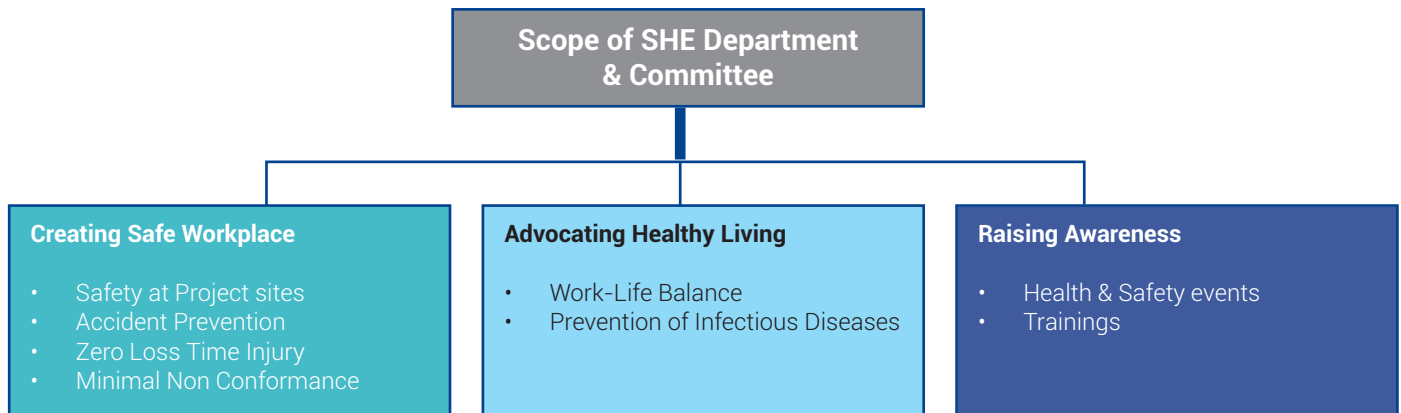
Guided by the Group's Safety & Health Policy, we are committed to foster a safe and healthy workplace for all of our employees, customers, contractors and community, regardless at office or project sites. The Board oversees the workplace health and safety issues to ensure employees benefit from a safe and healthy workplace and the Group is able to protect its assets, ensure business continuity and maximise work productivity.

#### Safety, Health & Environment (SHE) Committee:

At the Group level, our SHE Committee is chaired by our COO and consists of representatives from various departments. The committee consists of 14 members with clear responsibilities and roles.

SHE Committee's function:

- Cultivate a safe & healthy workplace for all employees and sub-contractors via:
- Conduct inspections and audits to identify any hazardous practices
- Conduct audit at headquarter office (annually) and project sites (quarterly)
- Conduct meetings to discuss workplace safety and health issues
- Organize activities to raise awareness on importance of workplace SHE



### Creating Safe Workplace - Safety at Project Sites:

Safety at Project Sites: We conduct Hazard Identification, Risk Assessment and Risk Control (HIRARC) prior to the commencement of new projects to identify any potential risk which may affect the employees, sub-contractors or public health and safety. All our projects certified with OHSAS 18001 have been subjected to HIRARC analysis.

All projects monitored by the Group's SHE Department are 100% certified with OHSAS 18001, namely the Kuala Terengganu NRW project, Sungai Lebam Water Treatment Plant project and Klang D55 project. As an OHSAS 18001 certified company, all of our health and safety data, practices and procedures have been gone through audit by the Bureau Veritas, an international certification agency.

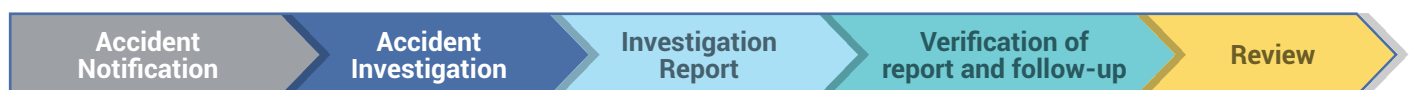
In order to secure the safety of our employees and intermediaries', we have safety reminder signboards at our project sites to ensure that they enter the site with proper clothing and safety equipment. At our Langat 2 Water Treatment Plant project site, safety reminder signboards around the project sites are not only written in Bahasa Malaysia and English language, but also foreign languages so that the foreign workers understand and comply with the regulations.



*On-going construction of Clarifier & Chemical Mixing Chamber at Langat 2 Water Treatment Plant*

### Creating Safe Workplace: Accident Management Process:

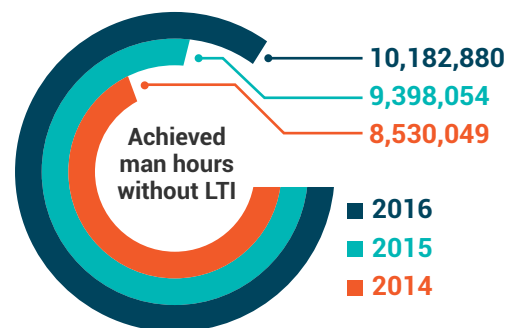
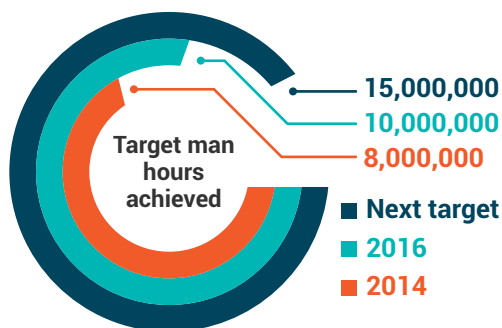
The Group adopts a transparent approach in the event of accidents or incidents leading to injuries or fatalities. Investigations and findings of the reported incidents or accidents will be carried out followed by actions to be taken as well as precautions in future. Below is our process of accident management.



A safe and healthy workplace is important as it could help to protect company assets, ensure business continuity and maximize work productivity.

**Creating Safe Workplace: Man Hours with Zero Loss Time Injury (LTI):**

We have successfully achieved our 10 million man hours with zero LTI in the fourth quarter of 2016. This marked a significant milestone in our safety management at project sites and the professional handling of equipments and chemicals by our employees and sub-contractors.



**0** work-related employee or sub-contractor fatalities case for the past three years

**10** Salcon achieved million man hours with zero loss time injury target in 2016

**Creating Safe Workplace: Non Conformance Report (NCR)**

Company	Particulars	FYE 2014	FYE 2015	FYE 2016
Salcon	NCR	3	0	0
	Closed	3	N/A	N/A
	Achievement (%)	100%	N/A	N/A

## Advocating Healthy Living: Work-Life Balance:

Our work-life balance advocacy is promoted through two platforms: the Corporate Responsibility Team under Corporate Affairs Department and the Salcon Recreational Club (SRC). The former conducts staff improvement programmes whilst the latter organizes family and sports-based activities.

Achieving Better Work-Life Balance	
Corporate responsibility team	Salcon Recreational Club
<p><b>Roles:</b> Organize workplace activities which promote healthy living</p>	<p><b>Roles:</b> Organize family and sport-based activities to enhance family bonding as well as promote outdoor activities</p>
<p><b>Major activities organized:</b></p> <ul style="list-style-type: none"> <li>• 10k steps Challenge – a challenge to walk 10k steps per day</li> <li>• De-stressing Technique Talk</li> <li>• Fruity Monday – a practice of eating fruits on every Monday</li> <li>• Biggest Loser Contest – Weight loss competition</li> <li>• Health Check-up</li> <li>• Blood Donation Drive</li> </ul>	<p><b>Major activities organized:</b></p> <ul style="list-style-type: none"> <li>• Weekly badminton</li> <li>• Bi-weekly bowling</li> <li>• Family day</li> <li>• Bowling tournament</li> <li>• Annual dinner</li> </ul>



Annual Family Day at Bukit Gambang

## Advocating Healthy Living: Prevention of Infectious Diseases:

We keep abreast with the Malaysia Ministry of Health and World Health Organization on infectious diseases which pose a high risk to our employees' health such as Zika, Dengue, MERS and Ebola. We educate our staff on the prevention of such diseases and ban business trips to high-risk countries. At the same time, we urge our staff to report to the S.H.E. team should there is any symptoms of the disease so that we may provide immediate medical assistance.

We also conduct regular spraying and fogging at our property construction site in Selayang to prevent breeding of mosquitoes. No employee was diagnosed with such infectious diseases during the year under review.

### Raising Awareness: Safety & Health Activities:

The SHE team members at both offices and project sites are actively involved in conducting workplace health and safety related activities to ensure every employee and sub-contractor are well-educated on safety and health knowledge. Some of the common safety and health initiatives at project sites include weekly toolbox briefing and awareness briefing.

#### Salcon Safety & Health Campaign Month:

The 2016 Salcon Safety & Health Campaign Month is the most significant awareness campaign which held at the HQ. Activities held included awareness talks such as OSH Transformation Talk, Distress Talk, quiz as well as annual blood donation drive.



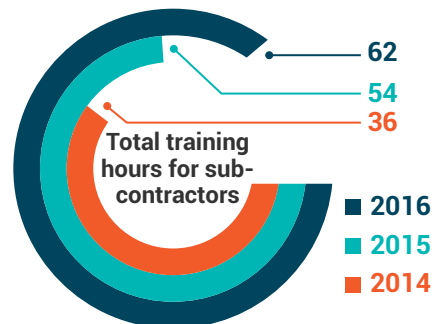
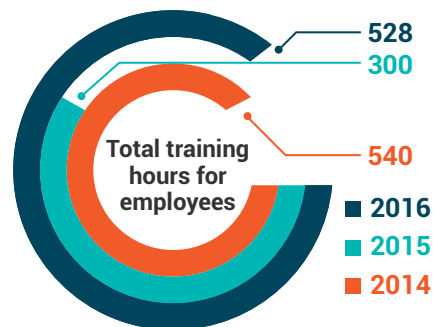
Salcon employees and public donated 78 pints of blood during the company's annual blood donation drive in May 2016.

#### OHSAS Campaign in Vietnam project site:

Our Vietnam project sites conducted OHSAS Campaign – Labour Safety and Hygiene Week in March and November respectively and successfully created safety awareness to employees.

### Raising Awareness: Workplace Safety & Health Training:

Awareness trainings are held for the employees to emphasize the importance of workplace health and safety. Proper handling of the equipments, machines and chemical products will help to mitigate unnecessary risks to the Company. We provide training opportunities to our sub-contractors with the objective to enhance level of safety awareness.



**93%**  
(27 persons)

of SHE committee members attended safety & health related training in FYE 2016, compared with

**71%**  
in FYE 2015

We have also extended the safety and health training to

**54** employees who are not under the safety & health team

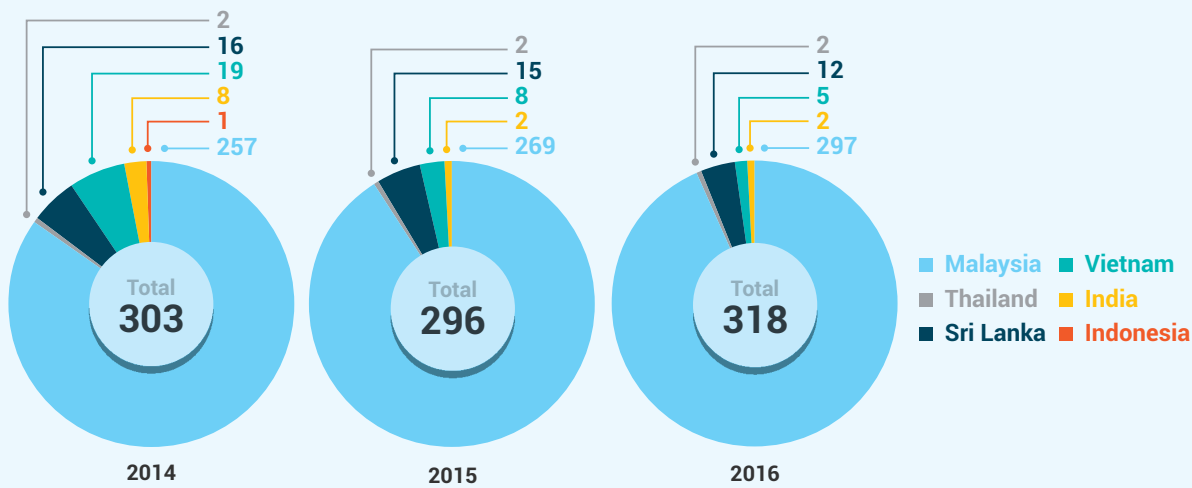


## Diversity & Inclusion

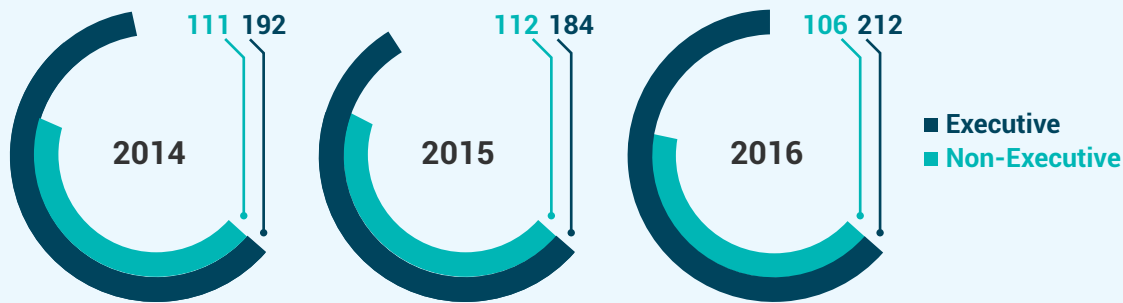
We welcome people with different background and culture as we believe that a diverse workforce would be able to generate creativity and innovation. Our employee diversity data below covers all of our operations and geographical areas, which are water and wastewater business, property development, technology services, transportation, petroleum services and e-Commerce trading.

### Employees Diversity:

#### TOTAL NO. OF EMPLOYEES

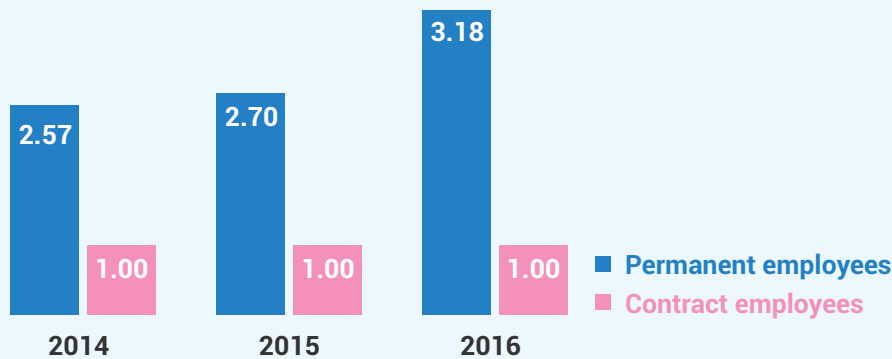


#### CATEGORY



#### STATUS OF EMPLOYEES

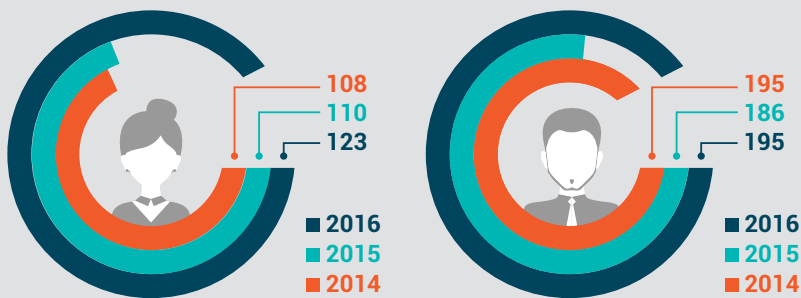
(Ratio between permanent and contract employees)



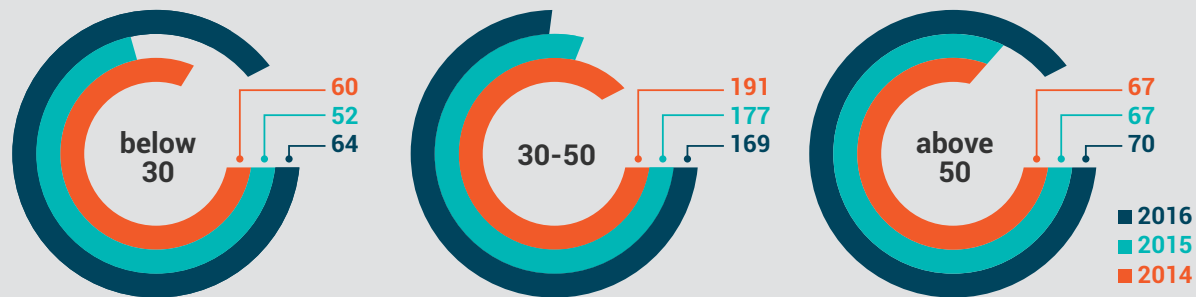
### Women Empowerment:

At Salcon, we treat both male and female employees equally in terms of salary, staff benefit and welfare as well as career opportunities. We recruit talent based on experience and related technical knowledge and gender is not a consideration in our recruitment process. Female employees are given equal opportunities to be involved in senior positions should they be capable of delivering the job.

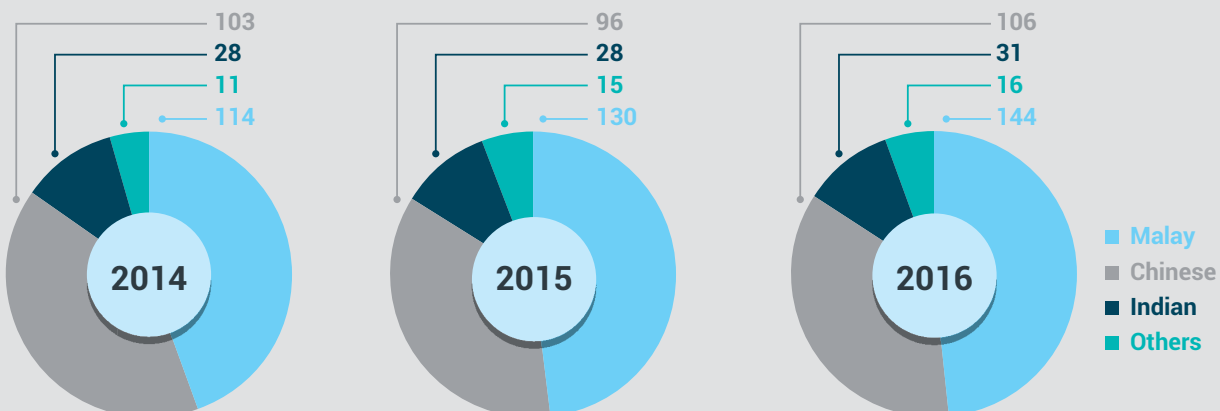
#### GENDER OF EMPLOYEES



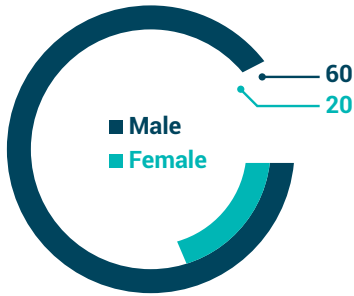
#### AGE GROUP OF EMPLOYEES



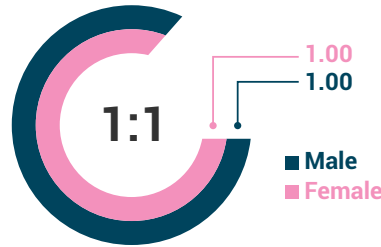
#### ETHNICITY OF EMPLOYEES (Malaysia only)



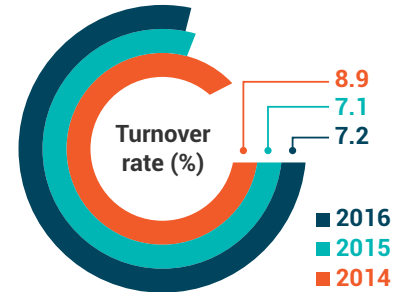
**GENDER OF EMPLOYEES  
(With Position of Manager & Above)**



**RATIO OF MEN VERSUS WOMEN SALARY**



**TURNOVER RATE**



**Directors Diversity:**

The six directors on Board with vast experience and diverse background in business management and engineering are the main pillar of the success of the Group. At present, all our directors are male and we welcome without hesitation the opportunity for the appointment of female leaders with the necessary expertise and experience to the membership of the Board. The details and expertise of our directors can be found in page 10 - 15 of this report.

**Appreciating with Our Employees**

**Rewards:**

We see our employees as the backbone of our success and recognize employees' contribution by rewarding them through salary increment, bonus, promotion or upgrading. Besides this, long service awards are conferred to employees who work more than 10 years as appreciation for their loyalty to the Group.

**Communications:**

Effective communications is critical for better understanding between employees and their superior on work progress and performance. Employees are engaged during the annual appraisal to review on the work and departmental performance, analyse and identify any shortfall as well as areas for improvement.

In addition, regular meetings on project progress or business strategy planning are held to ensure timely delivery of projects and sustainable growth of the Company.



Long Service Award given out during the Company's Annual Dinner.

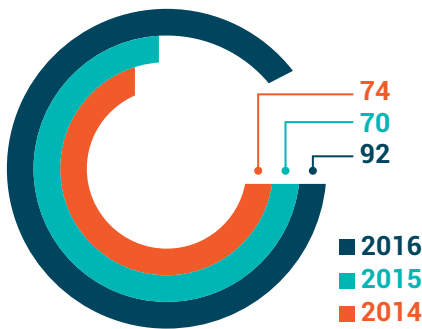
## Self-Improvement and Development

### Training Opportunities & Career Development:

We support our employees to reach their full potential by providing them with opportunities to grow together with the Group through continuous learning and upgrading themselves in order to prepare for better career development and advancement.

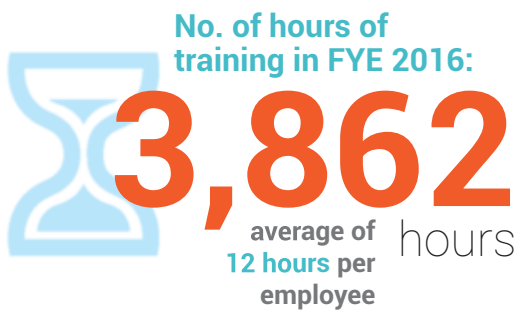
Training is one of the investments the Group emphasizes on with the objective of nurturing better and committed talents. Training opportunities are given to all level of employees as we reckon that the Group's success depends on everyone's contribution in the Group with the same vision and direction.

Total number of training for employees:

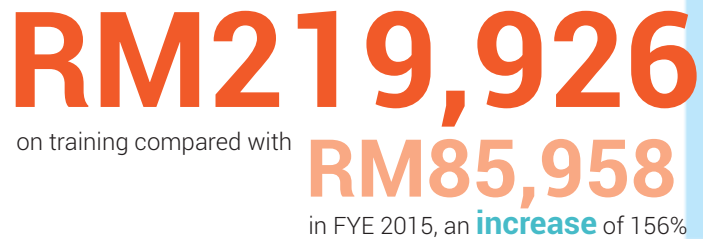


Training opportunities is one of the engagement approach we use to enhance employees' skills

Training is one of the investments the Group emphasizes and actively promotes with the objective of nurturing better and committed talents.



In FYE 2016, the Group has invested



We strongly encourage our employees to give back to the society by contributing their time, money or in-kind assistance.

### Volunteering Opportunities:

We strongly encourage our employees to give back to the society by of contributing their time, money or in-kind assistance. Community programmes are organised with the involvement of our employees. In FYE 2016, 5 of our employees have volunteered to join the Gotong-Royong Programme at SK Dusun Nanding to help in landscaping work, drainage cleaning and resolving flooring damaged by tree roots problems.

19 of our employees volunteered their time to pay a visit to Rumah Bakti Ci Hang and spend time with the old folks as well as decorate their home in conjunction with the Chinese New Year festive season. During the Salcon Annual Blood Donation Drive which was open to the public, 17% of the donors were Salcon employees who have shared their gift of life to the needy.

 Total voluntary hours contributed:  
**108**





## Environmental Sustainability

			
<b>A step forward in Environmental Sustainability Efforts</b>	<b>Climate Change &amp; Pollutions Management</b>	<b>Environmental Progress</b>	<b>Environmental Data/ Performance</b>
Introduction of: <ul style="list-style-type: none"><li>• Salcon Green Policy</li><li>• 10-year target for key areas</li><li>• Became signatory of WWF to support "Say No to Shark Fin"</li></ul>	Actions taken to reduce pollutions and green house gas emission	We monitor our environmental progress on areas including: <ul style="list-style-type: none"><li>• energy</li><li>• water</li><li>• emission</li><li>• dust</li><li>• biodiversity</li><li>• recycling</li></ul>	We keep track with our environmental data to improve ourselves to achieve our environmental targets

We are committed to maintain a green and clean environment and are guided by our Environmental Policy and ISO 14001 throughout our business operations. The ISO certification is reviewed annually by the Bureau Veritas Certification. All project sites are monitored by the S.H.E. Department are certified under ISO 14001. We are also able to minimize negative environmental impacts at all our project sites through effective management of our supply chain to ensure responsible procurement of raw materials and construction works.

The Board oversees the Group's environment performance and progress to ensure we create minimal carbon footprint through our business operations. Environmental sustainability issues, which are part of the Environment, Social & Governance (ESG) requirements are discussed in the Board Meeting.

The S.H.E. Department and committee are responsible to monitor the Group's safety, health and environmental performance. The COO of the company overlooks the whole operations of the Group to ensure minimal environmental impact and reports any relevant issues to the Board.

As a result of full compliance on our ISO and related regulations requirements, there were no environmental fines and penalties in FYE 2016.

We launched a Green policy for the Group, setting a 10-year target to benchmark our key environmental performance as well as support an NGO's initiative in conserving biodiversity.

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### A Step Forward:

In FYE 2016, we launched a Green policy for the Group, setting a 10-year target to benchmark our key environmental performance as well as support an NGO's initiative in conserving biodiversity. The details of the initiatives will be discussed under this Environment Sustainability section.

#### Initiatives taken in environmental sustainability in 2016:

- Launched the Salcon Green Policy
- Set of 10-year target for key areas: energy, waste and water consumption
- Became signatory of World Wildlife Foundation (WWF) to support "Say No to Shark Fin"

#### Salcon Green Policy:

The Salcon Green Policy was launched last year in conjunction with the Group's Environmental Week to further emphasize the Group's firm stand on our commitment for a sustainable environment to reduce climate change and pollutions. Through the Green Policy, we commit to reduce carbon footprint through the following:

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

The detailed Salcon Green Policy is available online at Salcon's corporate website: [www.salcon.com.my](http://www.salcon.com.my).

### Climate Change & Pollutions:




Climate change and pollution are not merely an environmental concern but also a fundamental economic and social issue. The Group's COO oversees environmental issues and concerns of the Group and reports to the Board. The Group's greenhouse gas (GHG) emission is relatively low compared with other heavy industries. Nevertheless, we are committed to reduce GHG emissions in order to minimize our carbon footprint and mitigate climate change. Amongst the initiatives taken include:

Operation Countries	Actions
Malaysia	<ul style="list-style-type: none"> <li>Zero burning at project sites</li> <li>Reduce the flight frequency or other forms of transportation in favour of video conferencing for meetings</li> </ul>
Vietnam	<ul style="list-style-type: none"> <li>Tri An lake and Dong Nai river inspection on pollution</li> <li>Drainage cleaning campaign at our Vietnam project sites</li> </ul>
United Kingdom	<ul style="list-style-type: none"> <li>Investment in solar panel installations for houses in Southern United Kingdom</li> </ul>

### Our Environmental Targets:

In order to monitor and benchmark the Group's environmental performance, we have set a 10-year long term target to evaluate our environmental progress.

Salcon's 10-year long term targets to minimize the environmental footprint:

Area to improve	Goal to be achieved in 2026
	To reduce hazardous waste generation by 10% on a per unit basis by 2026 from 2016
	To reduce energy consumption by 10% on a per unit basis by 2026 from 2016
	To reduce water consumption by 10% on a per unit basis by 2026 from 2016

### Our Environmental Progress:

All offices and project sites under the Group are responsible to conserve the environment throughout their operations as well as comply to the related environmental laws and regulations. We list below our efforts in our environmental key management areas:

Environmental Progress	Actions	Company/ Operation Country
Energy Management	<ul style="list-style-type: none"> <li>All employees, including the intermediaries are urged to consume electricity wisely at both offices and project sites</li> </ul>	Group level
	<ul style="list-style-type: none"> <li>Energy Saving Contest in conjunction with the Salcon Environmental Week to encourage employees to save electricity at home</li> </ul>	HQ
	<ul style="list-style-type: none"> <li>Introduction of clear perspex roofing to reduce the consumption of electricity at Eco-Coach and Tours in Penang. The roof provide brighter natural lighting until 7pm and it helps to save 8% - 12% of the electricity consumption</li> </ul>	Penang, Malaysia
	<ul style="list-style-type: none"> <li>In Vietnam, energy conservation policy at Binh An Water Corporation (BAWC) which is implemented throughout the company as per the government requirements.</li> </ul>	Binh An, Vietnam
Water Management	<ul style="list-style-type: none"> <li>Water leakage reduction efforts through Non-Revenue Water (NRW) management and reduction works in Kuala Terengganu with the target to reduce 10 million litres per day (MLD) of NRW by December 2017</li> </ul>	Malaysia



Environmental Progress	Actions	Company/ Operation Country
	<ul style="list-style-type: none"> <li>Partnership with Water Watch Penang (WWP), an Non-Government Organization to advocate water conservation among students</li> <li>Keep ourselves updated by joining water related conferences and exhibitions to keep abreast with the latest technologies for efficient water management</li> </ul>	HQ
	<ul style="list-style-type: none"> <li>Recycle rain water for car and depot wash at Eco-Coach and Tours in Penang</li> </ul>	Penang, Malaysia
	<ul style="list-style-type: none"> <li>Conduct regular checking and planned preventive maintenance at our water treatment plant in Vietnam</li> </ul>	Binh An, Vietnam
Emission Management	<ul style="list-style-type: none"> <li>Under our Eco-Coach &amp; Tours operations, we use diesel instead of oil to minimise unnecessary pollution. For FYE 2016, we consumed 4,744,999 liters of diesels for our coaches and vans.</li> </ul>	Penang, Malaysia
Dust Management	<ul style="list-style-type: none"> <li>We conduct regular watering of access roads at Langat 2 Water Treatment Plant site to reduce dust pollution.</li> </ul>	Malaysia
Biodiversity Conservation	<ul style="list-style-type: none"> <li>We practice zero hunting and burning at project sites</li> <li>We became a signatory with World Wild Life (WWF) to support No-shark Fin for all our corporate function.</li> </ul>	Malaysia
Recycling	<ul style="list-style-type: none"> <li>All offices under the Group practice Reduce, Reuse and Recycle habit.</li> <li>Recycling competition at HQ</li> </ul>	Group level

### Initiatives taken in environmental sustainability in 2016:

Salcon Environment Week is an awareness campaign held for the employees and our community with the objective of nurturing a sense of responsibility to conserve the environment. Programmes conducted under the week included Electricity Saving Competition, Recycling Competition among employees as well as Recycle talk and recycling competition at SMK Dusun Nanding, Hulu Langat. The details of programme held with SMK Dusun Nanding is discussed under Community Sustainability Section.



Salcon conveys the message of recycling to SMK Dusun Nanding students through educational approach via collaboration with SW Corp

The objective of the Electricity Saving Competition is to encourage the employees to save their housing electricity. We monitored the participants' electricity consumption through their monthly electricity bills for 3 months. At the end of the programme, most of the participants managed to reduce the electricity consumption and average reduction stands at 12.5%.

Recycling is one of the activities we believe is important and should be practiced daily at both home and workplace to reduce rubbish. Thus, we conducted a Recycling Competition in the office for all employees at HQ and nearby project sites, such as Langat 2 Water Treatment Plant in Hulu Langat. The programme was also held 2 months prior to the Chinese New Year, in conjunction with the Spring Cleaning programme. We worked together with CRC, a recycling NGO in this programme where CRC collected and rated all the recycled items according to categories. Total recycled items collected under this competition weighted at 2855.5kg, including paper, metal, aluminium, glass, electronic items, reusable items and plastic.

### Environmental Data:

Below are the available environmental data for our offices and project sites. We are progressing in the improvement of disclosure for all offices and sites and monitor our consumption to achieve our environmental targets.

#### 3-Year Energy Consumption Data (kWh)

Office/ Site	2014	2015	2016
Salcon HQ	147,598	146,622	<b>128,393</b>
Envitech	75,933	77,136	<b>79,240</b>
VBT	9,061	34,025	<b>47,096</b>
Langat 2	N/A	100,174	<b>417,089</b>
Langat CSTP	N/A	N/A	<b>240,000</b>
Eco-Coach	113,715	119,700	<b>126,000</b>
Vietnam	10,482,700	10,510,412	<b>10,434,400</b>

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

- Data not available for Langat 2 & Langat CSTP in FYE 2014 and 2015 as the projects have yet to commence then.

#### 3-Year Water Consumption Data (cubic meter):

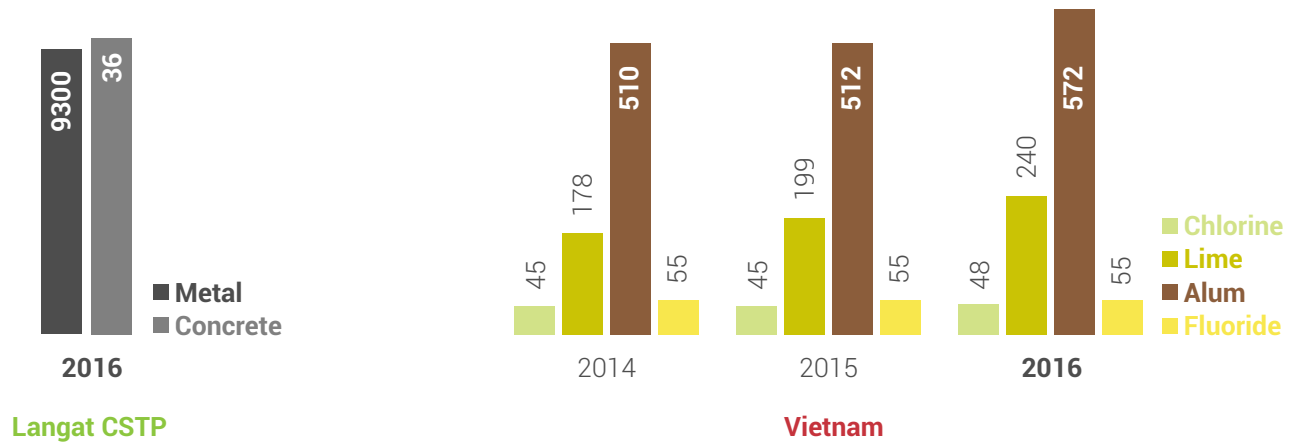
Office/ Site	2014	2015	2016
Envitech	492	444	<b>549</b>
Langat 2	N/A	35,840	<b>148,861</b>
Langat CSTP	N/A	N/A	<b>480</b>
Eco-Coach	1,300	1,368	<b>1,440</b>
Vietnam	20,000	20,000	<b>20,000</b>

- The above data was extracted from the water bills generated by the water supply authority in the respective operating areas.
- HQ's water data is not available as its water usage is taken as part of the office rental.

#### 3-Year Scheduled Waste Data (metric tonnes):

Office/ Site	2014	2015	2016
Langat CSTP	N/A	N/A	<b>1.60</b>
Langat 2	4.31	8.60	<b>4.30</b>
Vietnam	0.12	0.12	<b>0.12</b>

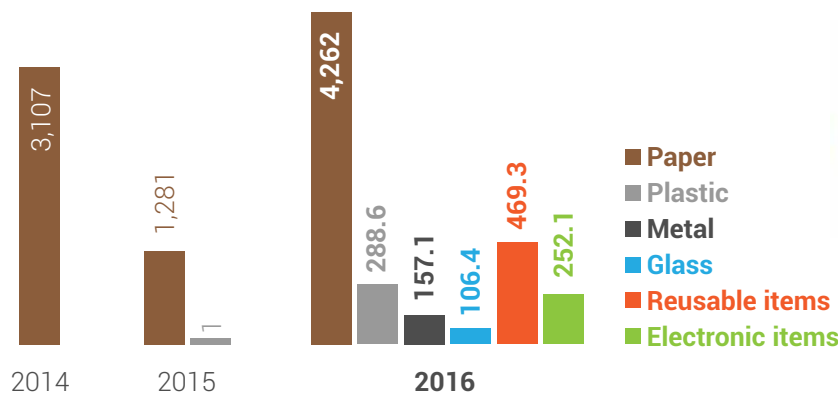
**3-Year Raw Material Used Data (tonnes):**



- Data in 2014 & 2015 is not available for Langat CSTP project site the project was only commenced in 2016

We are achieving steady progress in improving the disclosure for all offices and sites and monitor our consumption to achieve our environmental targets.

**3-Year Recycled Data (kg):**








Total of **5,535.5** kg of items were recycled in 2016

- Only paper and plastic were recycled in 2014 & 2015



## Community Sustainability

 <b>Primary School Students</b>	 <b>Secondary School Students</b>	 <b>University Students</b>	 <b>Charity Homes</b>	 <b>Other Community</b>
<ul style="list-style-type: none"><li>• Salcon Smart Water Programme</li><li>• Gotong-Royong (Communal Work) Programme</li><li>• Train of Trainers Programme</li></ul>	<ul style="list-style-type: none"><li>• Salcon Smart Water Programme</li><li>• Recycling Talk &amp; Competition</li><li>• Train of Trainers Programme</li></ul>	<ul style="list-style-type: none"><li>• Internship Programme</li></ul>	<ul style="list-style-type: none"><li>• Philanthropic giving</li></ul>	<ul style="list-style-type: none"><li>• Local employment</li><li>• Blood donation</li></ul>

Through positive engagements with the communities where we operate in, we are able to understand and receive feedback on the impact of our operations and initiate improvements, where necessary. Ultimately, it is the Group's goal to ensure that we uplift the lives of the communities and improve their quality of life and living standards via local employment, providing educational opportunities, volunteering opportunities and philanthropic support where necessary.

We uphold the concept of human rights which encompass civil and political rights, and economic, social and cultural rights as a fundamental right of all human beings. At our projects sites, local communities can always easily reach us through our site office to highlight any of their concerns or report any breaches of human rights. Engaging with local communities is important to help us identify any risks on human rights issues and take appropriate steps to prevent any such abuse. We are happy to report that there have been no incidents pertaining to human rights issues thus far.

Underprivileged groups and environmental conservation organizations are our two focus areas under our community investments. We engage with different levels of the community in our operation area and cover most of the age groups of our community, from primary schools, secondary schools, universities and charity homes as well as the less fortunate ones. We adopt an educational approach for students via our partnership with NGOs. For community and charity homes, we provide financial and support in kind including spending time and spreading cheer during festive seasons.

**Our Engagement with Primary School Students:**

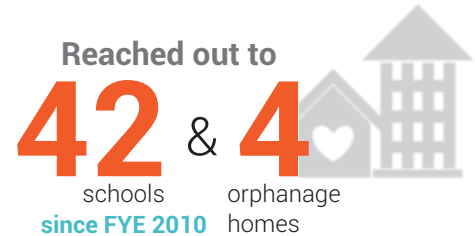
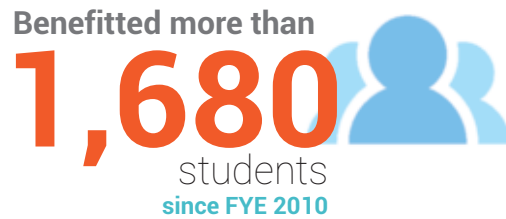
**Salcon Smart Water Programme:**

We have been working with Water Watch Penang (WWP) since 2010 to conduct the Salcon Smart Water Programme (previously known as Salcon River & Water Educational Programme). This is a bi-monthly programme where school students are invited and brought to the river at a park to conduct physical, chemical and biological water testing under the guidance of WWP facilitators. Surveys on pre and post event are conducted on every participant to measure the water conservation knowledge of participants as well as effectiveness of the programme implementation. We are honoured that the programme was awarded two regional CSR awards in 2013 in Singapore.



*The Salcon Smart Water Programme provides a platform for students to understand more about our precious natural resources*

Effectiveness of the Salcon Smart Water Programme:



### Train the Trainers Programme:

Following the success of the programme, we have branched out to train the teachers to be the facilitators for their own students via Train the Trainers (TOT) Programme. The main objective of the TOT is to disseminate the knowledge to teachers so that more students are able to participate in the Salcon Smart Water Programme. Interested teachers will go through a training session conducted by both Salcon & WWP to learn how to conduct the Smart Water Programme. Subsequently, teachers can conduct their own programme for the students according to their school schedule and Salcon will support in providing the water testing kits and transportation costs from the school to the river.



Teachers learn identify the aquatic life in the river and measure the health of the river through the Train the Trainers (TOT) Programme.

### Salcon Train the Trainers (TOT) Programme

 **116** teachers were trained via the Salcon TOT Programme since 2014

 **5** schools have conducted their own water programme for their students

 **17** individual water programmes were conducted by schools

### Gotong-Royong Programme:

Our Langat 2 Water Treatment Plant project site has taken initiative to conduct a Gotong-Royong Programme (Communal Work) together with the neighborhood nearby for SK Dusun Nanding, Hulu Langat. Our employees joined together to help to beautify the environment. Approximately 50 people from the neighbourhood participated in the programme, including representatives from the police and fire department. All participations contributed to beautify the school compound by cleaning drains, landscaping as well as removing trees which the roots have encroached the flooring.

## Our Engagement with Secondary School Students:

### Extension of Smart Water Programme:

We extended the Salcon Smart Water Programme to secondary school students in Klang Valley by revising the syllabus to suit the students. The hands-on approach of water knowledge learning has created positive impacts on students in their water conservation behavior and this is also reflected in the survey results.

### Recycling Talks & Competition:

In conjunction with the Salcon Environment Week, we organized Recycling Talks & Competition with SMK Dusun Nanding at Hulu Langat, a secondary school nearby our operation area. We collaborated with the 2 NGOs, namely SW Corp and CRC for the talks and competition respectively.

SW Corp has given recycling talks to all students and teachers of the school to create awareness on the importance of recycling. Form 3 students subsequently were given a period of time to collect recyclable items for the recycling competition. All recycled items are donated to CRC, a charity center who also rated and weight the items collected.



*We educate students to recycle and segregate waste through talk and competition*

### Recycling Talk & Competition with SMK Dusun Nanding:

Number of people reached in this programme:

**1,783** students

Total items (paper, plastic, metal & glass) collected:

**1,700.2** kg

## Our Engagement with University Students:

### Internship Programme:

We provide a platform for university students to prepare themselves in the real corporate world via partnership with university to offer internship opportunities. We are one of the partners in the Tunku Abdul Rahman University College's i-Star Internship Programme to provide their students internship opportunities.

## Our Engagement with Charity Homes:

### Philanthropic Giving:

We believe it is important for every corporate citizen to provide support for the less fortunate in the community. Guided by our Sponsorship & Donation Policy, we support charity homes, including orphanage homes, disabled people homes and old folk homes in our operating states by giving philanthropy support. In FYE 2016, the Group has donated RM 160,862 for charity purpose, 74% increase compared with last year.

Our Vietnam project site has its annual charity home visit to help the less fortunate people in their living. We gave support in-kind to poor citizens in Binh Thang Ward and support cancer research by participating in the Terry Fox Run Fundraising Programme. It is a good opportunity to remind our employees of our responsibility to give back to the society.



### Salcon's visit to Old Folks Home:

Salcon organized an old folks home visit to Rumah Bakti Ci Hang in Selangor. Prior to the visit, a donation drive was conducted in the office and employees' came out in full support by donating cash and in-kind. 19 of our employees also volunteered to join the visit, decorate their home as well as spent time with the old folks.



*We care for our community and attend to their needs*

## Our Engagement with Other Community:

### Local Employment:

At the commencement of a project at a new site, priority is given to the local communities for job opportunities. We see this as a win-win situation for both Salcon and the community whereby we do not need to import talent unnecessarily from outside, the local community is thus able to benefit economically.

### Blood Donation:

We collaborated with the National Blood Bank to organize the annual Salcon Blood Donation Campaign in conjunction with our Salcon Safety & Health Campaign Month for the 7<sup>th</sup> year. Last year, we collected total of 78 pints of bloods, which equals to 234 lives being saved.

## CONCLUSION

A sustainable financial performance balanced with a healthy performance on environmental, social and corporate governance (ESG) issues requires persistent and long-term efforts and we remain committed to achieve more milestones in our marketplace, workplace, environment and community sustainability in the coming years to provide a better and healthier living environment for all.



# Corporate Governance Statement

The Board of Directors ("the Board") of Salcon Berhad ("Salcon" or "the Company") is committed in ensuring that a high standard of corporate governance is practised throughout the Company and its subsidiaries ("the Group"). This is a fundamental part of discharging their fiduciary duty to safeguard shareholders' investments and protect their interests.

This statement details how the Group had applied the principles and recommendations set out in the Malaysian Code on Corporate Governance 2012 ("MCCG 2012"), pursuant to Paragraph 15.25 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"); for the financial year 2016.

## 1. Establish clear roles and responsibilities

### 1.1. To establish clear functions reserved for the Board and those delegated to the Management

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

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

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

- Audit Committee ("AC");
- Nomination Committee ("NC");
- Remuneration Committee ("RC"); and
- Risk Management Committee ("RMC")

The roles and responsibilities of the Board and Management are adequately established and communicated to ensure accountability.

Management is responsible for the day-to-day operation of the Group's activities and to achieve corporate objectives and goals, set by the Board.

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

Among others, the matters reserved for the Board and the responsibilities of the Chief Operating Officer ("COO") are set out in the Board Charter.

The Board Charter and Term of References ("TOR") for the respective Board Committees are available at the company website, [www.salcon.com.my](http://www.salcon.com.my).

### 1.2. To establish clear roles and responsibilities in discharging its fiduciary and leadership functions

The Board will assume, amongst others, the following responsibilities:

a. Reviewing and adopting a strategic plan for the Company

The Company's principal activities remain with continual engagements in water, wastewater, and non-revenue water industries. The Company had diversified into property development, transportation, renewable energy, and technology services (which provides and leverages on integrated fibre optic network infrastructure and services).

During the year, the Company has further ventured into e-commerce based travel and tourism sector, which primarily leverages on China's massive outbound tourism market. Our acquired subsidiary, Circlac Interactive Tourism Sdn.Bhd. (formerly known as Circlac Interactive Sdn Bhd ("CIT"), has been appointed by Alitrip (a business unit within Alibaba Group), as the sole operator of Alitrip's Malaysia Tourism Pavilion.

The Board is optimistic that such diversifications will enhance the Group's financial performances, growth and stability.

b. Overseeing the conduct of the Company's business

The COO is responsible for the day-to-day management of the Company's businesses and operational activities. He is assisted by various divisional heads and other Committees established within the Company's management framework, in monitoring the day-to-day activities. Management meetings and projects' progress meetings are held regularly to update the Management on the latest financial and operational positions of the Company as well as implementation project.

The Board monitor Management's performances via status reports which are tabled to the Board on a periodic basis. These reports contain the summarized and updated positions of the Company's financial performance and business operations.

c. Identifying principal business risks and ensuring the implementation of appropriate systems to manage risks

Through the RMC, the Board oversees the Enterprise Risk Management ("ERM") framework of the Group. The RMC reviews and identifies potential high risk areas that may encountered by the Group or projects. Advice and recommendations will be put to Management in establishing adequate control procedures to mitigate the potential risks.

The RMC also reviews risk management policies and makes recommendations to the Board for approval. Details on the RMC and the Company's ERM framework are set out in the Statement of Risk Management and Internal Control ("SORMIC") of this Annual Report.

d. Succession planning

The NC is also responsible to review and assess candidates for key management positions whilst the RC determines the remuneration packages for these appointments. In addition, the NC is also responsible for formulating nomination, selection and succession policies for members of the Board and Board Committees, the COO and the Chief Financial Officer ("CFO").

The Board is satisfied that the NC has effectively discharged the duties as listed in the TOR, which is available at the Company's website.

In order to ensure sustainability and prevent disruptions to the Company's daily activities, succession planning for key management position has been established by the COO, with the assistance of the Management. Reviews and updates on the succession plan will be undertaken, as and when necessary.

- e. Overseeing the development and implementation of a shareholder communication policy for the Group

The Company, through the Corporate Affairs Department ("CAD"), carries out Investor Relations ("IR") activities. Activities undertaken by the Company are adequately communicated to the shareholders via the Chairman's Message, Financial Information, announcements to Bursa Securities, Corporate Governance ("CG") statement, Stock Information and other reports. These information and data are available within the Company's website and annual report.

The Company has created a social network channel via Facebook ("FB") which allows shareholders, stakeholders or potential investors to put up enquiries with regards to the Company/the Group. CAD monitors the Company's FB account on a daily basis and forwards enquiries to the relevant departments to ensure prompt replies.

- f. Reviewing the adequacy and integrity of management information and internal controls system of the Company

The Board is ultimately responsible for the adequacy and integrity of the Company's internal control system. Details pertaining to the Company's internal control system and its effectiveness are available in the SORMIC of this Annual Report.

### **1.3. Code of Ethics and Conduct**

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

The COEC emphasizes integrity and ethical conduct in all aspects of the Groups' activities; including privacy and confidentiality of information, and Conflict of Interest. It also sets out prohibited activities or misconducts such as gifts, bribes, dishonest behaviour, sexual harassment, etc.

A Whistle-blowing Policy ("WBP") had been established in year 2012 and the Company encourages all employees, shareholders or stakeholders to report any violations, improper conduct or wrongdoing within the Group.

The Board is responsible for overseeing the implementation of the policy on Directors, and all whistle-blowing reports can be addressed directly to the AC's Chairman via his phone line or email address. The identities and particulars of Reporting Party ("RP") will be kept strictly confidential or anonymous unless the RP chooses to disclose his/her identity or if required by law, court or authority.

The COEC and WBP are available at the Company's website. The policies will be reviewed as and when needed.

During 2016, the Company did not receive any report on misconduct from employees, management, public or stakeholders.

### **1.4. Strategies promoting sustainability**

The Board believes and promotes sustainability practices which will transform and improve the Company's corporate performance and image, as well as encourages good CG.

Summaries of these activities which support Salcon's commitment to the evolving global environmental, social, governance and sustainability agenda are available in the Corporate Responsibility Report of this Annual Report.

### **1.5. Access to information and advice**

In order for the Directors to effectively discharge their fiduciary duties and responsibilities, independent access to the services and support of the Company Secretaries ("CS") are granted.

The Directors may seek advice and interact directly with, or request further explanation, information or updates on any aspect of the Company's operations, financial or businesses' concerns from the Management. In addition, Directors are also empowered to seek external and independent professional advice at the Company's expense, in the exercise of their duties and responsibilities, should such advisory services be considered necessary. The procedures for seeking external advices are available in the Board Charter.

The Board and Board Committees' meetings are organised with a pre-set agenda, providing the Directors with relevant and timely information to enable them to discharge their fiduciary duties and responsibilities. The board papers which contain updates on the operational, financial and corporate developments are circulated prior to the meetings. The Board Papers would enable Directors to analyze the matters arising / possible outcome and obtain clarifications, where necessary, to facilitate sound decision-making.

Senior Management officers and/or external consultants will be invited to attend Board meetings as and when necessary, to provide explanations or clarifications, on the relevant issues tabled at the Board meetings for discussion and deliberation.

### **1.6. Qualified and Competent Company Secretaries**

The CS are qualified to act under Section 235 of the Companies Act 2016.

The CS play an advisory role to the Board, particularly with regards to the Company's constitution, Board's policies and procedures; and ascertain the Company's compliance with applicable regulatory requirements, codes, guidance and legislation.

The CS support the Board in overseeing the CG Model. The CS ensure that the minutes of meeting of the Board and Board Committees are adequately documented. The CS also have the responsibility to constantly keep the Directors abreast and updated on the regulatory changes, via articles or bulletins.

The Board is satisfied with the performance and support rendered by the CS in assisting them to discharge their duties.

### **1.7. Board Charter**

The Board Charter outlines the roles, responsibilities and commitments of the Board and the Board Committees, and elaborates the fiduciary duties of the Directors. The Board Charter is reviewed, when necessary, to ensure that it complies with applicable legislation and best practices while remaining effective.

## 2. Strengthen Composition

### 2.1. Nomination Committee ("NC")

In 2016, the NC comprises three (3) Non-Executive Directors ("NEDs") of whom, two (2) are Independent NEDs and one (1) Non-Independent NED. The NC is chaired by Dato' Dr. Freezailah bin Che Yeom who is the Senior Independent NED of the Company.

The principal responsibility of the NC is to assist the Board in sourcing, recruiting and nominating new nominees for appointment to the Board and to ensure the Board comprises the required mix of skills and competencies. The duties and responsibilities of NC are:

- Establish and formulate the nomination/selection procedures, succession policies, annual assessment and criteria for such nomination/selection and assessment for member of the Board and Board Committees;
- Making recommendations to the Board on new candidates for election/appointment. The candidates must have integrity, character and time commitment in addition to being skilful, knowledgeable and possess expertise and experiences relevant to the Company's principal activities;
- Reviewing the skills, experience and other qualities of the Board annually to ensure an appropriate range and mix of capabilities among members;
- Establish a set of qualitative and quantitative performance criteria and evaluate the effectiveness of the Board, Board Committees (including their size and composition) and the contribution of each individual director, including independent NEDs as well as the COO. All assessments and evaluations carried out shall be adequately documented;
- Ensure orientation and training programme are provided for new members of the Board. To evaluate and determine appropriate training suitable for Directors and review the fulfilment of such training needs;
- Consider and recommend the Directors for re-election / re-appointment at each Annual General Meeting ("AGM");
- Develop criteria to assess independence of the Independent Directors;

During the financial year 2016, the NC had:

- Reviewed the required mix of skills and experiences of the Board;
- Evaluated the effectiveness (including the character, experience, integrity, competence and time commitment) of individual Director(s), the Board and Board Committees;
- Discussed and evaluated the independence of Independent Directors;
- Discussed on Directors' eligibility for re-election or re-appointment; and
- Reviewed trainings undertaken by applicable Directors and to recommend training for Directors' participation.

### 2.2. Develop, maintain and review criteria for recruitment and annual assessment of Directors

#### a. Recruitment or Appointment of Directors

The policies, procedures and process for recruitment and appointment (including re-election/re-appointment) of Directors, for Board or Board Committees, are set out in the TOR of the NC.

The NC shall ascertain that the newly appointed Directors are readily equipped with relevant skills, knowledge, expertise, experience, professionalism, character, competence and integrity, in assisting the Board to discharge its responsibilities effectively. Furthermore, the candidates must be able to commit sufficient time to the Company and level of independence (if the candidate is to be appointed as Independent Director).

The Company's Constitution provides that at least one third (1/3) of the Board shall retire from office at every AGM provided always that all Directors shall retire from office once at least in each three (3) years. All retiring Directors shall be eligible for re-election.

Pursuant to Article 103 of the Company's Constitution, all new Directors who are appointed by the Board are subject to re-election at the next AGM subsequent to their appointment.

The NC assesses and recommends to the Board those Directors who are eligible to stand for re-election/re-appointment. The recommendation is based on formal performance evaluation on the Directors, through their skills, experience, expertise, level of independence and ability to act in the best interest of the Company in decision making as well as time commitment, character and integrity.

On 28 February 2017, the Board approved the recommendation of the NC that Dato' Choong Moh Kheng, Dato' Seri (Dr.) Goh Eng Toon and Dato' Dr. Freezailah Bin Che Yeom, all of whom were due to retire at the forthcoming 14th AGM be eligible to stand for re-election/re-appointment. All three Directors had expressed their intention to seek re-election/re-appointment at the 14h AGM.

In 2016, there was no recruitment or new appointment of Director to the Board or Board Committees.

### b. Annual assessment

The NC carries out the annual performance evaluation on the Board. The effectiveness of the Board is assessed in the areas of Board composition, quality of information, decision-making and Boardroom activities, each Director's skills and competencies, as well as Board diversity.

The NC, through the assessments, examines the Board and respective Board Committees, including the respective Chairmen, to ascertain that their functions and duties are effectively discharged as per the respective TORs.

The NC had on 28 February 2017 reviewed and conducted the annual assessment for all Directors.

### c. Diversity policy

The criteria used by the Board in selecting the members besides skills, knowledge, talents and experiences, also includes their ability to contribute and assist the Board in discharging its duties and responsibilities effectively and competently, irrespective of gender, age and ethnicity.

There is no female member in the current Board composition as there is no necessity for any new recruitment at the moment. However, the NC will consider including a female member(s) when a qualified candidate is required and identified.

## 2.3. Remuneration policies and procedures

The duties and responsibilities of the RC in relation to remuneration matters are: -

- To establish through periodic review; a competitive and attractive remuneration package compatible with prevailing value, sustainable individual performance with the job responsibilities, and is able to retain the Executive Directors (EDs) needed to manage the Company successfully;
- To review the Directors' performance in line with the corporate objectives and to decide upon the remuneration package of the EDs; and
- To establish a formal and transparent procedure for developing policy on executive remuneration;

The RC comprises three (3) NEDs of whom two (2) are Independent NEDs and one (1) Non-Independent NED. The RC is chaired by Dato' Seri (Dr.) Goh Eng Toon.

On 28 February 2017, the Board approved the recommendation from the RC to review the Directors' fees for the NEDs as well as the remuneration package for EDs, after taking into consideration the results of the performance evaluations and current market developments.

The Directors' remuneration packages for the Company and the Group for the financial year ended 2016 are as follows: -

- a) Aggregate remuneration of the Directors categorized into appropriate components:

Directors' Remuneration	Company		Group	
	Executive Directors (RM)	Non-Executive Directors (RM)	Executive Directors (RM)	Non-Executive Directors (RM)
Salary	-	-	1,575,000	-
Bonus	-	-	375,000	-
Fees	-	270,000	-	270,000
Meeting Allowances	-	20,000	-	20,000
Benefits-In-Kind	-	-	165,895	-
Statutory Contribution	-	-	234,000	-
<b>Total</b>	<b>-</b>	<b>290,000</b>	<b>2,349,895</b>	<b>290,000</b>

- b) Similar to other companies, the Board has resolved to disclose their remunerations into bands of RM50,000 as shown below; distinguishing between executive and non-executive directors to avoid sensitivities:-

Range of Directors' Remuneration	Company	Group
	Number of Directors	Number of Directors
Executive Directors		
Less than RM1,000,000		
RM1,000,001 – RM1,050,000	-	1
RM1,300,001 – RM1,350,000	-	1
Non-Executive Directors		
Less than RM100,000	4	4
RM100,001 – RM150,000	-	-

### 3. Reinforce Independence

#### 3.1. Annual assessment of independence

The Board, through the NC, will assess the independence of Independent NEDs annually. This is in line with Recommendation 3.1 of the MCCG 2012, as one of the factors in determining the Independent NEDs' eligibility to stand for re-election/re-appointment.

At the annual assessment carried out for the year, the Board is satisfied with the level of independence demonstrated by all the Independent NEDs and their ability to act in the best interests of the Company during deliberations at the Board meetings.

The NC is satisfied that the Independent NEDs are independent of the Management and are free from any business or other relationships which could interfere with their exercise of independent judgement, objectivity or ability to act in the best interests of the Company. The Board therefore, recommends and supports the proposed re-appointment/re-election of Dato' Dr. Freezailah Bin Che Yeom and Dato' Choong Moh Kheng, the Independent NEDs who are eligible to stand for re-appointment/re-election at the forthcoming 14<sup>th</sup> AGM.

### 3.2. Tenure of Independent Directors

The Board does not implement a nine-year tenure policy for Independent NEDs and hence this is NOT in line with Recommendation 3.2 of the MCCG 2012.

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

### 3.3. Shareholders' approval for the retention of Independent Director who served more than nine (9) years

Dato' Dr. Freezailah bin Che Yeom was appointed to the Board as an Independent NED on 21 July 2003 and had served the Board for a cumulative term of almost fourteen (14) years. The NC had assessed his independence annually and recommended him to continue to act as an Independent NED of the Company based on the following justifications:-

- i) He fulfills the criteria of an Independent Director pursuant to the Bursa Securities MMLR;
- ii) He is familiar with the Company's business operations as he has been with the Company since year 2003;
- iii) His long tenure with the Company has neither impaired nor compromised his independent judgement. He is free from any business or other relationships which could interfere with his exercise of independent judgement. He continues to remain objective and is able to exercise independent judgement in expressing his views and in participating in deliberations and decision making of the Board and Board Committees in the best interest of the Company.
- iv) He has devoted sufficient time and attention to his responsibilities as an Independent NED of the Company; and
- v) He has exercised due care during his tenures as an Independent NED of the Company and carried out his duties in the best interest of the Company and shareholders.

The Board continues to recommend and support the retention of Dato' Dr. Freezailah bin Che Yeom as Independent NED of the Company, which will be tabled for shareholders' approval at the forthcoming 14<sup>th</sup> AGM.

### 3.4. Separation of positions of the Chairman and COO

The Chairman of the Board leads the Board with a dedication and focus on governance and compliance. The Board also monitors the Board Committee's functions to ascertain effectiveness in accordance with their respective TOR.

The positions of Chairman and COO are held by two different individuals. The COO manages the day-to-day business and operations of the Company and implements the Board's decisions. The distinct and separate roles of the Chairman and COO, with their clear division of duties and responsibilities, ensure a balance of power and authority, such that no one individual has unfettered decision-making powers.

Detailed responsibilities of the Chairman and the COO are stated in the Board Charter which is available at the Company's website.

### 3.5. Composition of the Board

The Board of Salcon, comprises six (6) Directors, two (2) of whom are EDs and the remaining four (4) are NEDs. The Board composition policy is available in the Board Charter.

MCCG 2012 recommends that the Board must comprise a majority of independent directors when the Chairman of the Board is not an independent director, in order to ensure balance of power and authority on the Board.



The Chairman, Dato' Seri (Dr.) Goh Eng Toon is a Non-Independent NED. The Board believes that he is the most appropriate person for the role, given his vast experience in various industries. Furthermore, Dato' Seri (Dr.) Goh Eng Toon has and continues to play an effective role as Chairman as set out in the Board Charter.

The Directors play an active role in the Board's decision-making process, offering their vast experience and knowledge as well as independence and objectivity, acting in the best interests of the Company and safeguarding the stakeholders' interests.

## 4. Foster Commitment

### 4.1. Time commitment

The upcoming year meeting schedules for the Board and Board Committees were tabled for approval, prior to the commencement of new financial year; in order to facilitate Directors' schedules planning and meetings attendances.

As stipulated within the Board Charter, Board members shall notify the Chairman of the Board or the Company Secretary before accepting any new directorship in other companies. During the year, none of our Directors have accepted any new directorship.

None of our Directors hold more than 5 directorships in other listed companies.

The quorum of Board meetings had been fully met during the year under review.

The attendance of members at the Board and Board Committees meetings held during the financial year ended 31 December 2016 is as set out below:

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

Note:

BOD - Board of Directors

AC - Audit Committee

RMC - Risk Management Committee

NC - Nomination Committee

RC - Remuneration Committee

N/A - Not Applicable

#### 4.2. Training

The Board emphasize strongly on the importance of continuing education and development for the Directors. This is to ensure the Directors are equipped with the necessary skills and updated knowledge to manage the challenges faced by the Group/Company.

In addition to the Mandatory Accredited Programme as required by the Bursa Securities, Board members are encouraged to attend training programmes, as and when necessary, conducted by competent professionals and which are relevant to the Company's operations and business. The Board had via the NC undertaken an assessment of the training needs of the Directors and discloses the trainings attended by Directors in the Annual Report.

During the financial year, all the Directors have attended training programmes and seminars, either in-house or by external service providers, as summarised below: -

#	Training Programmes / Seminar / Conferences attended	Date	Duration	Attended by					
				1	2	3	4	5	6
1	CG Breakfast Series for Directors : Future of Auditor Reporting - The Game Changer for Boardroom	09/03/2016	< 8 Hours	√	√	√		√	
2	Ring the Bell for Gender Equality	11/03/2016	< 8 Hours						√
3	Sustainability Engagement Series for Directors/ Chief Executive Officers	31/03/2016	< 8 Hours		√				
4	High Performance Team Alignment and Synergy Incorporating the Salcon Core Values of Commitment, Teamwork, Professionalism, Respect, Results	06/08/2016 & 07/08/2016	2 days		√	√			
5	Sustainability Management on "Best Practices for Sustainability Reporting - What a Company Director need to know	11/10/2016	< 8 Hours			√			
6	The Cybersecurity Threat and How Board Should Mitigate the Risks	18/11/2016	< 8 Hours			√			
7	How to Manage the Bursa Sustainability Report	21/11/2016	< 8 Hours	√	√	√	√	√	

Note:

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

## 5. Uphold integrity in financial reporting

### 5.1. Compliance with applicable financial reporting standards

The Board is committed to ensure that the shareholders, stakeholders or potential investors are provided with a comprehensive understanding of the Company's financial position and future prospects through the issuances of Annual Audited Financial Statements, quarterly financial reports and corporate announcements on significant developments affecting the Company, in accordance with MMLR.

Mr. Chan Seng Fatt, the AC Chairman, is a Chartered Accountant of the Malaysian Institute of Accountant while the remaining AC members have accounting and financial experiences. The AC members will review the Company's financial statements in the presence of both external and internal auditors prior to the AC recommending them for approval by the Board and for issuance to the public.

The CFO formally presents the quarterly and year-end financial results to the AC and the Board for review. As per protocol, quarterly presentations are done in the absence of the External Auditors. The CFO will provide detailed clarifications to the Board Members on the Groups' financial performance, as and when required. The CFO also provide assurance to the AC and the Board, that applicable Malaysian Financial Reporting Standards ("MFRS") and disclosure requirements of the MMLR, had been adopted and applied consistently to the Annual Financial Statements and the quarterly results. The External Auditors ("EA") would review the Annual Financial Statements, prior to its release to Bursa Securities. Additionally, the CFO ensures that these financial results do not contain material misstatements and do provide a true and fair view of the financial position of the Group for the financial year.

The Statement of Responsibilities by Directors in respect of the preparation of the Annual Audited Financial Statements is set out in the Financial Statements section of this Annual Report.

### 5.2. Assessment of suitability and independence of external auditors

The AC undertakes an annual assessment of the suitability and independence of EA, Messrs. KPMG PLT ("KPMG PLT"). In the assessment, the AC will consider several factors which include the adequacy of professionalism and experiences of the staff, the resources of the EA, the independence of and the level of non-audit services rendered to the Company for the financial year. KPMG PLT has been appointed as EA since year 2003.

The EA gave confirmation that they are independent in providing both audit and non-audit services up to the date of this statement.

Based on latest assessment, the AC is satisfied with the independence of KPMG PLT. The AC recommended the re-appointment of KPMG PLT as EA for the financial year ending 31 December 2017, to the Board. On 28<sup>th</sup> February 2017, the Board approved AC's recommendation for the re-appointment of KPMG PLT for the shareholders' approval, at the forthcoming 14<sup>th</sup> AGM.

## 6. Recognise and manage risks

### 6.1 Sound framework to manage risks

The RMC, assisted by the Risk Management Working Group ("RMWG"), oversees the ERM framework for the Company. The RMC is at the forefront of the enterprise wide program and ensures that a risk management structure is embedded and consistently implemented within the Board's established parameters throughout the Company while ensuring compliance with regulatory requirements.

The RMC is assisted by the Internal Audit and Risk Management Department ("IARMD") in its role as a facilitator in the implementation of risk management i.e. coordinating and reporting (risk management function) and reviewing of risks status (internal audit function).

The RMWG conducts reviews and enterprise wide risk assessments on all entities of the Group on a semi-annual basis. These risk assessments are complemented by appropriate testing on the accuracy and verification of the integrity of controls and verification of controls on applicable entities via internal audit reviews; with recommendations to overcome any weaknesses noted. These internal audit reviews will also identify any new potential risk that could affect the financial position, operational processes and goodwill of the Company. Adequate disclosures on the implementation status of the Risk Management system are also provided in this Annual Report.

The comprehensive review on the Group's ERM framework undertaken since 2015 is soon coming to its closure. The review involves restructuring of the ERM framework and re-categorising of risks and risk factors amongst others, as per the Company's Integrated Risk Management Policy ("IRMP"). This comprehensive restructuring will enable the Company:

- To incorporate applicable recent and relevant Bursa Securities guidelines;
- To realign the Company's ERM framework and comply closely to ISO 31000 standards on Risk Management Process;
- To integrate all applicable risk categories/factors to accommodate the Company's diversifications into property development, telecommunications, renewable energy, transportation and E-commerce based tourism, into the ERM framework that is currently under review; and
- Upgrade and enhance the Company's risk management software system to enhance assessment, evaluation and reporting on the Company's ERM framework.

Therefore, to facilitate this on-going comprehensive enhancement exercise, the Company has temporarily suspended scheduled semi-annual reviews and enterprise wide assessments on all applicable entities in 2016. However, the Company will not let up in efforts to continue monitoring on those risks identified earlier.

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

### 6.2 Internal audit function

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

Details of the internal control system and risk management framework and activities carried out by IARMD, are set out in the SORMIC and Audit Committee Report of this Annual Report.

## 7 Ensure timely and high quality disclosure

### 7.1 Corporate Disclosure Policy

Salcon, as a Public Listed Company ("PLC"), shall adhere and comply with MMLR. Clear roles and responsibilities of Directors, Management and employees are provided with the levels of authority. Designated person, spokespersons or committees are appointed in the handling and disclosure of material information. The persons responsible for preparing the disclosure will conduct proper verification and coordinate the timely disclosure of material information prior to the release to the public.

The Company has put in place an internal policy, such as Insider Trading Policy ("ITP") and COEC, to ensure that confidential information is handled properly by designated person to avoid leakage and improper use of such information. The Board is mindful that information which is expected to be material must be announced immediately in accordance with the MMLR.

## **7.2 Leverage on information technology for effective and timely dissemination of information**

The Company's website includes an Investors' section which provides all relevant information on the Company, and it is accessible to the public. This section enhances the IR function by including all announcements made by the Company to Bursa Securities, share price information, annual reports and the corporate governance structure of the Company. This information is made available on Company's website for the benefit of potential investors, stakeholders and shareholders who are unable to attend the general meetings.

The Company's website also serves as a platform to allow shareholders, stakeholders or potential investors to channel any enquiries with regards to the Company. An alternate channel to reach out to a broader range of the public, shareholders and interested parties is via FB. The Company's CAD monitors the platform on a daily basis and directs all enquiries to the relevant departments to ensure that all enquiries are responded in the soonest manner.

## **8 Strengthen relationship between Company and shareholders**

### **8.1 Encourage shareholder participation at general meetings**

Salcon dispatches the AGM notices to shareholders at least twenty-one (21) days before the AGM, together with the Annual Report and Circular/Statements to shareholders, if any. Sufficient time is given to shareholders for them to make necessary arrangements to attend and participate in person or by corporate representative, proxy or attorney. The Notice of the AGM is also advertised in a major local newspaper.

At the 13<sup>th</sup> AGM held on 26 May 2016, the Chairman briefed and encouraged members, corporate representatives and proxies who were present of their right to speak and vote on the resolutions set out in the Notice of the 13<sup>th</sup> AGM. The Chairman and where appropriate, the EDs will provide answer after the AGM for significant questions that are not readily answered at the AGM.

### **8.2 Encourage poll voting**

In line with the recommendation of the MCCG 2012, the Board encourages shareholders to put forth substantive resolutions for shareholders' approval by poll voting at the general meetings. During the 13<sup>th</sup> AGM, all resolutions were voted by a show of hands, instead of by poll.

### **8.3 Effective communication and proactive engagements with shareholders**

At the 13<sup>th</sup> AGM, all six (6) Directors were present in person to engage directly with shareholders, and be accountable for their stewardship of the Company. The Chairman invited shareholders to raise questions pertaining to the Company's accounts and proposed resolutions during the meeting, before putting the resolutions to vote. The COO, CFO and EA were also present to respond to the shareholders' queries.

## **Other Information Required By Bursa Securities Main Market Listing Requirements**

### **Status of Utilisation of Proceeds**

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

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

Salcon had on 12<sup>th</sup> September 2013 entered into the following agreements:

- a) conditional sale and purchase agreement between Salcon and Beijing Enterprises Water Group Limited ("**BEWG**") for the proposed disposals by Salcon of the entire equity interests held in Salcon Darco Environmental Pte Ltd and Salcon Jiangsu (HK) Limited to BEWG ("SPA-A"); and
- b) conditional sale and purchase agreement between Salcon, Salcon Water (Asia) Limited, a 60%-owned subsidiary of Salcon ("**Salcon Water**") and BEWG for the proposed disposals by Salcon and Salcon Water of the entire equity interests held in Salcon Fujian (HK) Limited, Salcon Zhejiang (HK) Limited, Salcon Linyi (HK) Limited and Salcon Shandong (HK) Limited to BEWG ("SPA-B") for a total cash consideration of RMB955.0 million (equivalent to approximately RM518.28 million) ("**Proposed Disposals**").

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

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

The status of the utilisation of the proceeds as at 31 March 2017 arising from the disposals in respect of SPA-A is as follows:

Purpose	Proposed Utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Future investments	230,000	(87,777)	142,223
Repayment of borrowings	97,540	(97,540)	-
Distribution to shareholders	30,000	(40,556)	(10,556)
Working capital	10,397	(10,397)	-
Defraying expenses incidental to the Proposed Disposals	1,437	(1,501)	(64)
<b>Total</b>	<b>369,374</b>	<b>(237,771)</b>	<b>131,603</b>

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

The status of the utilisation of the proceeds as at 31 March 2017 arising from the disposals is as follows:

Purpose	Proposed Utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Future investments	24,753	(24,753)	0
Working capital	10,609	(10,609)	-
<b>Total</b>	<b>35,362</b>	<b>(35,362)</b>	<b>0</b>

### Material Contracts

There were no material contracts entered into by the Company or its subsidiaries involving Directors and major shareholders for the financial year ended 31 December 2016.

### Audit and Non-Audit Fees

The amount of audit fees and non-audit fees paid or payable to the Company's external auditors and a firm affiliated to the external auditors' firm by the Company and the Group for the financial year ended 31 December 2016 are as follows:

	Company (RM)	Group (RM)
Audit Fees	238,000	575,000
Non-Audit Fees	50,000	58,000
<b>Total Fees</b>	<b>288,000</b>	<b>633,000</b>

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

The Directors are legally required to prepare financial statements which present a true and fair view of the state of affairs of the Company and the Group and are pleased to announce that in preparing the financial statements for the financial year ended 31 December 2016, the Group has:

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

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

# Audit Committee Report

The Audit Committee ("AC") presents its report that provides insights into the manner in which the AC discharges its duties for the Group in year 2016.

## Composition and attendance

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

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

The Board of Directors ("BOD") reviews the composition of the AC, assesses the members' performances and effectiveness via annual evaluations. The BOD is satisfied that the AC members had discharged their duties and responsibilities in accordance with the AC's Terms of Reference ("TOR") and has supported the BOD in ensuring the Company upholds appropriate CG standards.

The TOR of AC is available for reference at the Company's website, [www.salcon.com.my](http://www.salcon.com.my).

## Meetings

The AC held five (5) meetings in FY 2016. The Chief Operating Officer, and Chief Financial Officer ("CFO") and Head of Internal Audit were invited to the meetings to facilitate their direct communications and provide clarifications on identified audit issues pertaining to the Group's activities. The External Auditors ("EA"), Messrs. KPMG PLT, were invited to participate in the meetings where necessary.

The meetings were appropriately structured through agendas, which were distributed to members, with sufficient notification.

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

During the first AC meeting in 2016, the EA confirmed that they were provided unfettered access to information and enjoyed full cooperation from the Management throughout the course of their audit. The EA were also invited to raise any matters that they considered important, for the AC's attention. The AC met the EA twice, without the presence of the Company's Executive Directors and Management. During these two (2) meetings, the AC enquired about the Company Management's co-operation with EA, their sharing of information and the proficiency and adequacy of resources in financial reporting functions.

Minutes of each AC meeting were recorded and tabled for confirmation during the following AC meeting, and subsequently presented to the BOD for notation. For FY 2016, the AC had reviewed and recommended the annual / quarterly financial results, inclusive of the declarations of final dividends, to the BOD.

## Summary of Activities of AC

The AC's activities during the FY ended 31 December 2016 comprised the following:

- On 29 February 2016, the AC reviewed and recommended to the Board the payment of a final dividend for the FY 2015.
- On 4 April 2016, the AC reviewed the Audited Financial Statements of the Company and the Group for FY ended 31 December 2015, and recommended them to the BOD for approval.



- On 22 November 2016, the AC reviewed the Annual Audit Plan for FY 2016 in relation to audit services as well as on recurring non-audit services provided by the EA. The Annual Audit Plan includes reviews by the EA on the reliability of Financial Statement and EA's Opinions based on their audit work. The recurring non-audit services, covers annual review of the Statement on Risk Management and Internal Control (SORMIC), as well as, the extended audit scope on the process of compilation of the disclosure of realized and unrealized profit or losses. Additionally, the AC was satisfied that there are no conflicts of interest or impairments to the independence and objectivity of the EA, while considering the nature and scope of non-audit work.

Being satisfied with performance of the EA, the AC recommended to the BOD, the re-appointment of KPMG PLT, as EA for the FY ending 31 December 2017.

- On Financial Reporting, the AC reviewed the quarterly financial statements during the AC meetings and subsequently recommended these statements to the BOD for approval. The review of the fourth quarter results for FY 2015 was conducted on 29 February 2016; and the reviews of the quarterly results of first, second and third quarters for FY 2016, were conducted on 26 May 2016, 25 August 2016 and 22 November 2016 respectively.

### Internal Audit Function

The Group's internal audit function is performed in-house by the Internal Audit & Risk Management Department ("IARMD"), which reports directly to the AC. All internal audit activities for the FY ended 31 December 2016 were conducted by IARMD. There were no areas of the internal audit function which were outsourced. The total cost incurred by the Group's internal audit function for the year under review was approximately RM484,000.

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

- IARMD conducted audit review activities as per the 2016 Audit Plan which was approved by the AC on 30 November 2015.
- IARMD presented applicable Internal Audit ("IA") reports as per the activities conducted, during the scheduled AC meetings, using the following contents :-
  - The executive summaries of the audit findings indicating the status and progress;
  - Audit findings, Management responses to IARMD's findings and corrective recommendations;
  - Follow up on previous years' issues and status of remedial actions taken; and
  - The Key Risk Profile and comparison of risk assessment result for the audited risk factors.
- During scheduled AC Meetings in FY 2016, IARMD reported to the AC that there is no material issue / misstatement or major deficiency noted, that posed a high risk to the overall internal control system of the Group.

The scope of audit engagements in FY 2016 covered the following: -

- Compliance to law and regulation;
  - Reliability of financial information;
  - Safeguarding of assets;
  - Attainment of objectives; and
  - Efficiency and economy implication
- On 29 February 2016, the AC reviewed and recommended the incorporation of the AC Report, the CG Statement and SORMIC, into the Company's 2015 Annual Report. The AC further reviewed the adequacy of the scope, functions, competency and resources of the Company's IARMD.
  - On 4 April 2016 and 25 August 2016, AC reviewed and discussed the IA reports for the group's activities.
  - On 22 November 2016, the AC conducted the following: -
    - Reviewed and approved the annual Audit Plan for FY 2017; and
    - Reviewed and discussed IA report presented by IARMD on the group's activities.

# Statement of Risk Management and Internal Control

The Board of Directors of Salcon Berhad ("Salcon" or "the Company") is committed to maintain a sound internal control and risk management system. Each project and department of the Company and its subsidiaries ("the Group") has implemented its own control processes under the leadership of the Executive Members of the Board together with the Chief Operating Officer ("COO"), who are responsible for good business and regulatory governance. This statement outlines the nature and scope of the Group's internal control and risk management in 2016.

## Board Responsibilities

The Board acknowledges its responsibility for the Group's internal control and risk management system and reviews its adequacy and robustness. The internal control system covers governance, risk management, financial, strategy, organisational, operational, regulatory and compliance control matters. The Board is aware that this system is designed to manage and mitigate, rather than eliminate, the risks of not adhering to the Group's policies, procedures and preventing in achieving goals and objectives within the risk tolerance established by the Board and Management. Therefore, the system is to provide reasonable, but not absolute, assurance against the occurrence of any material misstatement, loss or fraud.

In 2016, the adequacy and effectiveness of internal controls were reviewed by the Audit Committee ("AC") based on the internal audits conducted by the in-house Internal Audit and Risk Management Department ("IARMD") during the year. Audit reports comprised of audit findings, recommendations and management replies to address the issues highlighted by IARMD, were presented to the members during the AC meetings with Minutes duly recorded.

The Risk Management Committee ("RMC") has been established since year 2006 with the purpose of providing risk oversight and ascertaining implementation of the Group's businesses and operations. The Group's Risk Management Framework is outlined in its Integrated Risk Management Policy.

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

## Internal Audit Function

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

The Internal Audit Function reviews key activities of the Group based on an annual audit plan approved by the AC. The plan is prepared by the IARMD based on the Corporate Risk Registers of the operating entities within the Group. The AC reviews the scope of work to be carried out and all internal audit reports to ensure that the necessary level of assurance, with respect to the adequacy of internal controls and the management of key risks as required by the Board, is achieved. Follow-up reviews on previous audit issues are carried out to ascertain that appropriate actions are taken to address internal control weaknesses. Subsequent to the reviews, the AC shall highlight the pertinent findings to the Board for necessary actions, on a quarterly basis or as appropriate.

## Control Processes and Risks

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

### 1. International Organisation for Standardization ("ISO") and Occupational Health & Safety Advisory Services ("OHSAS") certifications:

- Salcon Engineering Berhad ("SEB"), a wholly owned subsidiary of Salcon Berhad, is certified to ISO9001 - Quality Management System (QMS) :2008 since 1999 and ISO14001 - Environmental Management System (EMS):2004 since 2002 at the corporate office and project levels. SEB is also certified to OHSAS18001:2007 - Occupational Safety & Health Management System (OSHMS) since 2008.

Since October 2016, SEB is qualified and in upgraded the QMS from ISO 9001:2008 to ISO 9001:2015. Currently, SEB is also in the process of upgrading the EMS, from the current ISO 14001:2004 to ISO 14001:2015.

- As required by legislation, the Company has also established a Safety and Health Committee to assist in the implementation of applicable inspections and reviews of OSHMS while emphasizing the Group's commitment to ensure and maintain a safe working environment.
- Under ISO 9001, ISO14001 and OHSAS18001 requirements, internal audits are conducted annually by the Quality Assurance/Quality Control ("QA/QC") and Safety, Health and Environmental ("S.H.E.") department to check, measure, analyze, review and improve on the performances of SEB's certifications; on both the corporate office and applicable projects.

### 2. Authority and Responsibilities

- The Board delegates certain duties and responsibilities to various Board Committees through the clearly defined Terms of Reference ("TOR"). The TORs are reviewed as and when necessary and are available at the Company's website, [www.salcon.com.my](http://www.salcon.com.my).
- The authority limit and signatory document is reviewed periodically to reflect the authority and authorization limit of the Management in all aspects of the Group's major business operations and regulatory functions.

### 3. Monitoring and Reporting

- Board and Board Committee meetings are scheduled to update the Group's performance regularly. The Group's business plan, execution and financial performance are reviewed and discussed by the Board on quarterly basis. The Minutes of Meeting are duly recorded.

### 4. Policies and Procedures

- The Group has formalized and documented internal policies, standards and procedures to ensure compliance of internal controls and relevant laws and regulations. Common Group policies such as ISO, OHSAS and Human Resource Policies Procedures ("HRPP") are available on the intranet for easy access and reference by employees.

### 5. Audit

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

- External Auditors have been engaged to provide audit and non-audit services to the Group for the year 2016. Nature of non-audit services provided is available within the Corporate Governance Statement in this Annual Report.

### **6. Risk Management**

- The Group has implemented an Enterprise Risk Management ("ERM") framework to manage all relevant risks that can affect the Company's business and operations. The ERM framework is a risk governance structure, comprising the RMC, the Risk Management Working Group ("RMWG") and IARMD is tasked with the responsibilities and accountabilities for monitoring risk management.
- The RMC is established to provide oversight and assurance concerning the Group's risk profile to the Board.
- The RMWG is established to assist the Board and the RMC to facilitate/update at business units' level on the identification and communication of present or potential critical risks identified. The RMWG are represented by Heads of subsidiaries, divisions and departments.
- The IARMD reports directly to the AC/RMC while providing an independent assessment, and reasonable assurances of the adequacy and reliability; of the Group's risk management processes and internal control system.
- There is an established process and procedures, which are detailed within the Integrated Risk Management Policy (IRMP), for risks identification, assessment, communication and monitoring. IARMD continues to review the risks and the effectiveness of risk mitigation strategies and controls at the corporate, divisional and projects levels, including material joint ventures and associates. The Group has been using Q-Radar software since 2006, to facilitate the monitoring functions and enhance the process and reporting structure.
- The risk tolerance level is presented via the use of a risk impact and likelihood matrix with an established risk tolerance boundary to distinguish those risks that are deemed to be high or low.

### **7. Performance Measurement**

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

### **8. Staff Competency**

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

### **9. Conduct of Staffs**

- A Code of Ethics and Conducts ("COEC") is established for the Group and is applicable to all employees, senior management and directors. The COEC defines the ethical standards and work conduct required from all the applicable categories of staffs towards the Group.
- Salcon Insider Trading Policy ("SITP") has been established to provide guidance and ascertain material non-public information is not misused.

- Salcon has a Whistle-blowing Policy ("WP") to provide a platform for staffs or any external party to report any breach or suspected breach of any law or regulation, including business principles and the Groups policies, in a safe and confidential manner. An employee who makes a report of improper conduct in good faith shall not be subject to unfair dismissal, victimization, demotion, suspension, intimidation or harassment, discrimination, any action causing injury, loss or damage or any other retaliatory actions by the Company. The AC has the overall responsibility in overseeing the implementation of the WP for the Group. The WP is available at the Company's website.
- Segregation of duties is practised to avoid conflict of interests and to reduce the scope for error and fraud.

## 10. Insurance

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

### Review of this statement

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide ("RPG") 5 (Revised 2015), *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report* issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Group for the year ended 31 December 2016, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

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

RPG 5 (Revised 2015) does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

### Conclusion

The Board opines that the internal control and risk management system in place for the year under review is sound and robust to safeguard the Group's assets, shareholders' investments and stakeholders' interest. The Board has received written confirmation and assurance from the COO and CFO that the Group's internal control and risk management system is operating adequately and effectively, in all material aspects, based on the framework adopted by the Group. This Statement is subsequently recommended by AC to the Board for approval on 4 April 2017.

# FINANCIAL STATEMENTS



**94**  
Directors'  
Report

**98**  
Statements of  
Financial  
Position

**99**  
Statements  
of Profit or  
Loss and Other  
Comprehensive  
Income

**101**  
Statements of  
Changes In  
Equity

**104**  
Statements of  
Cash Flows

**106**  
Notes to the  
Financial  
Statements

**183**  
Statement  
by Directors

**184**  
Statutory  
Declaration

**185**  
Independent  
Auditors'  
Report

# Directors' Report

for the year ended 31 December 2016

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

## Principal activities

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

## Subsidiaries

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

## Results

	Group RM'000	Company RM'000
Profit for the year attributable to:		
Owners of the Company	11,844	13,209
Non-controlling interests	9,514	-
	21,358	13,209

## Reserves and provisions

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

## Dividends

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

- i) In respect of the financial year ended 31 December 2015 as reported in the Directors' Report of that year:
  - A first and final single tier tax exempted dividend of 2.0 sen per ordinary share totalling RM13,294,000 was paid on 15 June 2016.
- ii) In respect of the financial year ended 31 December 2016:
  - A first and final share dividend of one (1) treasury share for every eighteen (18) existing ordinary shares held in the Company.

The first and final share dividend of one (1) treasury share for every eighteen (18) existing ordinary shares held in the Company was recommended by the Directors in respect of the financial year ended 31 December 2016 and is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting.



## Directors of the Company

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

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

## Directors' interests in shares

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

	Number of ordinary shares			At 31.12.2016
	At 1.1.2016	Bought	Sold	
<b>The Company</b>				
<u>Direct interest</u>				
Dato' Seri (Dr.) Goh Eng Toon	2,300,000	-	-	2,300,000
Tan Sri Dato' Tee Tiam Lee	38,606,400	-	-	38,606,400
Dato' Leong Kok Wah	3,600,000	-	-	3,600,000
Dato' Dr. Freezailah bin Che Yeom	1,750,400	-	-	1,750,400
Dato' Choong Moh Kheng	2,800,000	-	-	2,800,000
<u>Deemed interest</u>				
Dato' Seri (Dr.) Goh Eng Toon <sup>(1)</sup>	66,709,600	-	-	66,709,600
Tan Sri Dato' Tee Tiam Lee <sup>(2)</sup>	29,553,400	15,727,634	-	45,281,034
Dato' Leong Kok Wah <sup>(3)</sup>	67,009,600	-	-	67,009,600
Dato' Choong Moh Kheng <sup>(4)</sup>	7,450,000	-	-	7,450,000

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

None of the other Director holding office at 31 December 2016 had any interest in the shares of the Company and of its related corporation during the financial year.

### **Directors' benefits**

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

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

### **Issue of shares and debentures**

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

### **Options granted over unissued shares**

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

### **Indemnity and insurance costs**

During the financial year, no indemnity was given to or insurance was effected for Directors of the Company.

### **Other statutory information**

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

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

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

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

### **Other statutory information (continued)**

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

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

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

In the opinion of the Directors, except for the gain on disposal of equity interest in subsidiaries as disclosed in Note 23 to the financial statements, the financial performance of the Group and of the Company for the financial year ended 31 December 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

### **Significant events**

The significant events during the financial year are disclosed in Note 35 to the financial statements.

### **Subsequent events**

The subsequent events after the end of the financial year are disclosed in Note 36 to the financial statements.

### **Auditors**

The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 23 to the financial statements.

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

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

*Director*

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**Tan Sri Dato' Tee Tiam Lee**

*Director*

Kuala Lumpur,

Date: 11 April 2017

# Statements of Financial Position

at 31 December 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Assets</b>					
Property, plant and equipment	3	63,490	67,947	743	969
Intangible assets	4	21,831	21,831	-	-
Investment properties	5	8,485	8,485	-	-
Investments in subsidiaries	6	-	-	103,637	98,229
Investments in associates	7	27,224	27,266	294	49
Investments in joint ventures	8	36,231	23,036	23,500	23,500
Other investments	9	-	-	-	-
Deferred tax assets	10	3,698	3,698	-	-
<b>Total non-current assets</b>		160,959	152,263	128,174	122,747
Trade and other receivables	11	154,143	158,835	296,402	226,110
Inventories	12	194,719	163,141	-	-
Current tax assets		1,615	1,034	350	179
Assets classified as held for sale	13	-	197,615	-	-
Cash and cash equivalents	14	215,941	277,855	113,244	190,557
<b>Total current assets</b>		566,418	798,480	409,996	416,846
<b>Total assets</b>		727,377	950,743	538,170	539,593
<b>Equity</b>					
Share capital		338,847	338,847	338,847	338,847
Reserves		76,645	195,293	64,120	82,119
Retained earnings		68,490	42,608	95,063	95,148
<b>Total equity attributable to owners of the Company</b>	15	483,982	576,748	498,030	516,114
<b>Non-controlling interests</b>		39,126	27,213	-	-
<b>Total equity</b>		523,108	603,961	498,030	516,114
<b>Liabilities</b>					
Loans and borrowings	16	48,062	68,312	505	701
Deferred tax liabilities	10	9,460	9,998	-	-
<b>Total non-current liabilities</b>		57,522	78,310	505	701
Trade and other payables	17	119,617	118,062	39,439	22,591
Loans and borrowings	16	24,988	9,693	196	187
Current tax liabilities		2,142	1,227	-	-
Liabilities classified as held for sale	13	-	139,490	-	-
<b>Total current liabilities</b>		146,747	268,472	39,635	22,778
<b>Total liabilities</b>		204,269	346,782	40,140	23,479
<b>Total equity and liabilities</b>		727,377	950,743	538,170	539,593

The notes on pages 106 to 181 are an integral part of these financial statements.

# Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Continuing operations</b>					
Revenue	18	98,974	123,079	22,705	933
Cost of sales		(73,384)	(88,936)	-	-
<b>Gross profit</b>		25,590	34,143	22,705	933
Other income		12,209	32,089	10,001	51,005
Distribution expenses		(3,280)	(2,602)	(94)	(68)
Administrative expenses		(52,971)	(43,501)	(24,831)	(10,110)
Other expenses		(1,894)	(4,232)	(154)	-
<b>Results from operating activities</b>		(20,346)	15,897	7,627	41,760
Finance income		1,614	5,025	6,220	6,988
Finance costs	20	(4,820)	(5,576)	(38)	(29)
<b>Operating (loss)/profit</b>		(23,552)	15,346	13,809	48,719
Share of profit of equity-accounted associates/ joint ventures, net of tax		11,865	4,493	-	-
<b>(Loss)/Profit before tax</b>		(11,687)	19,839	13,809	48,719
Tax expense	21	(4,896)	(9,369)	(600)	(806)
<b>(Loss)/Profit from continuing operations</b>		(16,583)	10,470	13,209	47,913
<b>Discontinued operation</b>					
Profit/(Loss) from discontinued operation, net of tax	22	37,941	(18,090)	-	-
<b>Profit/(Loss) for the year</b>	23	21,358	(7,620)	13,209	47,913
<b>Other comprehensive income/(expense), net of tax</b>					
Foreign currency translation differences for foreign operations	24	15,810	(11,368)	-	-
<b>Other comprehensive income/(expense) for the year, net of tax</b>		15,810	(11,368)	-	-
<b>Total comprehensive income/(expense) for the year</b>		37,168	(18,988)	13,209	47,913
<b>Profit/(Loss) attributable to:</b>					
Owners of the Company		11,844	5,540	13,209	47,913
Non-controlling interests		9,514	(13,160)	-	-
<b>Profit/(Loss) for the year</b>		21,358	(7,620)	13,209	47,913

Statements of Profit or Loss and Other Comprehensive Income  
for the year ended 31 December 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Total comprehensive income/(expense) attributable to:</b>					
Owners of the Company		13,572	14,102	13,209	47,913
Non-controlling interest		23,596	(33,090)	-	-
<b>Total comprehensive income/(expense) for the year</b>		<b>37,168</b>	<b>(18,988)</b>	<b>13,209</b>	<b>47,913</b>
<b>Basic (loss)/earnings per ordinary share (sen):</b>					
	25				
from continuing operations		(1.81)	1.78		
from discontinued operation		3.62	(0.96)		
		1.81	0.82		
<b>Diluted (loss)/earnings per ordinary share (sen):</b>					
	25				
from continuing operations		(1.76)	1.78		
from discontinued operation		3.51	(0.96)		
		1.75	0.82		

The notes on pages 106 to 181 are an integral part of these financial statements.

# Statements of Changes in Equity

for the year ended 31 December 2016

Group	Attributable to Owners of the Company		Distributable					Non-controlling interest	Total Equity	
	Share capital	Share premium	Share Translation reserve	Share option reserve	Capital reserve	Treasury shares	Retained earnings			Total
Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>At 1 January 2015</b>	337,320	84,937	2,235	482	63,188	(4,034)	56,288	540,416	101,550	641,966
Foreign currency translation differences for foreign operations	-	-	8,562	-	-	-	-	8,562	(19,930)	(11,368)
<b>Total other comprehensive income/(expense) for the year</b>	-	-	8,562	-	-	-	5,540	8,562	(19,930)	(11,368)
Profit/(Loss) for the year	-	-	-	-	-	-	-	5,540	(13,160)	(7,620)
<b>Total comprehensive (expense)/income for the Year</b>	-	-	8,562	-	-	-	5,540	14,102	(33,090)	(18,988)
Own shares acquired	-	-	-	-	-	(4,316)	-	(4,316)	-	(4,316)
Resale of treasury shares	-	-	-	-	-	4,851	1,105	5,956	-	5,956
Share-based payment Transactions	-	-	-	81	-	-	-	81	-	81
Dividends to owners	-	-	-	-	-	-	(20,325)	(20,325)	-	(20,325)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	(1,457)	(1,457)
Share options exercised	1,527	681	-	(563)	-	-	-	1,645	-	1,645
<b>Total transactions with owners of the Company</b>	1,527	681	-	(482)	-	535	(19,220)	(16,959)	(1,457)	(18,416)
Capital reduction in a subsidiary	-	-	-	-	-	-	-	-	(39,790)	(39,790)
Government grants received	-	-	-	-	39,189	-	-	39,189	-	39,189
<b>At 31 December 2015</b>	338,847	85,618	10,797	-	102,377	(3,499)	42,608	576,748	27,213	603,961

Note 15 Note 15 Note 15 Note 15 Note 15 Note 15 Note 15

Statements of Changes in Equity  
for the year ended 31 December 2016

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

Note 15 Note 15 Note 15 Note 15 Note 15 Note 15 Note 15 Note 15

26



Company	Note	← Attributable to Owners of the Company →					Total equity RM'000
		← Non-distributable			→ Distributable		
		Share capital RM'000	Share premium RM'000	Share option reserve RM'000	Treasury shares RM'000	Retained earnings RM'000	
<b>At 1 January 2015</b>		337,320	84,937	482	(4,034)	66,455	485,160
Profit and other comprehensive income for the year		-	-	-	-	47,913	47,913
Share-based payment transactions		-	-	81	-	-	81
Own shares acquired		-	-	-	(4,316)	-	(4,316)
Resale of treasury shares		-	-	-	4,851	1,105	5,956
Share options exercised		1,527	681	(563)	-	-	1,645
Dividends to owners	26	-	-	-	-	(20,325)	(20,325)
<b>Total transactions with owners of the Company</b>		1,527	681	(482)	535	(19,220)	(16,959)
<b>At 31 December 2015/1 January 2016</b>		338,847	85,618	-	(3,499)	95,148	516,114
Profit and other comprehensive income for the year		-	-	-	-	13,209	13,209
Own shares acquired		-	-	-	(17,999)	-	(17,999)
Dividends to owners	26	-	-	-	-	(13,294)	(13,294)
<b>Total transactions with owners of the Company</b>		-	-	-	(17,999)	(13,294)	(31,293)
<b>At 31 December 2016</b>		338,847	85,618	-	(21,498)	95,063	498,030
		Note 15	Note 15	Note 15	Note 15		

The notes on pages 106 to 181 are an integral part of these financial statements.

# Statements of Cash Flows

for the year ended 31 December 2016

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Cash flows from operating activities</b>				
Profit/(Loss) before tax				
- continuing operations	(11,687)	19,839	13,809	48,719
- discontinued operation	37,975	(16,084)	-	-
	26,288	3,755	13,809	48,719
<i>Adjustments for:</i>				
(Reversal of)/ Allowance for impairment loss on property, plant and equipment	(924)	3,157	-	-
Amortisation of concession intangible assets	-	4,990	-	-
Change in fair value of investment properties	-	(39)	-	-
Depreciation of property, plant and equipment	5,716	7,083	226	161
Dividend income	-	-	(22,705)	(933)
Equity settled share-based payment transactions	-	81	-	81
Finance costs	4,820	5,677	38	29
Finance income	(1,614)	(5,099)	(6,220)	(6,988)
(Gain)/Loss on disposal of equity interest in subsidiaries	(42,057)	-	12	-
Impairment loss on goodwill	34	-	-	-
Net allowance for impairment loss on financial assets	-	1,210	-	-
Net gain on disposal of property, plant and equipment	9	2	-	-
Property, plant and equipment written off	782	8,355	-	-
Share of profit of equity-accounted associates/joint ventures, net of tax	(11,865)	(4,493)	-	-
Unrealised foreign exchange differences	(2,865)	(30,330)	(3,945)	(36,406)
<b>Operating (loss)/profit before changes in working capital</b>	(21,676)	(5,651)	(18,785)	4,663
Changes in trade and other receivables	480	16,006	(66,347)	(10,316)
Changes in inventories	(31,578)	(17,080)	-	-
Changes in trade and other payables	1,376	58,704	16,848	(3,482)
<b>Cash generated from/(used in) operations</b>	(51,398)	51,979	(68,284)	(9,135)
Tax paid	(5,134)	(8,735)	(771)	(403)
<b>Net cash (used in)/from operating activities</b>	(56,532)	43,244	(69,055)	(9,538)
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment	(2,695)	(2,581)	-	(130)
Increase in investments in joint ventures	(4,667)	-	-	-
Subscription of shares in an associate	(245)	(49)	(245)	(49)
Subscription of shares in a subsidiary	-	-	(5,420)	-
Dividend received from				
- Associate	4,320	4,116	-	-
- Subsidiaries	-	-	22,705	933
Interest received	1,614	5,099	6,220	6,988
Proceeds from disposal, net of cash and cash equivalents disposed of (Note 22)	36,074	-	-	-
Proceeds from disposal of property, plant and equipment	76	240	-	-
Proceeds from distribution of capital from investment in a subsidiary	-	-	-	59,685
Return of investment in a subsidiary to non-controlling interest	-	(43,150)	-	-
<b>Net cash from/(used in) investing activities</b>	34,477	(36,325)	23,260	67,427

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Cash flows from financing activities</b>				
Dividends paid to non-controlling interests	(15,339)	(1,457)	-	-
Dividends paid to owners of the Company	(13,294)	(20,325)	(13,294)	(20,325)
Net proceeds from issue of share capital	-	1,645	-	1,645
Repayment of finance lease liabilities	(4,144)	(4,670)	(187)	(112)
Proceeds from government grant	-	39,189	-	-
Proceeds from disposal of treasury shares	-	5,956	-	5,956
Interest paid	(4,820)	(5,677)	(38)	(29)
Drawdown from borrowings	4,000	-	-	-
Repayment of borrowings	(9,873)	(16,315)	-	-
Repurchase of treasury shares	(17,999)	(4,316)	(17,999)	(4,316)
<b>Net cash used in financing activities</b>	<b>(61,469)</b>	<b>(5,970)</b>	<b>(31,518)</b>	<b>(17,181)</b>
Net (decrease)/increase in cash and cash equivalents	(83,524)	949	(77,313)	40,708
Cash and cash equivalents at 1 January	276,683	292,426	190,557	149,849
Effect of exchange rate fluctuations on cash held	21,623	(16,692)	-	-
Cash and cash equivalents at 31 December	214,782	276,683	113,244	190,557

### Cash and cash equivalents

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

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deposits placed with licensed banks	14	158,802	162,664	101,942	113,635
Cash and bank balances	14	57,139	115,191	11,302	76,922
		215,941	277,855	113,244	190,557
Bank overdrafts	16	(192)	(205)	-	-
Pledged deposits		(967)	(967)	-	-
		214,782	276,683	113,244	190,557

### Acquisition of property, plant and equipment

During the financial year, the Group and the Company acquired property, plant and equipment with an aggregate cost of RM7,770,000 (2015: RM3,881,000) and Nil (2015: RM1,130,000) respectively, of which RM5,075,000 (2015: RM1,300,000) and Nil (2015: RM1,000,000) respectively were acquired by means of finance leases.

The notes on pages 106 to 181 are an integral part of these financial statements.

# Notes to the Financial Statements

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

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

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities") and the Group's interests in associates and joint ventures. The financial statements of the Company as at and for the financial year ended 31 December 2016 do not include other entities.

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

These financial statements were authorised for issue by the Board of Directors on 11 April 2017.

## 1. Basis of preparation

### (a) Statement of compliance

The financial statements of the Group have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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

#### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017**

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

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

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

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

- MFRS 16, *Leases*

## 1. Basis of preparation (continued)

### (a) Statement of compliance (continued)

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

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

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

- from the annual period beginning on 1 January 2017 for those amendments that are effective for annual periods beginning on or after 1 January 2017.
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2018, except for those marked with "\*" which are not applicable to the Group and the Company.
- from the annual period beginning on 1 January 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019.

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

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

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

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 15.

#### **(ii) MFRS 9, Financial Instruments**

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

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 9.

#### **(iii) MFRS 16, Leases**

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

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

#### **(iv) Amendments to MFRS 128, Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)**

The amendments clarify that an entity, which is a venture capital organisation, or a mutual fund, unit trust or similar entities, has an investment-by-investment choice to measure its investments in associates and joint ventures at fair value.

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

**1. Basis of preparation (continued)**

**(b) Basis of measurement**

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

**(c) Functional and presentation currency**

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

**(d) Use of estimates and judgements**

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

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

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

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

**2. Significant accounting policies**

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

**(a) Basis of consolidation**

**(i) Subsidiaries**

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

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

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

## 2. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### (ii) Business combinations

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

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

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

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

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

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

#### (iii) Acquisitions of non-controlling interests

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

#### (iv) Loss of control

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

#### (v) Associates

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

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

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

## 2. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### (v) Associates (continued)

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

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

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

#### (vi) Joint arrangements

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

Joint arrangements are classified and accounted for as follows:

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

#### (vii) Non-controlling interests

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

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



## 2. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### (viii) Transactions eliminated on consolidation

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

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

### (b) Foreign currency

#### (i) Foreign currency transactions

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

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

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

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

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

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

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

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

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

## 2. Significant accounting policies (continued)

### (c) Financial instruments

#### (i) Initial recognition and measurement

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

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

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

#### (ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

##### **Financial assets**

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

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

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

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

##### **(b) Loans and receivables**

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

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

##### **(c) Available-for-sale financial assets**

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

## 2. Significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (ii) Financial instrument categories and subsequent measurement (continued)

##### *Financial assets (continued)*

##### *(c) Available-for-sale financial assets (continued)*

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

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

##### *Financial liabilities*

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

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

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

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

#### (iii) Financial guarantee contracts

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

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

## 2. Significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (iv) Derecognition

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

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

### (d) Property, plant and equipment

#### (i) Recognition and measurement

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

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

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

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

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

#### (ii) Subsequent costs

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

#### (iii) Depreciation

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

## 2. Significant accounting policies (continued)

### (d) Property, plant and equipment (continued)

#### (iii) Depreciation (continued)

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

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

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

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

### (e) Leased assets

#### (i) Finance lease

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

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

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

#### (ii) Operating lease

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

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

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

## 2. Significant accounting policies (continued)

### (f) Intangible assets

#### (i) Goodwill

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

#### (ii) Research and development

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

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

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

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

#### (iii) Concession rights

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

The fair value of intangible assets acquired in a business combination is based on the discounted cash flows expected to be derived from the water concession rights ranging from 30 to 50 years.

#### (iv) Concession intangible assets

Under IC Interpretation 12, *Service Concession Arrangements*, the infrastructure assets incurred that establish the right granted by the concession grantor to charge users of public services are treated as concession intangible assets.

Infrastructure assets comprised assets which are constructed by the Group in exchange for the right of the Group to charge users of the public service infrastructure that it has constructed or upgraded and are stated at the fair value of construction services delivered including certain mark ups on the actual cost incurred. The capital work-in-progress relating to these assets is not amortised until the assets are fully completed and brought to use.

Concession intangible assets are stated at cost less accumulated amortisation and impairment loss.

#### (v) Land use rights

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

## 2. Significant accounting policies (continued)

### (f) Intangible assets (continued)

#### (vi) Amortisation

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

Concession rights and concession intangible assets are amortised from the date that they are available for use. Amortisation of concession rights and concession intangible assets are recognised in profit or loss on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are as follows:

- |                                |               |
|--------------------------------|---------------|
| • concession rights            | 30 - 50 years |
| • concession intangible assets | 30 - 50 years |
| • land use rights              | 67 ½ years    |

Concession rights and concession intangible assets are reviewed at the end of each reporting period and adjusted, if appropriate.

### (g) Investment properties

#### (i) Investment properties carried at fair value

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

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

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

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

#### (ii) Reclassification to/from investment property

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

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

## 2. Significant accounting policies (continued)

### (h) Inventories

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

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

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

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

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

### (i) Non-current assets held for sale

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

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

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

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

### (j) Construction work-in-progress

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

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



## 2. Significant accounting policies (continued)

### (k) Cash and cash equivalents

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

### (l) Impairment

#### (i) Financial assets

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

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

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

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

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

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

#### (ii) Other assets

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

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

## 2. Significant accounting policies (continued)

### (l) Impairment (continued)

#### (ii) Other assets (continued)

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

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

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

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

### (m) Equity instruments

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

#### (i) Issue expenses

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

#### (ii) Ordinary shares

Ordinary shares are classified as equity.

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

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

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

#### (iv) Distribution of assets to owners of the Company

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

## 2. Significant accounting policies (continued)

### (n) Employee benefits

#### (i) Short term employee benefits

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

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

#### (ii) State plans

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

#### (iii) Defined benefit plans

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

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

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

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

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

#### (iv) Share-based payment transactions

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

## 2. Significant accounting policies (continued)

### (n) Employee benefits (continued)

#### (iv) Share-based payment transactions (continued)

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

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

### (o) Provisions

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

#### Contingent liabilities

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

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

### (p) Revenue and other income

#### (i) Goods sold

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

#### (ii) Services

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

## 2. Significant accounting policies (continued)

### (p) Revenue and other income (continued)

#### (iii) Construction contracts

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

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

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

#### (iv) Rental income

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

#### (v) Dividend income

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

#### (vi) Interest income

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

### (q) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

### (r) Borrowing costs

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

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

**2. Significant accounting policies (continued)**

**(r) Borrowing costs (continued)**

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

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

**(s) Income tax**

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

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

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

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

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

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

**(t) Discontinued operations**

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

## 2. Significant accounting policies (continued)

### (u) Earnings per ordinary share

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

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

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

### (v) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Operation Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

### (w) Service concession arrangements

The Group has entered into several service concession arrangements with the People's Republic of China ("PRC") government to construct/upgrade water treatment plants and operate the water treatment plants and wastewater treatment plants for a period ranging from 30 to 50 years. The terms of the arrangement allow the Group to maintain and manage these treatment plants and charge consumers based on the water usage and rates as determined by the grantor for concession period.

A substantial portion of the Group's assets are within the framework of concession contracts granted by the government ("the grantor"). In order to fall within the scope of concession contract, a contract must satisfy the following two criteria:

- The grantor controls or regulates what services the operator must provide with the infrastructure assets, to whom it must provide them, and at what price; and
- The grantor controls the significant residual interest in the infrastructure assets at the end of the term of the arrangement.

Such infrastructure assets are not recognised by the Group as property, plant and equipment and prepaid lease payment but as intangible assets as described in Note 2(f)(iii) or financial assets as described in Note 2(c)(ii)(b).

The Group recognises the consideration received or receivable as a financial asset to the extent that it has an unconditional right to receive cash or another financial asset for the construction services. Financial assets are accounted for in accordance with the accounting policy set out in Note 2(c)(ii)(b).

The Group recognises the consideration receivable as an intangible asset to the extent that it receives a right to charge users of the public service. Intangible assets resulting from the application of this policy are recorded in the statement of financial position as "Concession intangible assets" and are amortised on a straight line basis over the concession rights ranging from 30-50 years.

Under the intangible asset model, revenue includes revenue from the construction of the infrastructure assets and concession revenue from operating the infrastructure.

## 2. Significant accounting policies (continued)

### (x) Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

## 3. Property, plant and equipment

Group Cost	Land RM'000	Freehold buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Capital work-in- progress RM'000	Total RM'000
At 1 January 2015	1,156	4,313	55,193	27,697	3,904	-	92,263
Additions	-	78	741	2,884	178	-	3,881
Transfer to project costs	-	-	-	(98)	-	-	(98)
Disposals	-	-	-	(651)	-	-	(651)
Write-off	(423)	-	(9,895)	-	-	-	(10,318)
Effect of movements in exchange rates	-	-	9,139	10	19	-	9,168
At 31 December 2015/ 1 January 2016	733	4,391	55,178	29,842	4,101	-	94,245
Additions	-	15	1,131	252	265	6,107	7,770
Disposals	-	-	(30)	(200)	(283)	-	(513)
Write-off	-	-	(948)	-	(15)	-	(963)
Effect of movements in exchange rates	-	-	(4,723)	2	(1)	-	(4,722)
At 31 December 2016	733	4,406	50,608	29,896	4,067	6,107	95,817



### 3. Property, plant and equipment (continued)

<b>Group</b>	<b>Land</b>	<b>Freehold buildings</b>	<b>Plant and machinery</b>	<b>Motor vehicles</b>	<b>Office equipment, furniture and fittings</b>	<b>Capital work-in-progress</b>	<b>Total</b>
<b>Depreciation and impairment loss</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January 2015							
Accumulated depreciation	78	168	4,100	10,950	3,151	-	18,447
Accumulated impairment loss	-	-	-	-	-	-	-
	78	168	4,100	10,950	3,151	-	18,447
Depreciation for the year	3	43	3,249	2,999	362	-	6,656
Impairment losses	-	-	3,157	-	-	-	3,157
Transfer to project costs	-	-	-	(74)	-	-	(74)
Disposals	-	-	-	(409)	-	-	(409)
Write-off	(81)	-	(1,882)	-	-	-	(1,963)
Effect of movements in exchange rates	-	-	460	10	14	-	484
At 31 December 2015/1 January 2016							
Accumulated depreciation	-	211	5,927	13,476	3,527	-	23,141
Accumulated impairment loss	-	-	3,157	-	-	-	3,157
	-	211	9,084	13,476	3,527	-	26,298
Depreciation for the year	-	45	2,342	3,036	293	-	5,716
Reversal of impairment loss	-	-	(924)	-	-	-	(924)
Disposals	-	-	(5)	(140)	(283)	-	(428)
Write-off	-	-	(167)	-	(14)	-	(181)
Effect of movements in exchange rates	-	-	1,844	2	-	-	1,846
At 31 December 2016							
Accumulated depreciation	-	256	9,941	16,374	3,523	-	30,094
Accumulated impairment loss	-	-	2,233	-	-	-	2,233
	-	256	12,174	16,374	3,523	-	32,327
<b>Carrying amounts</b>							
At 1 January 2015	1,078	4,145	51,093	16,747	753	-	73,816
At 31 December 2015/1 January 2016	733	4,180	46,094	16,366	574	-	67,947
At 31 December 2016	733	4,150	38,434	13,522	544	6,107	63,490

**3. Property, plant and equipment (continued)**

<b>Company Cost</b>	<b>Motor vehicles RM'000</b>
At 1 January 2015	-
Addition	1,130
<hr/>	
At 31 December 2015/1 January 2016	1,130
Additions	-
<hr/>	
At 31 December 2016	1,130
<hr/>	
<b>Depreciation</b>	
At 1 January 2015	-
Depreciation for the year	161
<hr/>	
At 31 December 2015/1 January 2016	161
Depreciation for the year	226
<hr/>	
At 31 December 2016	387
<hr/>	
<b>Carrying amounts</b>	
At 1 January 2015	-
<hr/>	
At 1 January 2016	969
<hr/>	
At 31 December 2016	743
<hr/>	

**Assets under finance lease**

Included in property, plant and equipment of the Group and the Company are motor vehicles and plant and machinery acquired under finance lease agreements with net book value of RM4,668,000 (2015: RM13,659,000) and RM743,000 (2015: RM969,000) respectively.

#### 4. Intangible assets

Group	Note	Goodwill RM'000	Land use rights RM'000	Total RM'000
1 January 2015/31 December 2015/ 1 January 2016/31 December 2016		3,683	18,148	21,831

#### **Goodwill**

##### **Impairment testing for cash-generating units containing goodwill**

For the purpose of impairment testing, goodwill is allocated to a subsidiary acquired at which the goodwill is monitored for internal management purposes.

The goodwill impairment test was based on value in use determined by the management. Value in use was derived from the subsidiary future budgets. Key assumptions used in preparing the budgets represent management's assessment of future trends in the subsidiary principal activity with certain reference made to the internal sources (historical data).

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Based on past experience and actual operating results attained in both 2015 and 2016, 3 years cash flow projections were prepared. An average growth rate of 5 percent (2015: 5 percent) was incorporated into the projections.
- A pre-tax discount rate of 10 percent (2015: 10 percent) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the average of the Group's working cost of capital adjusted to the risk of the underlying assets.

Based on the management assessments, there were no indication of impairment on goodwill during the financial year under review. In addition, the management has assessed the key assumptions used and sensitivity of such assumptions to impairment losses and the results are as follows:

- An increase of 100 basis point in the discount rate used would not result in impairment losses.
- A 10% decrease in future planned revenue would not result in impairment losses.

#### **Land use rights**

Land use rights represent the right acquired by the group entity over a parcel of land for a duration until year 2082. The Group intend to utilise the land for mixed development project. Hence, amortisation is not required as it would be subsequently capitalised when the development commences. Had amortisation been provided on the land use rights during the financial year, the carrying amount would have reduced by RM269,000 (2015: RM269,000).

**5. Investment properties**

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	8,485	8,446
Change in the fair value recognised in profit or loss	-	39
At 31 December	8,485	8,485

Included in the above are:

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At fair value</b>		
Freehold land	319	319
Freehold land and buildings	550	550
Leasehold land and buildings with unexpired lease period of more than 50 years	7,616	7,616
	8,485	8,485

The following are recognised in profit or loss in respect of investment properties:

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Direct operating expenses:		
- income generating investment properties	6	6

**5.1 Fair value information**

Fair value of investment properties are categorised as follows:

	<b>2016</b>		<b>2015</b>	
	<b>Level 3</b>	<b>Total</b>	<b>Level 3</b>	<b>Total</b>
<b>Group</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Land	319	319	319	319
Buildings	8,166	8,166	8,166	8,166
	8,485	8,485	8,485	8,485

## 5. Investment properties (continued)

### 5.1 Fair value information (continued)

#### Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the investment property.

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Description of valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Sales comparison approach: Sales price of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.	Price per square foot (RM90 to RM452)	The estimated fair value would increase/ (decrease) if the price per square foot is higher/(lower).

#### Valuation processes applied by the Group for Level 3 fair value

The fair value of investment properties is determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The valuation company provides the fair value of the Group's investment property portfolio and changes in Level 3 fair values are analysed by the management every year.

## 6. Investments in subsidiaries

	Company	
	2016 RM'000	2015 RM'000
<b>At cost</b>		
Unquoted shares	103,227	97,819
Unquoted preference shares	7,267	7,267
Less: Impairment losses	(6,857)	(6,857)
	<hr/> 103,637	<hr/> 98,229

**6. Investments in subsidiaries (continued)**

Details of the subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	Effective ownership interest and voting interest	
			2016 %	2015 %
Salcon Engineering Berhad	Malaysia	- Design, construction, operation and maintenance of municipal potable water, sewage and wastewater facilities; - Provision of mechanical and electrical engineering services for general industries; and - Investment holding	100	100
Salcon Water (Asia) Limited +	Hong Kong	Investment holding company	60	60
Integrated Water Services (M) Sdn. Bhd.	Malaysia	Operation and maintenance of a water treatment plant	51	51
Salcon Changzhou (HK) Limited *	Hong Kong	Investment holding company	100	100
Salcon Water International Limited *	Hong Kong	Investment holding company	100	100
Salcon Capital Sdn. Bhd. ^	Malaysia	Investment holding company	100	100
Salcon Power (HK) Limited +	Hong Kong	Sales of solar power products and solar energy	100	100
Salcon Water (HK) Limited *	Hong Kong	Dormant	100	100
Salcon Development Sdn. Bhd.	Malaysia	Investment holding company	100	100
Kencana Kesuma Sdn. Bhd. ^	Malaysia	Dormant	70	70
Salcon Utilities Sdn. Bhd. ^	Malaysia	Dormant	70	70
Satria Megajuta Sdn. Bhd. ^	Malaysia	Dormant	100	100
Salcon Petroleum Services (Labuan) Limited	Malaysia	Provision of petroleum related services	100	100
<i>Subsidiaries of Salcon Engineering Berhad:</i>				
Salcon-Centrimax Engineering Sdn. Bhd. ^	Malaysia	Dormant	100	100
Precise Metal Sdn. Bhd. ^	Malaysia	Dormant	100	100
Salcon Power Sdn. Bhd. ^	Malaysia	Investment holding	100	100

## 6. Investments in subsidiaries (continued)

Name of entity	Country of incorporation	Principal activities	Effective ownership interest and voting interest	
			2016 %	2015 %
<i>Subsidiaries of Salcon Engineering Berhad: (continued)</i>				
Salcon Petroleum Services (Asia Pacific) Sdn. Bhd. ^	Malaysia	Provision of petroleum related services	100	100
Salcon Environmental Services Sdn. Bhd. ^	Malaysia	Dormant	100	100
Envitech Sdn. Bhd.	Malaysia	Design, building, operation and maintenance of wastewater and sewage treatment plants	60	60
Glitteria Sdn. Bhd. @ ^	Malaysia	Dormant	50	50
Bumi Tiga Enterprise Sdn. Bhd. ^	Malaysia	Investment holding	100	100
Salcon Corporation Sdn. Bhd. ^	Malaysia	Dormant	100	100
Salcon (Perak) Sdn. Bhd. @ ^	Malaysia	Dormant	40	40
Tanjung Jutaria Sdn. Bhd. ^	Malaysia	Dormant	100	100
Salcon (Sarawak) Sdn. Bhd. ^	Malaysia	Dormant	100	100
Salcon Holdings (Mauritius) Limited	Mauritius	Dormant	-	100
Salcon Engineering Vietnam Company Limited *	Vietnam	Dormant	100	100
Salcon Engineering (India) Pte. Ltd. *	India	Dormant	100	100
<i>Subsidiaries of Bumi Tiga Enterprise Sdn. Bhd:</i>				
Skeel Engineering Sdn. Bhd. ^	Malaysia	Dormant	100	100
Salcon Building Services Sdn. Bhd. ^	Malaysia	Dormant	100	100

## 6. Investments in subsidiaries (continued)

Name of entity	Country of incorporation	Principal activities	Effective ownership interest and voting interest	
			2016 %	2015 %
<i>Subsidiaries of Salcon Water (Asia) Limited:</i>				
Salcon Linyi (HK) Limited Ω	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary	-	60
Salcon Services (HK) Limited *	Hong Kong	Investment holding company involved in investment advisory in the People's Republic of China via its subsidiary	60	60
<i>Subsidiary of Salcon Linyi (HK) Limited:</i>				
Linyi Salcon Water Company Limited Ω	People's Republic of China	Management and operation of water production and distribution of water in Linyi City	-	36
<i>Subsidiaries of Linyi Salcon Water Company Limited:</i>				
Linyi Runcheng Supply Project Company Limited Ω	People's Republic of China	Repair and maintenance of municipal water supply pipeline, equipment, water supply equipment	-	36
Linyi Salcon Water Supply Facilities Company Limited Ω	People's Republic of China	Repair and maintenance of municipal water supply pipeline, equipment, water supply equipment	-	36
<i>Subsidiary of Salcon Services (HK) Limited:</i>				
Salcon Alliance Corporate Management & Consultancy (Shanghai) Pte. Ltd. *	People's Republic of China	Consultancy services for investment operation and strategy business	60	60,
<i>Subsidiary of Salcon Changzhou (HK) Limited:</i>				
Changzhou Salcon Wastewater Treatment Company Limited *	People's Republic of China	Dormant	100	100
<i>Subsidiary of Salcon Power Sdn. Bhd.:</i>				
Salcon Green Energy (UK) Ltd. *	United Kingdom	Dormant	100	100



## 6. Investments in subsidiaries (continued)

Name of entity	Country of incorporation	Principal activities	Effective ownership interest and voting interest	
			2016 %	2015 %
<i>Subsidiary of Salcon Capital Sdn. Bhd.:</i>				
Eco-Coach & Tours (M) Sdn. Bhd.	Malaysia	Transportation services	51	51
<i>Subsidiary of Salcon Water International Limited:</i>				
Salcon Investment Consultation (Shanghai) Company Limited *	People's Republic of China	Consultancy services for investment, operation and strategy business.	100	100
Circlic Interactive Tourism Sdn. Bhd. (F.K.A. Circlic Interactive Sdn. Bhd.)	Malaysia	E-commerce travel and tourism	65	-
<i>Subsidiaries of Salcon Development Sdn. Bhd.:</i>				
Azitin Venture Sdn. Bhd. #	Malaysia	Property development	50	50
Prestasi Kemas Sdn. Bhd.	Malaysia	Property development	70	70
Nusantara Megajuta Sdn. Bhd. #	Malaysia	Property development	50	50
Salcon Development (Australia) Pty Ltd.*	Australia	Property development	100	-
<i>Subsidiary of Eco-Coach &amp; Tours (M) Sdn. Bhd.:</i>				
Eco Tours Asia Sdn. Bhd.	Malaysia	Transportation services	51	51

+ Audited by other member firms of KPMG International.

^ Audited by other firms of accountants.

@ Although the Group owns less than 50% of the voting power of Salcon (Perak) Sdn. Bhd. ("SPSB") and 50% of the voting power of Glitteria Sdn. Bhd. ("GSB"), the Group regards them as subsidiaries as it is able to govern the financial and operating policies of the companies by virtue of shareholders agreements entered into with the other investors of SPSB and GSB respectively. Consequently, the Group consolidates its investments in these companies.

# Although the Group owns 50% of the voting power of Azitin Venture Sdn Bhd ("AVSB") and 50% of the voting power of Nusantara Megajuta Sdn Bhd ("NMSB"), the Group regards them as subsidiaries as it is able to govern the financial and operating policies of the companies by virtue of shareholders agreements entered into with the other investors of AVSB and NMSB respectively. Consequently, the Group consolidates its investments in these companies.

\* The financial statements of these subsidiaries were not audited and these subsidiaries were consolidated based on management financial statements.

Ω Entities disposed of during the year.

**6. Investments in subsidiaries (continued)****6.1 Non-controlling interest in subsidiaries**

The Group's subsidiaries that have material non-controlling interests ("NCI") are as follows:

	<b>Salcon Water (Asia) Limited RM'000</b>	<b>Envitech Sdn. Bhd. RM'000</b>
<b>2016</b>		
NCI percentage of ownership interest and voting interest	40%	40%
Carrying amount of NCI	13,764	19,383
<hr/>		
Profit allocated to NCI	15,532	1,133
<hr/>		
<b>Summarised financial information before intra-group elimination As at 31 December</b>		
Non-current assets	4	12,102
Current assets	38,521	48,224
Non-current liabilities	-	(392)
Current liabilities	(4,114)	(11,475)
<hr/>		
Net assets	34,411	48,459
<hr/>		
<b>Year ended 31 December</b>		
Revenue	-	53,414
Profit for the year	38,829	2,833
Total comprehensive income	38,829	2,833
<hr/>		
Cash flows used in operating activities	(1,317)	3,609
Cash flows used in investing activities	38,038	(30)
Cash flows used in financing activities	(35,478)	(1,560)
<hr/>		
Net decrease in cash and cash equivalents	1,243	2,019
<hr/>		
Dividends paid to NCI	14,191	560
<hr/>		

## 6. Investments in subsidiaries (continued)

### 6.1 Non-controlling interest in subsidiaries (continued)

	Salcon Water (Asia) Limited RM'000	Envitech Sdn. Bhd. RM'000
<b>2015</b>		
NCI percentage of ownership interest and voting interest	40%	40%
Carrying amount of NCI	19,258	18,810
<hr/>		
Profit allocated to NCI	230	1,611
<hr/>		
<b>Summarised financial information before intra-group elimination</b>		
<b>As at 31 December</b>		
Non-current assets	34,932	12,097
Current assets	31,289	52,709
Non-current liabilities	-	(498)
Current liabilities	(18,077)	(17,283)
<hr/>		
Net assets	48,144	47,025
<hr/>		
<b>Year ended 31 December</b>		
Revenue	312	67,146
Profit for the year	576	4,027
Total comprehensive income	576	4,027
<hr/>		
Cash flows used in operating activities	(1,024)	(455)
Cash flows used in investing activities	(41,964)	(36)
Cash flows used in financing activities	-	(1,557)
<hr/>		
Net decrease in cash and cash equivalents	(42,988)	(2,048)
<hr/>		
Dividends paid to NCI	-	560
<hr/>		

## 7. Investments in associates

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>At cost</b>				
Unquoted shares	12,094	11,849	294	49
Unquoted preference shares	10,000	10,000	-	-
Share of post-acquisition reserves	5,130	5,417	-	-
<hr/>				
	27,224	27,266	294	49
<hr/>				

**7. Investments in associates (continued)**

Details of the associates are as follows:

Name of entity	Country of incorporation	Nature of the relationship	Effective ownership interest and voting interest	
			2016	2015
Emas Utilities Corporation Sdn. Bhd. ("EUC")	Malaysia	Investment holding company with 90% equity interest in Binh An Water Corporation Ltd., who engaged in production and supply of treated water in Vietnam.	40%	40%
Salcon Petroleum Services Sdn. Bhd. ("SPS")	Malaysia	Service provider and agent for representing overseas oil & gas services companies in Malaysia.	49%	49%

The following table summarises the financial information of the Group's material associate, adjusted for any differences in accounting policies and reconciles the information to the carrying amount of the Group's interest in the associate.

Group	EUC	
	2016 RM'000	2015 RM'000
<b>Summarised financial information as at 31 December</b>		
Non-current assets	18,954	25,811
Current assets	42,461	33,570
Current liabilities	(1,005)	(933)
Net assets	60,410	58,448
<b>Year ended 31 December</b>		
Profit for the year	12,166	9,725
Other comprehensive income	1,822	7,218
Total comprehensive income	13,988	16,943
<b>Included in the total comprehensive income is:</b>		
Revenue	29,860	30,247

## 7. Investments in associates (continued)

Group	EUC RM'000	Other immaterial associate RM'000	Total RM'000
<b>2016</b>			
<b>Reconciliation of net assets/(liabilities) to carrying amount as at 31 December</b>			
Group's share of net assets/(liabilities)	24,164	(252)	23,912
Carrying amount in the statement of financial position	24,164	(252)	23,912
<b>Group's share of results for the year ended 31 December</b>			
Group's share of profit or loss from continuing operations	4,350	(317)	4,033
<b>Other information</b>			
Dividends received by the Group	4,320	-	4,320
<b>2015</b>			
<b>Reconciliation of net assets to carrying amount as at 31 December</b>			
Group's share of net assets	23,379	(180)	23,199
Carrying amount in the statement of financial position	23,379	(180)	23,199
<b>Group's share of results for the year ended 31 December</b>			
Group's share of profit or loss from continuing operations	3,890	(231)	3,659
<b>Other information</b>			
Dividends received by the Group	4,116	-	4,116

## 8. Investments in joint ventures

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>At cost</b>				
Unquoted shares	28,563	23,896	23,500	23,500
Share of post-acquisition reserves	7,668	(860)	-	-
	36,231	23,036	23,500	23,500

**8. Investments in joint ventures (continued)**

Details of joint ventures are as follows:

Name of joint venture	Principal activities	Note	Proportion of ownership interest	
			2016 %	2015 %
Volksbahn Technologies Sdn. Bhd.	Provision of management, technology and service consulting	8.1	50% plus 2 shares	50% plus 2 shares
<i>Joint ventures of Salcon Engineering Berhad:</i>				
Salcon MNCB AZSB JV Sdn. Bhd.	Engineering and construction	8.2	36%	36%
Salcon MMCES AZSB JV Sdn. Bhd.	Engineering and construction	8.3	50%	36%
Salcon Loh & Loh JV Sdn. Bhd.	Engineering and construction	8.4	50%	50%
<i>Joint venture of Envitech Sdn. Bhd.:</i>				
WET Envitech Sdn. Bhd.	Engineering and construction	8.5	50%	50%

8.1 On 7 May 2014, the Group has acquired 50% plus one ordinary share, representing 200,001 ordinary shares of RM1.00 each in Volksbahn Technologies Sdn. Bhd. ("VTSB") for a total cash consideration of RM23.5 million. VTSB had, on 22 June 2014, allotted 400,001 bonus shares of RM1.00 each to its shareholders. As a result, the Group was entitled to 200,001 shares of RM1.00 each in VTSB of which in total, the Group has had 400,002 shares representing 50% plus 2 ordinary shares in VTSB. Pursuant to the terms and nature of the shareholders agreement, the Group's investment in VTSB constitute a joint arrangement as the entity is jointly controlled by the Group and the other shareholder.

8.2 On 8 April 2014, the Group entered into a joint arrangement with MMC Corporation Berhad ("MNCB") and Ahmad Zaki Sdn. Bhd. ("AZSB"), and together, they have incorporated Salcon MNCB AZSB JV Sdn. Bhd. ("L1") on 29 September 2014.

8.3 On 23 December 2014, the Group entered into another joint arrangement with MMC Engineering Services Sdn. Bhd. ("MMCES") and AZSB to form Salcon MMCES AZSB JV Sdn. Bhd. ("L2"). On 30 September 2016, this joint venture has come to a novation agreement whereby the Group further acquire 14% shares in L2 resulting the Group has effective interest of 50% in L2 thereon.

Both Salcon MNCB AZSB JV Sdn. Bhd. and Salcon MMCES AZSB JV Sdn. Bhd. are set up to undertake the Langat 2 water treatment plant project.

8.4 On 30 December 2014, the Group entered into another joint arrangement with Loh & Loh Construction Sdn. Bhd. to form Salcon Loh & Loh JV Sdn. Bhd. ("SLL").

8.5 On 23 January 2015, the Group entered into another joint arrangement with Water Engineering Technology Sdn. Bhd. to form WET Envitech Sdn. Bhd. ("WESB").

The following table summarises the financial information of the Group's material joint ventures, adjusted for any differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interests in joint ventures, which are accounted for using the equity method.

## 8. Investments in joint ventures (continued)

	L1		L2		SLL	
	2016 RM'000	2015* RM'000	2016 RM'000	2015* RM'000	2016 RM'000	2015 RM'000
<b>Summarised financial information</b>						
<b>As at 31 December</b>						
Current assets	321,782	276,759	258,770	181,759	50,823	14,039
Current liabilities	(320,936)	(276,107)	(233,757)	(169,596)	39,865	14,068
Cash and cash equivalents	14,517	763	1,845	894	22,244	1,563
<b>Year ended 31 December</b>						
Profit/(Loss) from continuing operations	194	(317)	12,850	10,328	10,987	(29)
Total comprehensive income/(loss)	194	(317)	12,850	10,328	10,987	(29)
<b>Included in the total comprehensive income/(loss) are:</b>						
Revenue	322,307	240,267	318,192	261,836	125,788	-
Depreciation and amortisation	-	-	-	-	-	-
Interest income	830	-	94	-	420	19
Interest expense	(778)	-	(830)	-	-	-
Tax expense/Overprovision of tax expense	122	(135)	(4,988)	(4,680)	(3,453)	-

\* The financial statements of these joint ventures were not audited and were consolidated based on management financial statements.

	L1 RM'000	L2 RM'000	SLL RM'000	Other immaterial joint ventures RM'000	Total RM'000
<b>2016</b>					
<b>Reconciliation of net assets to carrying amount as at 31 December</b>					
Group's share of net assets	305	12,506	5,479	2,221	20,511
Carrying amount in the statement of financial position	305	12,506	5,479	2,221	20,511
<b>Group's share of results for the year ended 31 December</b>					
Group's share of profit/(loss) from continuing operations	70	5,031	5,494	(2,763)	7,832
Group's share of total comprehensive income/(loss)	70	5,031	5,494	(2,763)	7,832

**8. Investments in joint ventures (continued)**

	L1 RM'000	L2 RM'000	SLL RM'000	Other immaterial joint ventures RM'000	Total RM'000
<b>2015</b>					
<b>Reconciliation of net assets/(liabilities) to carrying amount as at 31 December</b>					
Group's share of net assets/(liabilities)	235	4,379	(15)	5,168	9,767
Carrying amount in the statement of financial position	235	4,379	(15)	5,168	9,767
<b>Group's share of results for the year ended 31 December</b>					
Group's share of (loss)/profit from continuing operations	(114)	3,718	(15)	(2,755)	834
Group's share of total comprehensive (loss)/income	(114)	3,718	(15)	(2,755)	834

**9. Other investments**

Group	Total RM'000	Unquoted shares RM'000	Other investment RM'000
<b>2016</b>			
<b>Non-current</b>			
Available-for-sale financial assets	4,815	175	4,640
Less: Impairment loss	(4,815)	(175)	(4,640)
	-	-	-
<b>2015</b>			
<b>Non-current</b>			
Available-for-sale financial assets	4,815	175	4,640
Less: Impairment loss	(4,815)	(175)	(4,640)
	-	-	-
<b>Company</b>			
<b>2016</b>			
<b>Non-current</b>			
Available-for-sale financial assets	4,500	-	4,500
Less: Impairment loss	(4,500)	-	(4,500)
	-	-	-
<b>2015</b>			
<b>Non-current</b>			
Available-for-sale financial assets	4,500	-	4,500
Less: Impairment loss	(4,500)	-	(4,500)
	-	-	-



## 10. Deferred tax assets and liabilities

### Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Land use rights	-	-	(4,537)	(4,537)	(4,537)	(4,537)
Property, plant and equipment	10	-	(1,744)	(2,387)	(1,734)	(2,387)
Provisions	-	108	-	-	-	108
Other items	-	-	(3,382)	(3,375)	(3,382)	(3,375)
Tax losses carry-forward	3,516	3,516	-	-	3,516	3,516
Unabsorbed capital allowances	375	375	-	-	375	375
Tax assets/ (liabilities)	3,901	3,999	(9,663)	(10,299)	(5,762)	(6,300)
Set off of tax	(203)	(301)	203	301	-	-
Net tax assets/ (liabilities)	3,698	3,698	(9,460)	(9,998)	(5,762)	(6,300)

In recognising the deferred tax assets attributable to unutilised tax losses carry-forwards, the Directors made an assumption that there will not be any substantial change (more than 50%) in the shareholders before these assets are utilised. If there is substantial change in the shareholders, unutilised tax losses carry-forwards amounting to approximately RM14.6 million (2015: RM14.6 million) will not be available to the Group, resulting in a decrease in deferred tax assets of RM3.5 million (2015: RM3.5 million).

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Other deductible temporary differences	231	340	26	-
Unabsorbed capital allowance	978	450	-	-
Unutilised tax losses	13,956	9,640	-	-
	15,165	10,430	26	-

**10. Deferred tax assets and liabilities (continued)**

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Movement in temporary differences during the financial year are as follows:

Group	At	Recognised	At	Recognised	At
	1.1.2015	in profit	31.12.2015/	in profit	31.12.2016
	RM'000	or loss	1.1.2016	or loss	RM'000
		(Note 21)	RM'000	(Note 21)	RM'000
Land use rights	(4,537)	-	(4,537)	-	(4,537)
Property, plant and equipment	(1,591)	(796)	(2,387)	653	(1,734)
Provisions	112	(4)	108	(108)	-
Other items	(3,418)	43	(3,375)	(7)	(3,382)
Tax losses carry-forward	5,769	(2,253)	3,516	-	3,516
Unabsorbed capital allowances	202	173	375	-	375
	(3,463)	(2,837)	(6,300)	538	(5,762)

**11. Trade and other receivables**

	Note	Group		Company	
		2016	2015	2016	2015
		RM'000	RM'000	RM'000	RM'000
<b>Trade</b>					
Trade receivables	11.1	54,384	72,071	-	-
Amount due from contract customers	11.2	48,134	38,635	-	-
		102,518	110,706	-	-
<b>Non-trade</b>					
Amounts due from associates	11.3	1,239	13,971	745	-
Amounts due from joint ventures	11.4	21,313	-	2,111	-
Amounts due from subsidiaries	11.5	-	-	292,291	209,570
Other receivables	11.6	1,760	22,335	1,241	10,014
Deposits		25,852	2,270	-	-
Prepayments		1,461	9,553	14	6,526
		51,625	48,129	296,402	226,110
		154,143	158,835	296,402	226,110

## 11. Trade and other receivables (continued)

11.1 Included in trade receivables of the Group are retention sums amounting to RM10,136,000 (2015: RM11,208,000) relating to construction work-in-progress. Retentions are unsecured, interest-free and are expected to be due for collection as follows:

	Group	
	2016 RM'000	2015 RM'000
Within 1 year	1,127	8
1 - 2 years	3,209	7,208
2 - 3 years	2,185	836
3 - 4 years	1,416	1,012
4 - 5 years	2,199	2,144
	10,136	11,208

11.2 Amount due from contract customers

	Note	Group	
		2016 RM'000	2015 RM'000
Aggregate costs incurred to date		583,396	522,315
Add: Attributable profit		62,219	36,496
		645,615	558,811
Less: Progress billings		(598,007)	(529,149)
		47,608	29,662
Amount due to contract customers	17	526	8,973
Amount due from contract customers		48,134	38,635

Included in aggregate costs incurred during the year are personnel expenses and hiring of equipment amounting to RM2,044,000 (2015: RM5,343,000) and RM93,000 (2015: RM374,000) respectively.

11.3 The amounts due from associates are non-trade, unsecured and repayable upon demand.

11.4 The amounts due from joint ventures are non-trade, unsecured, interest free and repayable on demand except for an amount due from a joint venture amounting RM2.1 million (2015: nil) which bears interest of 7.65% (2015: nil) per annum.

11.5 The amounts due from subsidiaries are unsecured, interest free and repayable upon demand except for an amounts due from a subsidiaries amounting to RM223.7 million (2015: RM168.5 million) which bears interest ranging from 2% to 8.35% (2015: 2% to 7.85%) per annum.

11.6 Included in other receivables of the Group are allowance for impairment losses made against doubtful receivables was RM682,000 (2015: RM449,000).

**12. Inventories**

	Note	Group 2016 RM'000	2015 RM'000
At cost:			
Spares		241	305
Raw materials		106	-
Consumables		107	-
Properties under development	12.1	194,265	162,836
		194,719	163,141

**12.1 Properties under development comprises:**

Land held for property development	120,872	120,913
Development costs	73,393	41,923
	194,265	162,836

Included in development costs was interest expense capitalised amounting to RM4,476,000 (2015: RM4,231,000). The land held for property development with carrying amount of RM120,872,000 (2015: RM120,872,000) (Note 16.1) is charged to the financial institution for the facilities granted to Group entities.

**13. Disposal group held for sale**

In 2013, the Group entered into a sale and purchase agreement with a third party to dispose off its businesses in People's Republic of China through the disposal of its shares in the intermediate holding companies in Hong Kong. The financial statements of the ongoing disposal group is presented as a disposal group held for sale in view of the ongoing disposal program as at 31 December 2015. The disposal was completed during the year. At previous year end, the assets and liabilities of the disposal group are as follows:

	Note	Group 2016 RM'000	2015 RM'000
<b>Assets classified as held for sale</b>			
Property, plant and equipment	13.1	-	1,637
Intangible assets	13.2	-	139,077
Trade and other receivables	13.3	-	17,782
Inventories	13.4	-	6,573
Cash and cash equivalents		-	32,546
		-	197,615

### 13. Disposal group held for sale (continued)

	Note	Group	
		2016 RM'000	2015 RM'000
<b>Liabilities classified as held for sale</b>			
Trade and other payables		-	113,243
Defined benefits liabilities	13.5	-	5,838
Loans and borrowings		-	17,977
Current tax liabilities		-	2,432
		-	139,490

13.1 Property, plant and equipment held for sale comprise the following:

	Group	
	2016 RM'000	2015 RM'000
Cost	-	3,503
Accumulated depreciation	-	(1,866)
	-	1,637

In 2015, the Group acquired property, plant and equipment with aggregate cost of RM85,000 and the depreciation charge was RM427,000.

13.2 Intangible assets held for sale comprise the following:

	Group	
	2016 RM'000	2015 RM'000
Cost	-	178,198
Accumulated amortisation	-	(39,121)
	-	139,077

Intangible assets held for sale represent concession rights and concession intangible assets.

In 2015, the Group acquired intangible assets with aggregate cost of RM20,513,000 and the amortisation was RM4,990,000.

13.3 Receivables were carried at cost less impairment loss.

13.4 The inventories held for sale comprised raw materials and consumables and were carried at cost.

13.5 As part of the retrenchment exercise undertaken by one of the Group entities, the Group offered a compensation scheme to the affected personnel. Under the scheme, personnel/staff will be paid a monthly compensation which represents a portion of their last drawn salary prior to the retrenchment until these employees reached the formal retirement age of 55 years old.

**13. Disposal group held for sale (continued)**

13.5 Principal actuarial assumptions used at the end of the reporting period (expressed as weighted average) are set out as below:

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
Discount rate	-	5.2%
Weighted average duration of compensation obligation	-	4 years

**14. Cash and cash equivalents**

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Deposits placed with licensed banks				
- Malaysia	29,255	118,724	8,484	113,635
- Outside Malaysia	129,547	43,940	93,458	-
	158,802	162,664	101,942	113,635
Cash and bank balances				
- Malaysia	22,199	113,707	2,302	76,922
- Outside Malaysia	34,940	1,484	9,000	-
	57,139	115,191	11,302	76,922
	215,941	277,855	113,244	190,557

**15. Capital and reserves****Share capital**

	<b>Group and Company</b>			
	<b>Amount</b>	<b>Number</b>	<b>Amount</b>	<b>Number</b>
	<b>2016</b>	<b>of shares</b>	<b>2015</b>	<b>of shares</b>
	<b>RM'000</b>	<b>2016</b>	<b>RM'000</b>	<b>2015</b>
		<b>'000</b>		<b>'000</b>
Authorised:				
Ordinary shares of RM0.50 each	500,000	1,000,000	500,000	1,000,000
Issued and fully paid shares classified as equity instruments:				
Ordinary shares of RM0.50 each				
At 1 January	338,847	677,694	337,320	674,640
Issued for cash under Employees Share Option Scheme	-	-	1,527	3,054
At 31 December	338,847	677,694	338,847	677,694

## 15. Capital and reserves (continued)

### Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets. In respect of the treasury shares that are held by the Group, all rights are suspended until those shares are reissued.

### Treasury shares

The Company repurchased 30,009,300 (2015: 6,335,700) ordinary shares of its issued share capital from the open market, at an average costs of RM0.59 (2015: RM0.68) per share. The total consideration paid for the share buy-back including transaction costs during the current financial period to date amounted to RM17.99 million (2015: RM4.32 million) and were financed by internally generated funds. The shares bought back are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

In 2015, the Company disposed 8,000,000 of its issued ordinary shares held as treasury shares for a total consideration of RM5.96 million in the open market at an average price of RM0.74 per share. As at 31 December 2015, the number of treasury shares held after deducting the disposal was 5,000,700 shares.

During the financial year ended 31 December 2016, the Company did not dispose of any of its issued ordinary shares held as treasury shares. As at 31 December 2016, the number of treasury shares held was 35,010,000 shares.

### Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of the Group entities with functional currencies other than Ringgit Malaysia.

### Share option reserve

The share option reserve comprises the cumulative value of employee services received for the issue of share options. When the option is exercised, the amount from the share option reserve is transferred to share premium.

### Capital reserve

Capital reserve comprises amount received from local government for the incidental infrastructure development activities undertaken by a Group entity. The receipts are capital in nature pursuant to the Directive issued by the Authority.

**16. Loans and borrowings**

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Non-current</b>					
Term loans (unsecured)		769	865	-	-
Term loans (secured)	16.1	42,778	66,111	-	-
Finance lease liabilities	16.2	4,515	1,336	505	701
		48,062	68,312	505	701
<b>Current</b>					
Bank overdrafts (unsecured)		192	205	-	-
Term loans (unsecured)		113	107	-	-
Term loans (secured)	16.1	23,333	5,783	-	-
Finance lease liabilities	16.2	1,350	3,598	196	187
		24,988	9,693	196	187
		73,050	78,005	701	888

**16.1 Term loans**

Secured term loans are secured via the following:

- 1<sup>st</sup> party 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> legal charge over the land owned by a Group entity with carrying amount of RM12,257,000 (Note 12.1).
- 1<sup>st</sup> party 2<sup>nd</sup> legal charge over the land owned by a Group entity with carrying amount of RM108,615,000 (Note 12.1).
- Corporate guarantee from the Company and the Non-controlling Interest of the Group entities.
- Assignment of rights and benefits arising from the insurance policies taken by the Company, construction contracts and contractor's performance bond.

All other facilities (except finance lease liabilities) granted to the subsidiaries are guaranteed by the Company.

The repayment term of the term loans are as follows:

	Under 1 year RM'000 2016	1 to 5 years RM'000 2016	More than 5 years RM'000 2016	Under 1 year RM'000 2015	1 to 5 years RM'000 2015	More than 5 years RM'000 2015
<b>Group</b>						
Term loan (secured)	23,333	42,778	-	5,783	66,111	-
Term loan (unsecured)	113	483	286	107	456	409
	23,446	43,261	286	5,890	66,567	409



## 16. Loans and borrowings (continued)

### 16.2 Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments RM'000 2016	Interest RM'000 2016	Present value of minimum lease payments RM'000 2016	Future minimum lease payments RM'000 2015	Interest RM'000 2015	Present value of minimum lease payments RM'000 2015
<b>Group</b>						
Less than one year	1,642	(292)	1,350	3,759	(161)	3,598
Between one and five years	4,981	(466)	4,515	1,420	(84)	1,336
	6,623	(758)	5,865	5,179	(245)	4,934
<b>Company</b>						
Less than one year	224	(28)	196	225	(38)	187
Between one and five years	533	(28)	505	757	(56)	701
	757	(56)	701	982	(94)	888

## 17. Trade and other payables

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Trade</b>					
Trade payables		70,689	38,696	-	-
Accrued expenses		23,563	21,416	-	-
Amount due to contract customers	11.2	526	8,973	-	-
		94,778	69,085	-	-
<b>Non-trade</b>					
Amounts due to associates	17.1	355	2	-	-
Amounts due to subsidiaries	17.2	-	-	32,086	14,343
Amounts due to a joint venture	17.3	-	1,500	-	1,500
Other payables	17.4	23,228	45,325	6,449	6,390
Accrued expenses		1,256	2,150	904	358
		24,839	48,977	39,439	22,591
		119,617	118,062	39,439	22,591

**17. Trade and other payables (continued)**

17.1 The amounts due to associates are unsecured, interest free and repayable upon demand.

17.2 The amounts due to subsidiaries are unsecured, interest free and repayable upon demand.

17.3 The amounts due to joint ventures are unsecured, interest free and repayable on demand.

17.4 Included in other payables of the Group are as follows:

- i) RM12.7 million (2015: RM9.5 million) being amount due to Non-controlling Interest of a subsidiary for business operation funding. The amount is unsecured, bearing interest of 8.35% (2015: 8.35%) per annum and repayable upon demand.
- ii) In 2015, RM9.1 million was deposit received by the Company from Beijing Enterprises Water Group Limited as part of the consideration for the disposal of a group of subsidiaries (see Note 13).
- iii) RM560,000 (2015: RM560,000) being dividend payable by a subsidiary to Non-controlling Interest.

**18. Revenue**

Group	Continuing operations		Discontinued operation (see Note 22)		Total	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Sales	608	14,404	-	-	608	14,404
Services	15,266	15,265	-	-	15,266	15,265
Construction	83,100	93,410	-	-	83,100	93,410
Operating concession revenue	-	-	27,079	82,691	27,079	82,691
	98,974	123,079	27,079	82,691	126,053	205,770
<b>Company</b>						
Dividends	22,705	933	-	-	22,705	933

## 19. Key management personnel compensation

The key management personnel compensation is as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Directors:				
- Fees	5,423	270	270	270
- Remuneration	6,398	6,161	-	-
- Other short term employee benefits (including estimated monetary value of benefit-in-kind)	313	220	20	20
- Share-based payments	-	62	-	-
	12,134	6,713	290	290

## 20. Finance costs

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Finance costs on:				
- Bank overdraft	14	27	-	-
- Loans	4,518	5,132	-	-
- Other borrowings	288	417	38	29
	4,820	5,576	38	29

## 21. Tax expense

### Recognised in profit or loss

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income tax expense on continuing operations	4,896	9,369	600	806
Income tax expense on discontinued operation	34	2,006	-	-
Share of tax of equity-accounted associates/joint ventures	4,178	2,317	-	-
Total income tax expense	9,108	13,692	600	806

## 21. Tax expense (continued)

## Recognised in profit or loss (continued)

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Major components of income tax expense include:				
<b>Current tax expense</b>				
Malaysian - current year	4,541	3,252	1,071	870
- prior year	1,074	3,022	(471)	(64)
Overseas - current year	(147)	2,264	-	-
- prior year	-	-	-	-
Total current tax recognised in profit or loss	5,468	8,538	600	806
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	370	2,498	-	-
Under/(Over) provision in prior year	(908)	339	-	-
Total deferred tax recognised in profit or loss	(538)	2,837	-	-
Share of tax of equity-accounted associates/joint ventures	4,178	2,317	-	-
Total tax expense	9,108	13,692	600	806
<b>Reconciliation of tax expense</b>				
Profit/(Loss) for the year	21,358	(7,620)	13,209	47,913
Total tax expense	9,108	13,692	600	806
Profit excluding tax	30,466	6,072	13,809	48,719
Income tax calculated using Malaysian tax rate of 24% (2015: 25%)	7,312	1,518	3,314	12,180
Effect of tax rates in foreign jurisdictions	497	(1,691)	-	-
Non-deductible expenses	2,930	20,302	5,606	1,674
Tax exempt income	(2,933)	(7,925)	(7,849)	(12,984)
Effect of deferred tax assets not recognised	1,136	-	-	-
Effect of deferred tax assets previously not recognised	-	(1,873)	-	-
Under/(Over) provision in prior years	8,942	10,331	1,071	870
	166	3,361	(471)	(64)
	9,108	13,692	600	806

## 22. Discontinued operation

The disposal of the Group's China operations, SPA-B which covers Salcon Fujian (HK) Limited, Salcon Zhejiang (HK) Limited, Salcon Shandong (HK) Limited, Salcon Linyi (HK) Limited and their respective subsidiaries operating in People's Republic of China, had been completed in 2014 apart from Salcon Linyi (HK) Limited. The disposal of Salcon Linyi (HK) Limited had been completed in April 2016.

Profit attributable to the discontinued operation was as follows:

	Note	Group 2016 RM'000	2015 RM'000
Revenue	18	27,079	82,691
Expenses		(31,195)	(100,781)
<b>Results from operating activities, net of tax</b>		(4,116)	(18,090)
Gain on sale of discontinued operations		42,057	-
<b>Profit/(Loss) for the year</b>		37,941	(18,090)
<b>Included in results from operating activities are:</b>			
Depreciation of property, plant and equipment		129	427
Amortisation of intangible assets		1,333	4,990
Finance income		14	74
Finance cost		82	101
<b>Cash flows from discontinued operation</b>			
Net cash used in operating activities		(8,333)	(7,344)
Net cash (used in)/from investing activities		(3,006)	20,401
Net cash used in financing activities		(3,825)	(801)
Effect on cash flows		(15,164)	12,256

**22. Discontinued operation (continued)****Effect of disposal on the financial position of the Group**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Property, plant and equipment	1,474	-
Intangible assets	128,769	-
Trade and other receivables	26,184	-
Inventories	4,659	-
Cash and cash equivalents	17,382	-
Trade and other payables	(85,147)	-
Current tax liabilities	(251)	-
Borrowings	(14,152)	-
Exchange equalisation	4,215	-
Capital reserve	(74,036)	-
Non-controlling interest	2,302	-
<b>Net assets and liabilities</b>	<b>11,399</b>	<b>-</b>
Gain on sale of discontinued operations	42,057	-
Consideration received, satisfied in cash	53,456	-
Cash and cash equivalent disposed of	(17,382)	-
<b>Net cash inflow</b>	<b>36,074</b>	<b>-</b>

**23. Profit/(Loss) for the year**

	<b>Group</b>		<b>Company</b>	
	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
<b>Profit/(Loss) for the year is arrived at after charging:</b>				
Allowance for impairment losses:				
- Property, plant and equipment	-	3,157	-	-
- Trade receivables	1,641	1,266	-	-
Amortisation of concession intangible assets	-	4,990	-	-
Auditors' remuneration:				
- Audit fees				
- Current year				
KPMG Malaysia	411	372	170	150
Overseas affiliates of KPMG Malaysia	140	129	68	-
Other auditors	24	55	-	-
- Underprovision in prior year KPMG Malaysia	-	188	-	188
- Non-audit fees				
- KPMG Malaysia	58	48	50	40
Depreciation of property, plant and equipment	5,716	7,083	226	161
Impairment loss on goodwill	34	-	-	-
Loss on disposal of property, plant and equipment	59	22	-	-
Loss on disposal of subsidiary	-	-	12	-

## 23. Profit/(Loss) for the year (continued)

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Profit/(Loss) for the year is arrived at after charging (continued):</b>				
Personnel expenses (including key management personnel):				
- Contributions to Employees Provident Fund	2,857	2,030	950	388
- Share-based payments	-	81	-	81
- Wages, salaries and others	48,299	42,982	8,202	3,464
Property, plant and equipment written off	782	8,355	-	-
Realised loss on foreign exchange	63	264	450	-
Rental expense in respect of:				
- Equipment	145	131	-	-
- Premises	1,240	1,884	-	-
- Land	90	-	-	-
Unrealised loss on foreign exchange	4,392	1,205	5,827	3,944

### and after crediting:

Allowance for impairment losses no longer required:				
- Property, plant and equipment	924	-	-	-
- Trade receivables	164	56	-	-
Change in fair value of investment properties	-	39	-	-
Dividend income from subsidiaries (unquoted)	-	-	22,705	933
Gain on disposal of equity interest in subsidiaries	42,057	-	-	-
Gain on disposal of property, plant and equipment	50	20	-	-
Finance income:				
- Subsidiaries	-	-	5,355	3,842
- Others	1,614	5,099	865	3,146
Realised gain on foreign exchange	307	144	230	10,655
Rental income on premises	230	204	-	-
Unrealised gain on foreign exchange	7,257	31,535	9,772	40,350

## 24. Other comprehensive expense

	Before tax RM'000	Tax RM'000	Net of tax RM'000
<b>2016</b>			
<b>Group</b>			
Foreign currency translation differences for foreign operations			
- Gain arising during the year	15,810	-	15,810
<b>2015</b>			
Foreign currency translation differences for foreign operations			
- Losses arising during the year	(11,368)	-	(11,368)

**25. (Loss)/Earnings per ordinary share****Basic (loss)/earnings per ordinary share**

The calculation of basic (loss)/earnings per ordinary share at 31 December 2016 was based on the (loss)/profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

(Loss)/Profit attributable to ordinary shareholders

<b>Group</b>	<b>Continuing operations RM'000</b>	<b>Discontinued operation RM'000</b>	<b>Total RM'000</b>
<b>2016</b>			
(Loss)/Profit attributable to ordinary Shareholders	(11,907)	23,751	11,844
<b>2015</b>			
Profit/(Loss) attributable to ordinary shareholders	12,062	(6,522)	5,540
		<b>Group</b>	
		<b>2016</b>	<b>2015</b>
		<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares at 31 December		655,735	676,475
		<b>2016</b>	<b>2015</b>
		<b>Sen</b>	<b>Sen</b>
From continuing operations		(1.81)	1.78
From discontinued operation		3.62	(0.96)
Basic earnings per ordinary share		1.81	0.82

**Diluted (loss)/earnings per ordinary share**

The calculation of diluted (loss)/earnings per ordinary share at 31 December 2016 was based on (loss)/profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:



## 25. (Loss)/Earnings per ordinary share (continued)

### Diluted (loss)/earnings per ordinary share (continued)

(Loss)/Profit attributable to ordinary shareholders (diluted)

Group	Continuing operations RM'000	Discontinued operation RM'000	Total RM'000
<b>2016</b>			
(Loss)/Profit attributable to ordinary shareholders (diluted)	(11,907)	23,751	11,844
<b>2015</b>			
Profit/(Loss) attributable to ordinary shareholders (diluted)	12,062	(6,522)	5,540

	Group	
	2016 '000	2015 '000
Weighted average number of ordinary shares at 31 December (diluted)	677,694	676,475

The average market value of the Company's shares for purpose of calculating the dilutive effect of share options and call warrants was based on quoted market prices for the period during which the options were outstanding.

	Group	
	2016 Sen	2015 Sen
From continuing operations	(1.76)	1.78
From discontinued operation	3.51	(0.96)
Diluted earnings per ordinary share	1.75	0.82

## 26. Dividends

Dividends recognised by the Company:

	Sen per share	Total amount RM'000	Date of payment
<b>2016</b>			
First and final 2015 ordinary (single tier)	2.0	13,294	15 June 2016

**26. Dividends (continued)**

	Sen per share	Total amount RM'000	Date of payment
<b>2015</b>			
First and special final 2014 ordinary (single tier)	3.0	20,325	16 July 2015

After the end of the reporting period, the following first and final share dividend were proposed by the Directors. These dividends will be recognised in subsequent financial period upon approval by the owners of the Company at the forthcoming Annual General Meeting.

First and final 2016 ordinary:

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

**27. Operating segments**

The Group has four reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chief Operating Decision Maker ("CODM") (i.e. the Group's Chief Operating Officer) reviews internal management reports at least on a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Segment 1: Includes constructions.
- Segment 2: Includes concessions.
- Segment 3: Includes trading and services.
- Segment 4: Includes property development.

The accounting policies of the reportable segments are the same as described in Note 2(v).

Performance is measured based on segment profit before tax, interest, depreciation and amortisation, as included in the internal management reports that are reviewed by the CODM. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

**Segment assets**

The total of segment asset is measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by the CODM. Segment total asset is used to measure the return of assets of each segment.

**Segment liabilities**

Segment liabilities information is neither included in the internal management reports nor provided regularly to the CODM. Hence, no disclosure is made on segment liability.

**Segment capital expenditure**

Segment capital expenditure is the total cost incurred during the financial year to acquire assets other than goodwill.

## 27. Operating segments (continued)

Group 2016	Constructions RM'000	Concessions RM'000	Trading and Services RM'000	Property Development RM'000	Total Continuing Operations RM'000	Concessions (Discontinued Operation) RM'000	Total RM'000
<b>Segment profit/(loss)</b>	6,547	5,821	(3,034)	(4,940)	4,394	39,505	42,565
<i>Included in the measure of segment profit/(loss) are:</i>							
Revenue from external customers	83,100	1,525	14,349	-	98,974	27,079	126,053
Write back of impairment of property, plant and equipment	-	-	924	-	924	-	924
Share of profit of associate	-	4,350	(317)	-	4,033	-	4,033
Share of profit of joint ventures	10,316	-	(2,484)	-	7,832	-	7,832
<i>Not included in the measure of segment (loss)/profit but provided to CODM:</i>							
Depreciation and amortisation	(981)	-	(4,665)	(70)	(5,716)	(1,462)	(7,178)
Finance costs	(82)	-	(274)	(4,464)	(4,820)	(82)	(4,902)
Finance income	1,231	4	353	26	1,614	14	1,628
Tax expense	(2,757)	(9)	(95)	(2,035)	(4,896)	(34)	(4,930)
<b>Segment assets</b>	332,448	28,120	145,995	220,814	727,377	-	727,377
<i>Included in the measure of segment assets are:</i>							
Investment in associates	-	27,477	(253)	-	27,224	-	27,224
Investment in joint ventures	19,094	-	17,137	-	36,231	-	36,231
Additions to non-current assets other than financial instruments and deferred tax assets	498	-	7,271	1	7,770	111	7,881

## 27. Operating segments (continued)

Group 2015	Constructions RM'000	Concessions RM'000	Trading and Services RM'000	Property Development RM'000	Total Continuing Operations RM'000	Concessions (Discontinued Operation) RM'000	Total RM'000
<b>Segment profit/(loss)</b>	(3,700)	5,349	4,163	(3,190)	2,622	(10,640)	(8,018)
<i>Included in the measure of segment profit/(loss) are:</i>							
Revenue from external customers	93,411	1,447	28,221	-	123,079	82,691	205,770
Impairment of property, plant and equipment	-	-	(3,157)	-	(3,157)	-	(3,157)
Share of profit of associate	-	3,889	(230)	-	3,659	-	3,659
Share of profit of joint ventures	3,102	-	(2,268)	-	834	-	834
<i>Not included in the measure of segment profit/(loss) but provided to CODM:</i>							
Depreciation and amortisation	(1,131)	-	(5,378)	(147)	(6,656)	(5,417)	(12,073)
Finance costs	(91)	-	(933)	(4,552)	(5,576)	(101)	(5,677)
Finance income	3,595	5	1,416	9	5,025	74	5,099
Tax expense	(7,856)	(1)	(694)	(818)	(9,369)	(2,006)	(11,375)
<b>Segment assets</b>	407,284	27,570	166,414	151,860	753,128	197,615	950,743
<i>Included in the measure of segment assets are:</i>							
Investment in an associate	-	27,446	(180)	-	27,266	-	27,266
Investment in joint ventures	3,415	-	19,621	-	23,036	-	23,036
Additions to non-current assets other than financial instruments and deferred tax assets	1,610	-	2,271	-	3,881	20,598	24,479

## 27. Operating segments (continued)

### Reconciliations of reportable segment profit or loss, assets and other material items

	Group	
	2016 RM'000	2015 RM'000
<b>Profit</b>		
Total profit or loss for reportable segments	4,394	2,622
Depreciation and amortisation	(5,716)	(6,656)
Finance costs	(4,820)	(5,576)
Finance income	1,614	5,025
Unrealised and realised foreign exchange differences	2,865	30,210
Unallocated expenses:		
Corporate expenses	(10,024)	(5,786)
Consolidated profit before tax from continuing operations	(11,687)	19,839
Profit/(Loss) from discontinued operation, net of tax	37,941	(18,090)
Consolidated profit before tax	26,254	1,749

### Geographical segments

The constructions and concessions are managed on a worldwide basis, but operations are in Malaysia, China, Sri Lanka and Vietnam.

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers. Segment assets are based on the geographical location of the assets. The amounts of non-current assets do not include financial instruments (including investments in associates and joint ventures) and deferred tax assets.

Group	Geographical information			
	Revenue 2016 RM'000	Non- current assets 2016 RM'000	Revenue 2015 RM'000	Non- current assets 2015 RM'000
Malaysia	89,471	53,194	81,387	45,944
China	-	6	-	-
Sri Lanka	8,483	-	11,877	-
Vietnam	207	-	13,927	-
Other countries	813	40,606	15,888	52,319
Assets classified as held for sale	98,974 27,079	93,806 -	123,079 82,691	98,263 140,714
	126,053	93,806	205,770	238,977

**28. Financial instruments****28.1 Categories of financial instruments**

The table below provides an analysis of financial instruments categorised as follows:

- (a) Loans and receivables ("L&R"); and  
 (b) Financial liabilities measured at amortised cost ("FL").

	<b>Carrying amount RM'000</b>	<b>L&amp;R/ (FL) RM'000</b>
<b>2016</b>		
<b>Financial assets</b>		
<b>Group</b>		
Trade and other receivables	152,682	152,682
Cash and cash equivalents	215,941	215,941
	368,623	368,623
<b>Company</b>		
Trade and other receivables	296,388	296,388
Cash and cash equivalents	113,244	113,244
	409,632	409,632
<b>Financial liabilities</b>		
<b>Group</b>		
Loans and borrowings	(73,050)	(73,050)
Trade and other payables	(119,617)	(119,617)
	(192,667)	(192,667)
<b>Company</b>		
Loans and borrowings	(701)	(701)
Trade and other payables	(39,439)	(39,439)
	(40,140)	(40,140)

## 28. Financial instruments (continued)

### 28.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R/ (FL) RM'000
<b>2015</b>		
<b>Financial assets</b>		
<b>Group</b>		
Trade and other receivables	149,282	149,282
Cash and cash equivalents	277,855	277,855
	427,137	427,137
<b>Company</b>		
Trade and other receivables	219,584	219,584
Cash and cash equivalents	190,557	190,557
	410,141	410,141
<b>Financial liabilities</b>		
<b>Group</b>		
Loans and borrowings	(78,005)	(78,005)
Trade and other payables	(118,062)	(118,062)
	(196,067)	(196,067)
<b>Company</b>		
Loans and borrowings	(888)	(888)
Trade and other payables	(22,591)	(22,591)
	(23,479)	(23,479)

### 28.2 Net gains and losses arising from financial instruments

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Net gains/(losses) on:				
Loans and receivables	9,342	34,025	10,867	54,049
Financial liabilities measured at amortised cost	(10,916)	(5,576)	(6,315)	(29)
	(1,574)	28,449	4,552	54,020

**28. Financial instruments (continued)****28.3 Financial risk management**

The Group and the Company have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

**28.4 Credit risk**

Credit risk is the risk of a financial loss to the Group and the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers. The Company's exposure to credit risk arises principally from advances to subsidiaries and financial guarantees given to banks for credit facilities granted to the subsidiaries.

**Receivables**

*Risk management objectives, policies and processes for managing the risk*

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers requiring credit over a certain amount.

*Exposure to credit risk, credit quality and collateral*

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statements of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 60 days, which are deemed to have higher credit risk, are monitored individually.

The exposure of credit risk for receivables and deposits as at the end of the reporting period by geographic region was:

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Domestic	91,996	95,201
Sri Lanka	2,202	4,229
Vietnam	3,601	3,907
China	4,202	9,025
India	11,149	11,296
United Kingdom	12,427	18,643
Australia	24,638	-
Others	2,467	6,981
	152,682	149,282

At date of statements of financial position, there were no significant concentrations of credit risk.



## 28. Financial instruments (continued)

### 28.4 Credit risk (continued)

#### Receivables (continued)

##### Impairment losses

The Group maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

Group	Gross RM'000	Individual impairment RM'000	Net RM'000
<b>2016</b>			
Not past due	82,271	-	82,271
Past due 1 - 30 days	6,475	-	6,475
Past due 31 - 120 days	3,555	-	3,555
Past due more than 120 days	19,884	(9,667)	10,217
	112,185	(9,667)	102,518
<b>2015</b>			
Not past due	100,150	-	100,150
Past due 1 - 30 days	587	-	587
Past due 31 - 120 days	96	-	96
Past due more than 120 days	27,992	(18,119)	9,873
	128,825	(18,119)	110,706

Although certain trade receivables have become past due and exceeded the credit terms granted to them, the Directors are reasonably confident that all debts can be recovered within the next 12 months.

The movements in the allowance for impairment losses of trade receivables during the financial year were:

	Group	
	2016 RM'000	2015 RM'000
At 1 January	(18,119)	(16,909)
Impairment loss recognized	(1,641)	(1,266)
Impairment loss written off	9,929	-
Impairment loss reversed	164	56
At 31 December	(9,667)	(18,119)

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

## 28. Financial instruments (continued)

### 28.4 Credit risk (continued)

#### Inter company balances

*Risk management objectives, policies and processes for managing the risk*

The Company provides unsecured advances to subsidiaries. The Company monitors the results of the subsidiaries regularly.

*Exposure to credit risk, credit quality and collateral*

As at the end of the reporting period, the maximum exposure to credit risk is represented by their respective carrying amounts in the statements of financial position.

*Impairment losses*

As at the end of the reporting period, there was no indication that the advances to the subsidiaries are not recoverable. The Company does not specifically monitor the ageing of the advances to the subsidiaries. Nevertheless, these advances have been overdue for less than a year.

#### Financial guarantees

*Risk management objectives, policies and processes for managing the risk*

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries. The Company monitors on an ongoing basis the results of the subsidiaries and repayments made by the subsidiaries.

*Exposure to credit risk, credit quality and collateral*

The maximum exposure to credit risk amounts to RM105,950,000 (2015: RM159,912,000) representing the outstanding banking facilities of the subsidiaries that was supported by the financial guarantee issued by the Company as at end of the reporting period.

As at end of the reporting period, there was no indication that any subsidiary would default on their repayments.

The financial guarantees have not been recognised since the fair value on initial recognition were not material.

### 28.5 Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet their financial obligations as and when they fall due. The Group's and the Company's exposure to liquidity risk arise principally from their various payables, loans and borrowings.

The Group and the Company maintain a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that they will have sufficient liquidity to meet their liabilities when they fall due.

## 28. Financial instruments (continued)

### 28.5 Liquidity risk (continued)

#### Maturity analysis

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
<b>2016</b>							
<b>Group</b>							
<i>Non-derivative financial liabilities</i>							
Term loans (unsecured)	882	5.92%	1,059	163	301	451	144
Term loans (secured)	66,111	6.28-8.97%	74,759	28,304	26,211	20,244	-
Bank overdraft (unsecured)	192	8.15-9.15%	192	192	-	-	-
Finance lease liabilities	5,865	4.66-6.45%	6,623	1,641	3,020	1,962	-
Trade and other payables	119,617	-	119,617	119,617	-	-	-
	192,667		202,250	149,917	29,532	22,657	144
<b>Company</b>							
<i>Non-derivative financial liabilities</i>							
Finance lease liabilities	701	4.66%	757	224	224	309	-
Financial guarantee	-	-	105,950	105,950	-	-	-
Trade and other payables	39,439	-	39,439	39,439	-	-	-
	40,140		146,146	145,613	224	309	-
<b>2015</b>							
<b>Group</b>							
<i>Non-derivative financial liabilities</i>							
Term loans (unsecured)	972	5.85%	1,209	163	150	301	595
Term loans (secured)	71,894	6.28-8.97%	79,752	6,826	28,367	44,559	-
Bank overdraft (unsecured)	205	7.60-8.35%	205	205	-	-	-
Finance lease liabilities	4,934	4.66-6.45%	5,179	3,762	794	623	-
Trade and other payables	118,062	-	118,062	118,062	-	-	-
	196,067		204,407	129,018	29,311	45,483	595
<b>Company</b>							
<i>Non-derivative financial liabilities</i>							
Finance lease liabilities	888	4.66%	983	225	225	533	-
Financial guarantee	-	-	159,912	159,912	-	-	-
Trade and other payables	22,591	-	22,591	22,591	-	-	-
	23,479		183,486	182,728	225	533	-

**28. Financial instruments (continued)****28.6 Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices that will affect the Group's financial position or cash flows.

As at the end of the reporting period, the Group is not exposed to other price risks.

**28.6.1 Currency risk**

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily Euro ("EUR"), United States Dollar ("USD"), Vietnamese Dong ("VND"), Sri Lanka Rupee ("LKR") and Great Britain Pound ("GBP").

*Risk management objectives, policies and processes for managing the risk*

The Group ensure that the net exposure is kept to an acceptable level by monitoring the fluctuation of the foreign currencies.

*Exposure to foreign currency risk*

The Group's exposure to foreign currency (a currency which is other than the functional currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

	<b>Denominated in</b>				
	<b>EUR</b>	<b>USD</b>	<b>VND</b>	<b>LKR</b>	<b>GBP</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2016</b>					
<b>Group</b>					
Trade receivables	-	-	-	287	12,330
Cash and cash equivalents	78	69,828	251	10,066	1,507
Trade payables	-	-	(157)	(828)	(122)
Amount due from contract customers-	-	-	2,478	-	-
<b>Net exposure</b>	<b>78</b>	<b>69,828</b>	<b>2,572</b>	<b>9,525</b>	<b>13,715</b>
<b>2015</b>					
Trade receivables	-	-	555	212	18,532
Cash and cash equivalents	-	75,645	1,158	19,496	937
Trade payables	-	(102)	(245)	(1,637)	30
Amount due from contract customers	-	-	2,955	767	-
<b>Net exposure</b>	<b>-</b>	<b>75,543</b>	<b>4,423</b>	<b>18,838</b>	<b>19,499</b>

## 28. Financial instruments (continued)

### 28.6.1 Currency risk (continued)

#### *Currency risk sensitivity analysis*

Foreign currency risk arises from Group entities which have Ringgit Malaysia functional currency. The exposure to currency risk of Group entities which do not have a Ringgit Malaysia functional currency is not material and hence, sensitivity analysis is not performed.

A 10 percent strengthening of the RM against the following currencies at the end of the reporting period would have increased/(decreased) equity and post-tax profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remained constant.

	Equity		Profit or loss	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
EUR	-	-	6	-
USD	5,237	5,666	5,307	5,666
VND	443	485	195	332
LKR	3,570	4,494	724	1,413
GBP	957	2,133	1,042	1,462
	10,207	12,778	7,274	8,873

A 10 percent weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect to the amounts shown on the above currencies, on the basis that all other variables remain constant.

### 28.6.2 Interest rate risk

The Group's and the Company's investments in fixed rate debt securities and its fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's and the Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short term receivables and payables are not significantly exposed to interest rate risk.

#### *Risk management objectives, policies and processes for managing the risk*

The Group and the Company borrowed for operations at variable rates using its overdrafts, revolving credit, bankers' acceptance and term loan facilities, and use fixed rate finance lease agreements to finance capital expenditure. Deposits are placed with established banks or financial institutions at the prevailing market rate.

**28. Financial instruments (continued)****28.6.2 Interest rate risk***Exposure to interest rate risk*

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Fixed rate instruments</b>				
Financial assets	158,802	162,664	325,642	282,172
Financial liabilities	5,865	4,934	701	888
<b>Floating rate instruments</b>				
Financial liabilities	67,185	73,071	-	-

*Interest rate risk sensitivity analysis**Fair value sensitivity analysis for fixed rate instruments*

The Group and the Company do not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group and the Company do not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

*Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points ("bp") in interest rates at the end of the reporting period would have increased/(decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Group Profit or loss		Company Profit or loss	
	100 bp increase RM'000	100 bp decrease RM'000	100 bp increase RM'000	100 bp decrease RM'000
<b>2016</b>				
Floating rate instruments	(511)	511	-	-
<b>2015</b>				
Floating rate instruments	(548)	548	-	-

## 28. Financial instruments (continued)

### 28.7 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

It was not practicable to estimate the fair value of the Group's investment in unquoted shares due to the lack of comparable quoted market prices and the inability to estimate a reliable fair value without incurring excessive costs.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statements of financial position.

	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
<b>2016</b>								
<b>Group</b>								
<b>Financial liabilities</b>								
Term loans (secured)	-	-	-	-	-	(66,111)	(66,111)	(66,111)
Term loans (unsecured)	-	-	-	-	-	(882)	(882)	(882)
Finance lease liabilities	-	-	-	-	-	(5,335)	(5,335)	(5,865)
	-	-	-	-	-	(72,328)	(72,328)	(72,858)
<b>Company</b>								
<b>Financial liabilities</b>								
Finance lease liabilities	-	-	-	-	-	(633)	(633)	(701)
<b>2015</b>								
<b>Group</b>								
<b>Financial liabilities</b>								
Term loans (secured)	-	-	-	-	-	(71,894)	(71,894)	(71,894)
Term loans (unsecured)	-	-	-	-	-	(972)	(972)	(972)
Finance lease liabilities	-	-	-	-	-	(4,596)	(4,596)	(4,934)
	-	-	-	-	-	(77,462)	(77,462)	(77,800)
<b>Company</b>								
<b>Financial liabilities</b>								
Finance lease liabilities	-	-	-	-	-	(784)	(784)	(888)

**28. Financial instruments (continued)****28.7 Fair value of information (continued)****Level 3 fair value**

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

*Non-derivative financial asset and liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the interest rate determined at the end of the reporting period.

For finance leases, the market rate of interest is determined by reference to similar lease agreements. For unsecured term loans, the carrying amounts approximate the fair value as they bear variable rates of interest determined based on a margin over the lender bank's base lending rate.

*Interest rates used to determine fair value*

The interest rates used to discount estimated cash flows, when applicable, are as follows:

	<b>2016</b>	<b>2015</b>
<b>Group</b>		
Finance lease liabilities	6.14%	6.14%
<b>Company</b>		
Finance lease liabilities	4.66%	4.66%

**29. Capital management**

The Group's objectives when managing capital are to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investors, creditors and market confidence and to sustain future development of the business. The Directors monitor and are determined to maintain an optimal debt-to-equity ratio that complies with debt covenants.

The debt-to-equity ratios at 31 December 2016 and at 31 December 2015 were as follows:

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Total loans and borrowings (Note 16)	73,050	78,005
Less: Cash and cash equivalents (Note 14)	(215,941)	(277,855)
Net debt	(142,891)	(199,850)
Total equity	523,108	603,961
Debt-to-equity ratio	-	-



## 29. Capital management (continued)

There was no change in the Group's approach to capital management during the financial year.

Under the requirements of Bursa Malaysia Practice Note No. 17/2005, the Group is required to maintain a consolidated shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Group has complied with this requirement.

The Group is also required to maintain a debt-to-equity ratio at no more than 1.25 to comply with a bank covenant, failing which, the bank may call an event of default. The Group has complied with this requirement.

## 30. Contingencies

The unrecognised contingencies of the Group and the Company at the end of the reporting period are summarised as below:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Bank guarantees given to financial institutions in respect of facilities granted to				
- subsidiaries	-	-	403,774	434,258
- associates	13,800	-	13,800	-
Bank guarantee given to third parties relating to performance, tender and advance payment bonds				
- unsecured	33,693	153,452	-	-
Guarantees given in favour of main contractors of the subsidiaries				
- unsecured	10,918	10,918	10,918	10,918

## 31. Related parties

### Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group and the Company if the Group and the Company have the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly and entity that provide key management personnel services to the Group. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

The Group has related party relationships with its subsidiaries (see Note 6), associates (see Note 7), joint ventures (see Note 8) and key management personnel.

**31. Related parties (continued)****Transactions with key management personnel****Key management personnel compensation**

Key management personnel compensation is disclosed in Note 19.

**Significant related party transactions**

Related party transactions have been entered into in the normal course of business under negotiated terms. The significant related party transactions of the Group and the Company are shown below. The balances related to the below transactions are shown in Note 11 and 17.

	<b>Transaction value year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Group</b>		
Affiliated company of a joint venture - management fee expense	308	697
Entity in which a Director of a subsidiary has interest - provision of drivers management services	2,219	2,356
<b>Company</b>		
Subsidiaries - interest income	(5,355)	(3,842)

**32. Operating leases****Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Less than one year	863	823
Between one and five years	-	86
	863	909

The Group leases offices and office equipment under operating leases. The leases typically run for a period of 5 years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

### 33. Capital and other commitments

	Group	
	2016	2015
	RM'000	RM'000
<b>Capital expenditure commitments</b>		
Contracted but not provided for	31,284	1,147

### 34. Acquisition of subsidiary and non-controlling interests

#### Acquisition of subsidiary – Circlac Interactive Tourism Sdn. Bhd. (formerly known as Circlac Interactive Sdn. Bhd.)

On 18 August 2016, the Group has subscribed 4,643 ordinary shares of RM1.00 each in Circlac Interactive Sdn. Bhd. ("CISB"), representing 65% of the enlarged issued and paid-up share capital of CISB for total cash consideration of RM4,643.

The company was incorporated on 31 October 2014 and its intended principal activities are within the domain of mobile commerce, focusing on consumers of China and South East Asia. However, CISB has remained dormant since incorporation. Accordingly, the contribution of the subsidiary to the Group's consolidated results is not significant.

The following summarises the major classes of consideration transferred, and the recognised amount of assets acquired and liabilities assumed at the acquisition date:

	Note	Group 2016 RM'000
<b>Fair value of consideration transferred</b>		
Cash and cash equivalents		5
<b>Identifiable assets acquired and liabilities assumed</b>		
Other receivables		129
Cash and cash equivalents		5
Trade and other payables		(179)
Total identifiable net liabilities		(45)

**34. Acquisition of subsidiary and non-controlling interests (continued)**

	Note	Group 2016 RM'000
<b>Net cash outflow arising from acquisition of subsidiary</b>		
Purchase consideration settled in cash and cash equivalents		5
Cash and cash equivalents acquired		5
		-
<b>Goodwill</b>		
Total consideration transferred		5
Fair value of identifiable net liabilities		45
Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities of the acquiree		(16)
Goodwill upon acquisition		34
Less: Goodwill impaired	23	(34)
		-

**35. Significant events**

Significant events during the year are as follows:

**i) Completion of disposal of China subsidiaries under SPA-B**

SPA-B covers the disposal of Salcon Shandong (HK) Limited, Salcon Fujian (HK) Limited, Salcon Zhejiang (HK) Limited and Salcon Linyi (HK) Limited and their respective subsidiaries in Changle, Nan An, Haining and Linyi provinces in People's Republic of China for a total cash consideration of RMB648 million. The transaction has been completed as at the end of previous reporting period apart from Sakcon Linyi (HK) Limited, which is reported as disposal group held for sale accordingly (see Note 13).

On 25 April 2016, the Group has mutually agreed with Beijing Enterprise Water Group ("BEWG") to proceed with the completion of the proposed disposals of the entire issued and paid-up share capital of Salcon Fujian, Salcon Zhejiang and Salcon Shandong, in accordance with Clause 4.6 of SPA-B. In accordance with Clause 4.6 of SPA-B, the Group had also mutually agreed with BEWG to terminate the proposed disposal of the entire issued and paid-up share capital of Salcon Linyi ("Given Up Target-B"), in view that certain Conditions-B in respect of Salcon Linyi have not been fulfilled or waived. The disposal consideration in respect of the Given Up Target-B is RMB130 million.

On 26 April 2016, the Group has entered into an agreement with Orient Harmony Holdings Limited ("OHHL") for the disposal of Salcon Linyi (HK) Limited and its subsidiaries in Linyi province in People's Republic of China for a total cash consideration of RMB98 million.

### 35. Significant events (continued)

#### ii) Salcon Development (Australia) Pty Ltd

On 27 June 2016, the Company's wholly-owned subsidiary, namely Salcon Development Sdn. Bhd, has incorporated a wholly-owned subsidiary in Victoria, Australia known as Salcon Development (Australia) Pty Ltd ["SDAPL"] with the initial issued and paid-up share capital of AUD100 comprising 100 ordinary shares of AUD1 each. The intended principal activity of SDAPL is property development.

On 29 June 2016, SDAPL had entered into an agreement with K. & E. Rogers Pty Ltd to acquire a piece of land located at 16-22 Claremont Street, South Yarra, Victoria, Australia for a total cash consideration of AUD 37.9 mil. The proposed acquisition has been completed on 29 March 2017.

#### iii) Circlac Interactive Tourism Sdn. Bhd.

On 18 August 2016, the Company's wholly-owned subsidiary, namely Salcon Water International Limited ("SWIL") had entered into a Subscription Agreement with Circlac Interactive Sdn Bhd ("CISB") to subscribe 4,643 ordinary shares of RM1.00 each in CISB, representing 65% of the enlarged issued and paid-up share capital of CISB for a total cash consideration of RM4,643. Following the Subscription, CISB becomes a 65%-owned subsidiary of the Company.

On 22 December 2016, CISB has subsequently changed its name to Circlac Interactive Tourism Sdn. Bhd. ("CITSB").

#### iv) Beijing Xinlian Yitong Technology Co. Ltd. and Signcharge Sdn Bhd

On 3 November 2016, the Company's wholly-owned subsidiary, namely Salcon Water International Limited ("SWIL"), had entered into an agreement with Signcharge Limited ("SCL") for the acquisition of the equity interest in Beijing Xinlian Yitong Technology Co. Ltd. ("BXYT") and Signcharge Sdn Bhd ("SCSB") from SCL, representing 100% of the entire issued and registered capital of BXYT and 13.1% of the entire issued and paid up share capital of SCSB, for a total cash consideration of RM5,024,000 (HKD9.6 million). The proposed acquisition has been completed on 3 February 2017.

### 36. Subsequent events

- i) On 3 January 2017, an Extraordinary General Meeting ("EGM") had been held by Circlac Interactive Tourism Sdn. Bhd ("CITSB"), a 65%-owned subsidiary of Salcon Water International Limited ("SWIL") which in turn a wholly-owned subsidiary of the Company, to allot and issue 192,857 new ordinary shares of RM1.00 each got a total cash consideration of RM192,857. Following the Subscription, CITSB remained a 65%-owned subsidiary of the Company.
- ii) On 5 January 2017, the Company's wholly-owned subsidiary, namely Salcon Water International Limited ("SWIL"), had entered into agreement with Mr. See Che Chi ("SCC") for the acquisition of additional 1.5 million of ordinary shares of RM1 each in Signcharge Sdn. Bhd. ("SCSB"), representing 51.1% of the issued and paid-up share capital of SCSB for a total purchase consideration of RM0.6 million. The proposed acquisition was completed on 20 January 2017.

**36. Subsequent events (continued)**

- iii) On 25 January 2017, Cirlclic Interactive Tourism Sdn. Bhd. ("CITSB"), a 65%-owned subsidiary of Salcon Water International Limited ("SWIL") which in turn a wholly-owned subsidiary of the Company, had acquired 2 ordinary shares of RM1.00 each, representing 100% equity interest in Enrich Signature Sdn. Bhd ("ESSB") for a total cash consideration of RM2. Following the acquisition, ESSB had become a 65% indirect-owned subsidiary of the Company.
- iv) On 25 January 2017, the Company had acquired 2 ordinary shares of RM1.00 each, representing 100% equity interest in Anggerik Megajaya Sdn. Bhd ("AMSB") for a total cash consideration of RM2. Following the acquisition, AMSB had become a wholly-owned of the Company.
- v) On 27 January 2017, the Company's wholly-owned subsidiary, namely Salcon Water International Limited ("SWIL"), had acquired 2 ordinary shares of RM1.00 each, representing 100% equity interest in Baiduri Nyaman Sdn. Bhd ("BNSB") for a total cash consideration of RM2. Following the acquisition, AMSB had become a wholly-owned of the Company.
- vi) On 8 February 2017, the Company's wholly-owned subsidiary, Salcon Water International Limited ("SWIL") has renamed to Salcon Xinlian Group Limited ("SXGL").

On the same date, the Company had entered into an agreement with Mr. See Che Chi ("SCC") and Dato Mohamed Nizam Bin Abdul Razak ("Dato' Nizam") to increase the issued and paid-up share capital of SXGL from HKD10 million to HKD19.6 million by way of subscription of new shares in SXGL by SCC and Dato' Nizam. Following the proposed subscription, The Company's equity interest in SGXL will be reduced from 100% to 51.02% and SXGL remained as a subsidiary of the Company. The subscription was completed in 17 February 2017.

- vii) On 16 February 2017, Tanjung Jutaria Sdn. Bhd. ("TJSB"), a wholly-owned subsidiary of Salcon Engineering Berhad ("SEB") which in turn a wholly-owned subsidiary of the Company, has entered into agreement with Total Safety AS ("TSA") and Enocate AS ("Enovate") for the proposed acquisition of 100,000 ordinary shares in Rayvn AS ("RAS") for a total purchase consideration of NOK1.5 million.

On the same date, TJSB had entered into agreement with RAS to subscribe 818,182 ordinary shares of NOK4.278 each in RAS for a consideration of NOK3.5 million. Upon completion of the transactions, RAS will become a 50.5% subsidiary of the Company.

### 36. Subsequent events (continued)

- viii) On 21 February 2017, the Company's wholly-owned subsidiary, namely Anggerik Megajaya Sdn. Bhd ("AMSB") had changed its name to Salcon Xinlian Sdn Bhd ("SXSb").

On the same date, SXSb had incorporated a wholly-owned subsidiary, Juviter Group Sdn Bhd ("JGSB") with the initial and paid-up share capital of RM1.00 comprising of 1 ordinary shares of RM1.00 each. The intended principal activities of JGSB are entertainment, event, film and television production, commercial advertising as well as information technology and software development.

- ix) On 28 February 2017, Enrich Signature Sdn. Bhd. ("ESSB"), a wholly-owned subsidiary of Circlic Interactive Tourism Sdn. Bhd. ("CITSB") which in turn a 65%-owned subsidiary of Salcon Xinlian Group Limited which in turn a 51.02%-owned subsidiary of the Company, had changed its name to Wisdom Sports (M) Sdn Bhd ("WSSB").

On 28 February 2017, CITSB had entered into an agreement with Shenzhen Wisdom Sports Industry Co. Ltd to form a joint venture through WSSB for the purpose of organising and managing Belt and Road Marathon Majors ("BRMS") to be held in Malaysia. Following the proposed subscription, CITSB's equity interest in WSSB will be reduced from 100% to 45% and WSSB will cease to be an indirect subsidiary of the Company.

- x) On 10 April 2017, Salcon Development Sdn Bhd, a wholly-owned subsidiary of the Company, entered into a conditional share sale and purchase agreement with Fortune Quest Group Ltd, a wholly-owned subsidiary of Eco World International Berhad, for the proposed disposal of 80% equity interest in Salcon Development (Australia) Pty Ltd (a subsidiary) for a consideration of RM398,780 (AUD120,000).

**37. Supplementary financial information on the breakdown of realised and unrealised profits or losses**

The breakdown of the retained earnings of the Group and of the Company at 31 December, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Total retained earnings of the Company and its subsidiaries				
- realised	126,699	56,429	91,118	58,742
- unrealised	7,166	38,803	3,945	36,406
	133,865	95,232	95,063	95,148
Total share of retained earnings of associates				
- realised	13,566	9,534	-	-
Total share of (accumulated losses)/retained earnings of joint ventures				
- realised	7,668	(163)	-	-
	155,099	104,603	95,063	95,148
Less: Consolidation adjustments	(86,609)	(61,995)	-	-
Total retained earnings	68,490	42,608	95,063	95,148

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.



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# Statement by Directors

pursuant to Section 251(2) of the Companies Act, 2016

In the opinion of the Directors, the financial statements set out on pages 98 to 181 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2016 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 37 on page 182 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

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

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**Tan Sri Dato' Tee Tiam Lee**  
Director

Kuala Lumpur,

Date: 11 April 2017

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# Statutory Declaration

pursuant to Section 251(1)(b) of the Companies Act, 2016

I, the officer primarily responsible for the financial management of Salcon Berhad, do solemnly and sincerely declare that the financial statements set out on pages 98 to 182 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named Law Woo Hock (NRIC: 640630-07-5353) at Kuala Lumpur in the Federal Territory on 11 April 2017.

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**Law Woo Hock**

Before me:

D. Selvaraj  
(W320)  
Commissioner for Oaths  
Kuala Lumpur

# Independent Auditors' Report

to the members of Salcon Berhad

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of Salcon Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to financial statements, including a summary of significant accounting policies, as set out on page 98 to 181.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

### Basis of Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### *Profit recognition on construction contracts*

Refer to Note 2(p) – Significant accounting policy: Revenue and other income and Note 18 - Revenue.

#### *The key audit matter*

The Group has various significant long term construction contracts. The recognition of revenue and costs, and hence profit on these contracts are assessed by reference to the proportion of contract costs incurred for the work performed to-date bear to the estimated total costs of the contract at completion.

Profit on contracts is a key audit matter for our audit because of the judgment and estimates involved in preparing the estimated total costs of the contract at completion. An error in the estimated total costs of the contract at completion could result in a material misstatement in the amount of profit or loss recognised to-date and in the current period.

### **Key Audit Matters (continued)**

*How the matter was addressed in our audit*

We performed the following audit procedures, among others:

- challenging senior operational, commercial and financial management's judgement by obtaining and assessing information to support the estimated total costs. These assumptions included in the estimated total costs are the expected recovery of variations, claims and compensation events; and
- evaluating the reasonableness of the estimated total costs of the contract at completion by assessing the basis of their calculation, which included supplier quotes and contracts and other relevant costs in deriving the estimates.

We have determined that there are no key audit matters in the audit of the separate financial statements of the Company to communicate in our auditor report.

### **Information Other than the Financial Statements and Auditors' Report Thereon**

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the annual report and, in doing so, consider whether the annual report is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the annual report, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Directors for the Financial Statements**

The Directors of the Company are responsible for the preparation of the financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965, in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## **Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group and of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 6 to the financial statements.

### **Other Reporting Responsibilities**

The supplementary information set out in Note 37 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

### **Other Matter**

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**KPMG PLT**  
(LLP0010081-LCA & AF 0758)  
Chartered Accountants

**Tai Yoon Foo**  
Approval Number: 2948/05/18(J)  
Chartered Accountant

Date: 11 April 2017

Petaling Jaya, Selangor

# Particulars of Group Properties

The properties of the Group as at 31 December 2016 and their net book values ("NBV") are indicated below:

## FREEHOLD BUILDINGS AND LAND

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Envitech Sdn Bhd	HS(D) 102104, PT No. 15914, Pekan Damansara, Daerah Petaling/No. 64, Jalan Penyair U1/44, Temasya Industrial Park, Seksyen U1, 40150 Shah Alam, Selangor Darul Ehsan	149 sq. metres of intermediate unit 1½ storey terraced factory	20 years	14/03/2002	238
Envitech Sdn Bhd	HS(D) 3422, Lot No. 3988, Mukim Damansara, Daerah Petaling, Selangor/ No. 67, Jalan SS15/5A, 47500 Subang Jaya, Selangor Darul Ehsan	164 sq. metres of intermediate unit 3 storey terraced shop-office	37 years	15/03/2002	781
Envitech Sdn Bhd	No.79, Lorong Sanggul 1F, Bandar Puteri, 41200 Klang Selangor Darul Ehsan	1,540 sq ft of 3 storey shop	12 years	15/05/2013	1,024
Envitech Sdn Bhd	No.81, Lorong Sanggul 1F, Bandar Puteri, 41200 Klang, Selangor Darul Ehsan	1,540 sq ft of 3 storey shop	12 years	15/05/2013	1,231
Eco-Coach & Tours (M) Sdn Bhd	No. 25, Jalan Seri Waja 2, Taman Industri Waja, 09000 Kulim. Kedah	1½ storey semi-detached factory	11 years	23/01/2013	804
Eco-Coach & Tours (M) Sdn Bhd	No. 26, Jalan Seri Waja 2, Taman Industri Waja, 09000 Kulim. Kedah	1½ storey semi-detached factory	11 years	23/01/2013	805
					4,883

## Particulars of Group Properties

### INVESTMENT PROPERTIES

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Envitech Sdn Bhd	Property held under GRN 227594 Lot 5109 (formerly held under HS(D) 62070 PT 2074) Mukim Beranang, District of Ulu Langat, State of Selangor (BM9/2C)	12,000 sq ft of bungalow plot	14 years	28/11/2002	230
Envitech Sdn Bhd	Bungalow Lot No. BB-034 Bandar Mahkota Banting, measuring an area approximately 465 square metres bearing postal address at No. 42, Jalan Angkasa 1A/5 Bandar Mahkota Banting, 42700 Banting, Selangor held under master title Geran 100210 Lot 19601 Mukim Tanjong Duabelas, District of Kuala Langat, State of Selangor	465 sq. metres of bungalow plot	8 years	22/10/2009	89
Envitech Sdn Bhd	Industrial Land Lot No. 98 Section 4, Phase 2C, Selangor Halal-Hub Pulau Indah measuring an area approximately 0.50 acre (21,780 square feet) held under master title PN 7939 Lot No. 74076 District and Mukim Kelang, State of Selangor	0.5 acre of industry	8 years	24/07/2009	494
Envitech Sdn Bhd	Unit No. 2, Corner Ground Floor, Block E Shop & Office At Pulau Melaka	3,358 sq. ft. of corner ground shop & office	7 years	1/11/2011	795
Envitech Sdn Bhd	Unit No. 7, Intermediate Ground Floor, Block .K Shop & Office At Pulau Melaka	1,540 sq. ft. of intermediate ground shop & office	7 years	1/11/2011	353
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG13	920 sq. ft. of intermediate shop	7 years	10/11/2011	284



## INVESTMENT PROPERTIES (CONTINUED)

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG16	920 sq. ft. of intermediate shop	7 years	10/11/2011	284
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG18	920 sq. ft. of intermediate shop	7 years	10/11/2011	298
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG20	920 sq. ft. of intermediate shop	7 years	10/11/2011	298
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG21	920 sq. ft. of intermediate shop	7 years	10/11/2011	284
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG23	920 sq. ft. of intermediate shop	7 years	10/11/2011	473
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SA-0106	920 sq. ft. of intermediate shop	7 years	10/11/2011	306
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-0111	920 sq. ft. of intermediate shop	7 years	10/11/2011	406
Envitech Sdn Bhd	Unit No. Parcel 12A, 150 Ground Floor, Block D Shop & Office At Pulau Melaka	1,300 sq. ft. of end lot shop	5 years	22/11/2012	367
Envitech Sdn Bhd	Unit No. Parcel 12, LOT151 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of end lot shop	5 years	22/11/2012	372
Envitech Sdn Bhd	Unit No. Parcel 10, LOT 152 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of intermediate shop	5 years	22/11/2012	338
Envitech Sdn Bhd	Unit No. Parcel 8, LOT 153 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of intermediate shop	5 years	22/11/2012	338

## Particulars of Group Properties

### INVESTMENT PROPERTIES (CONTINUED)

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Envitech Sdn Bhd	Unit No. Parcel 6, 154 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of intermediate shop	5 years	22/11/2012	338
Envitech Sdn Bhd	Unit No. Parcel 2A, LOT 155 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of intermediate shop	5 years	22/11/2012	338
Envitech Sdn Bhd	Unit No. Parcel 27-1, LOT 329 (55-1), 1ST Floor, Block U Shop & Office At Pulau Melaka	3,007 sq. ft. of corner shop	5 years	22/11/2012	301
Envitech Sdn Bhd	Unit No. Parcel 28-1, LOT 315 (41-1), 1ST Floor, Block S Shop & Office At Pulau Melaka	2,626 sq. ft. of corner shop	5 years	22/11/2012	323
Envitech Sdn Bhd	Unit No. Parcel 21-1, LOT 338 (84-1), 1ST Floor, Block W Shop & Office At Pulau Melaka	2,885 sq. ft. of corner shop	5 years	22/11/2012	289
Envitech Sdn Bhd	Unit No. Parcel 61-2A, LOT 207 (191-2A), 2ND Floor, Block J Shop & Office At Pulau Melaka	1,531 sq. ft. of corner shop	5 years	22/11/2012	201
Envitech Sdn Bhd	Unit No. Parcel 61-2B, LOT 207 (191-2B), 2ND Floor, Block J Shop & Office At Pulau Melaka	1,418 sq. ft. of corner shop	5 years	22/11/2012	136
Salcon Engineering Berhad	B-PH-07, Casa Subang, Service Apartment Subang USJ 1.	1,555 sq. ft. of service apartment	9 years	31/12/2015	550
					8,485

## LAND HELD FOR PROPERTY DEVELOPMENT

<b>Company</b>	<b>Location/Address</b>	<b>Size &amp; Usage</b>	<b>Approximate age of building</b>	<b>Date of Acquisition/ Revaluation</b>	<b>NBV RM'000</b>
Azitin Venture Sdn Bhd	HS(D) 78442, PT No. 11140, Bandar Selayang, Daerah Gombak, Selangor Darul Ehsan	3,988 sq. metres	99 years leasehold expiring on 13/11/2112	28/03/2012	85,434
Nusantara Megajuta Sdn Bhd	H.S.(D) 482930, No P.T.B. 22841, Bandar Johor Bahru, Daerah Johor Bahru, Johor Darul Ta'zim	10,077 sq. metres	99 years leasehold expiring on 7/6/2109	14/10/2014	21,305
Nusantara Megajuta Sdn Bhd	H.S.(D) 482931, No P.T.B. 22842, Bandar Johor Bahru, Daerah Johor Bahru, Johor Darul Ta'zim	41,399 sq. metres	99 years leasehold expiring on 7/6/2109	14/10/2014	87,526
					194,265

# Analysis of Shareholdings

as at 31 March 2017

Issued share capital	:	RM338,847,226.00 (including 35,450,000 treasury shares held)
Class of shares	:	Ordinary share
Voting rights: On show of hands	:	One vote for each shareholder
On poll	:	One vote for each ordinary share

## Distribution of Shareholdings

Size of Shareholdings	Number of Shareholders	Number of Shares	Percentage of Issued Capital (%)
Less than 100	1,348	67,708	0.010
100 – 1,000	818	470,715	0.073
1,001 – 10,000	3,845	23,711,808	3.692
10,001 – 100,000	2,672	89,747,718	13.974
100,001 – less than 5% of issued shares	484	377,805,469	58.825
5% and above of issued shares	3	150,441,034	23.424
<b>Total</b>	<b>9,170</b>	<b>642,244,452</b>	<b>100.00</b>

## List of Substantial Shareholders

Name of Substantial Shareholders	Direct Interest		Indirect Interest	
	No. of shares	Percentage of issued capital (%)	No. of shares	Percentage of issued capital (%)
Naga Muhibah Sdn. Bhd.	66,709,600	10.387	-	-
Tan Sri Dato' Tee Tiam Lee	38,606,400	6.011	45,125,034 <sup>(1)</sup>	7.026
Dato' Seri (Dr.) Goh Eng Toon	2,300,000	0.358	66,709,600 <sup>(2)</sup>	10.387
Datin Goh Phaik Lynn	-	-	66,709,600 <sup>(2)(i)</sup>	10.387
	-	-	300,000 <sup>(3)</sup>	0.047
	-	-	3,600,000 <sup>(4)</sup>	0.561
Dato' Leong Kok Wah	3,600,000	0.561	300,000 <sup>(3)</sup>	0.047
	-	-	66,709,600 <sup>(5)</sup>	10.387
Tee Xun Hao	156,000	0.024	45,125,034 <sup>(1)</sup>	7.026
Infra Tropika Sdn Bhd	45,125,034	7.026	-	-

Notes:

- (1) Deemed interested through the shares held in Infra Tropika Sdn Bhd pursuant to Section 8 of the Companies Act, 2016
- (2) (i) Deemed interested through shareholding in Naga Muhibah Sdn Bhd pursuant to Section 8 of the Companies Act, 2016  
(ii) Deemed interested through shares held by child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 8 of the Companies Act, 2016
- (3) Deemed interested through the shares held by children (Leong Yi Ping and Leong Yi Ming) pursuant to Section 8 of the Companies Act, 2016
- (4) Deemed interested through the shares held by spouse (Dato' Leong Kok Wah) pursuant to Section 8 of the Companies Act, 2016
- (5) Deemed interested through the shares held by spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 8 of the Companies Act, 2016

### List of 30 Largest Shareholders

No.	Name of Shareholders	No. of Shares	Percentage of Issued Capital (%)
1	NAGA MUHIBAH SDN BHD	66,709,600	10.386
2	INFRA TROPIKA SDN BHD	45,125,034	7.026
3	TAN SRI DATO' TEE TIAM LEE	38,606,400	6.011
4	LEE THIAM LAI	28,035,000	4.365
5	KONG HON KONG	27,012,634	4.205
6	WONG SWEE YEE	25,634,390	3.991
7	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC TREASURES GROWTH FUND	13,035,300	2.029
8	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR MALAYSIAN ESG OPPORTUNITY FUND	10,346,200	1.610
9	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (AMUNDI)	10,000,000	1.557
10	HSBC NOMINEES (ASING) SDN BHD HSBC-FS FOR LEGG MASON WESTERN ASSET SOUTHEAST ASIA SPECIAL SITUATIONS TRUST (201061)	9,737,900	1.516
11	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC AGGRESSIVE GROWTH FUND (N14011940110)	9,481,800	1.476
12	TENG LI LING	8,595,400	1.338
13	PEMBINAAN PUNCA CERGAS SDN. BHD.	7,450,000	1.159
14	HSBC NOMINEES (ASING) SDN BHD HSBC-FS FOR LEGG MASON WESTERN ASSET ASIAN ENTERPRISE TRUST	6,777,900	1.055
15	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	5,600,000	0.871

Analysis of Shareholdings  
as at 31 March 2017

**List of 30 Largest Shareholders (continued)**

<b>No.</b>	<b>Name of Shareholders</b>	<b>No. of Shares</b>	<b>Percentage of Issued Capital (%)</b>
16	AMSEC NOMINEES (TEMPATAN) SDN BHD MTRUSTEE BERHAD FOR PACIFIC PEARL FUND (UT-PM-PPF)	5,319,300	0.828
17	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR RHB SMALL CAP OPPORTUNITY UNIT TRUST	5,070,000	0.789
18	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	4,843,800	0.754
19	AMSEC NOMINEES (TEMPATAN) SDN BHD MTRUSTEE BERHAD FOR PACIFIC DIVIDEND FUND (UT-PM-DIV)	4,473,800	0.696
20	CARTABAN NOMINEES (TEMPATAN) SDN BHD RHB TRUSTEES BERHAD FOR SP TACTICAL INVESTMENT FUND	4,156,700	0.647
21	HSBC NOMINEES (ASING) SDN BHD KBC SECS NV FOR KBC ECO FUND	3,861,000	0.601
22	RHB NOMINEES (TEMPATAN) SDN BHD PLEGGED SECURITIES ACCOUNT FOR DATO' LEONG KOK WAH	3,600,000	0.560
23	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEGGED SECURITIES ACCOUNT FOR YEAP GEK @ YEAP POH CHIM	3,561,000	0.554
24	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEGGED SECURITIES ACCOUNT FOR MAK KOK LEONG	3,440,000	0.535
25	DB (MALAYSIA) NOMINEE (ASING) SDN BHD EXEMPT AN FOR BANK OF SINGAPORE LIMITED	3,430,000	0.534
26	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LBF)	3,258,800	0.507
27	TOKIO MARINE LIFE INSURANCE MALAYSIA BHD AS BENEFICIAL OWNER (PF)	3,213,100	0.500
28	DATO' CHOONG MOH KHENG	3,000,000	0.467
29	AMANAHRAYA TRUSTEES BERHAD PUBLIC STRATEGIC SMALLCAP FUND	2,690,000	0.418
30	UNIVERSAL TRUSTEE (MALAYSIA) BERHAD PACIFIC PREMIER FUND	2,653,700	0.413
		368,718,758	57.410

Name of Directors	Direct Interest		Indirect Interest	
	No. of shares	Percentage of issued capital (%)	No. of shares	Percentage of issued capital (%)
Dato' Seri (Dr.) Goh Eng Toon	2,300,000	0.358	66,709,600 <sup>(1)</sup>	10.387
Dato' Dr. Freezailah Bin Che Yeom	1,750,400	0.273	-	-
Tan Sri Dato' Tee Tiam Lee	38,606,400	6.011	45,281,034 <sup>(2)</sup>	7.050
Dato' Leong Kok Wah	3,600,000	0.561	300,000 <sup>(3)</sup>	0.047
	-	-	66,709,600 <sup>(4)</sup>	10.387
Dato' Choong Moh Kheng	2,800,000	0.436	7,450,000 <sup>(5)</sup>	1.160
Chan Seng Fatt	-	-	-	-

Notes:

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

# Notice of Fourteenth Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Fourteenth Annual General Meeting of Salcon Berhad ("the Company") will be held at Victorian Ballroom, Level 1, Holiday Villa Hotel & Conference Centre, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Wednesday, 14 June, 2017 at 10.30 a.m. for the following purposes:-

## AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Reports of the Directors and Auditors thereon. **[Please see Note 2]**
2. To approve the payment of the first and final dividend via share dividend by distribution of treasury shares on the basis of one (1) treasury share for every eighteen (18) existing ordinary shares held in the Company in respect of the financial year ended 31 December 2016. **[Resolution 1]**
3. To approve the payment of Directors' fees of RM270,000 for the financial year ended 31 December 2016. **[Resolution 2]**
4. To approve the payment of Directors' fees and benefits of up to RM500,000 for the period from 1 January 2017 until the next Annual General Meeting of the Company. **[Resolution 3]**
5. To re-elect Dato' Choong Moh Kheng who retires pursuant to Article 96 of the Company's Articles of Association, comprising part of the Constitution of the Company. **[Please see Note 3]** **[Resolution 4]**
6. To re-appoint the following Directors:- **[Please see Note 4]**
  - a) Dato' Seri (Dr.) Goh Eng Toon **[Resolution 5]**
  - b) Dato' Dr. Freezailah Bin Che Yeom **[Please see Note 3]** **[Resolution 6]**
7. To re-appoint Messrs KPMG PLT as Auditors of the Company and to authorise the Directors to fix their remuneration. **[Please see Note 5]** **[Resolution 7]**

## AS SPECIAL BUSINESS

To consider and, if deemed fit, to pass, with or without modifications, the following resolutions:

8. **Ordinary Resolution**  
**Authority to Allot Shares Pursuant to Sections 75 and 76 of the Companies Act 2016** **[Please see Note 6(a)]**

"THAT, subject always to the Companies Act 2016 ("Act"), the Constitution of the Company and the approval of any relevant governmental and/or regulatory authorities, the Directors be and are hereby authorised pursuant to Sections 75 and 76 of the Act to allot shares in the Company, at any time and upon such terms and conditions and for such purposes and to such person or persons whomsoever as the Directors may, in their absolute discretion deem fit, provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed ten per centum (10%) of the total number of issued shares (excluding treasury shares) of the Company for the time being and THAT the Directors be and are hereby also empowered to obtain the approval for the listing of and quotation for the additional shares so issued from Bursa Malaysia Securities Berhad and THAT such authority shall continue to be in force until the conclusion of the next annual general meeting of the Company after the approval was given or at the expiry of the period within which the next annual general meeting is required to be held after the approval was given, whichever is earlier, unless such approval is revoked or varied by the Company at a general meeting."

**[Resolution 8]**



9. **Ordinary Resolution** [Please see Note 6(b)]  
**Continuation in Office as an Independent Non-Executive Director**

"THAT, subject to the passing of Resolution 6, approval be and is hereby given for Dato' Dr. Freezailah Bin Che Yeom who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine years, to continue to act as an Independent Non-Executive Director of the Company to hold office until the conclusion of the next annual general meeting of the Company." [Resolution 9]

10. **Ordinary Resolution** [Please see Note 6(c)]  
**Proposed Renewal of Authority for Share Buy-Back**

"THAT, subject always to the Companies Act 2016 ("Act"), the provisions of the Constitution of the Company, Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements ("Listing Requirements") and all other applicable laws, guidelines, rules and regulations, the Company be and is hereby authorised, to the fullest extent permitted by law, to purchase such amount of ordinary shares in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that:- [Resolution 10]

- (i) the aggregate number of shares purchased does not exceed ten per centum (10%) of the total number of issued shares of the Company as quoted on Bursa Securities as at the point of purchase;
- (ii) an amount not exceeding the Company's audited retained profits at the time of purchase(s) will be allocated by the Company for the purchase of its own shares; and
- (iii) the Directors of the Company may decide either to retain the shares purchased as treasury shares or cancel the shares or retain part of the shares so purchased as treasury shares and cancel the remainder or to resell the shares or distribute the shares as dividends or to deal with the treasury shares in the manners as allowed by the Act.

AND THAT the authority conferred by this resolution will commence immediately upon the passing of this Ordinary Resolution and will continue to be in force until:-

- (a) the conclusion of the next annual general meeting of the Company following at which time the authority shall lapse unless by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; or
- (c) revoked or varied by ordinary resolution passed by the shareholders of the Company at a general meeting,

whichever occurs first, but shall not prejudice the completion of purchase(s) by the Company before the aforesaid expiry date and, in any event, in accordance with the provisions of the Listing Requirements and any other relevant authorities.

AND THAT authority be and is hereby given to the Directors of the Company to take all such steps as are necessary or expedient to implement, finalise and give full effect to the aforesaid purchase(s) with full powers to assent to any conditions, modifications, variations and/or amendments (if any) as may be required or imposed by the relevant authorities and with the fullest power to do all such acts and things thereafter in accordance with the Act, the provisions of the Constitution of the Company and the requirements and/or guidelines of Bursa Securities for the Main Market and all other relevant governmental and/or regulatory authorities."

11. To consider any other business of which due notice shall have been given.

### **NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT**

**NOTICE IS HEREBY GIVEN** that subject to the approval of the shareholders of the Company at the Fourteenth Annual General Meeting to be held on 14 June 2017, a first and final dividend will be paid via share dividend by distribution of treasury shares on the basis of one (1) treasury share for every eighteen (18) existing ordinary shares held in the Company in respect of the financial year ended 31 December 2016. The share dividend will be credited into Central Depository Securities ("CDS") account of shareholders whose names appear in the Record of Depositors on 30 June 2017. Any fractional entitlement arising from the computation of share dividend entitlement will be disregarded.

A depositor shall qualify for entitlement to the dividend only in respect of:-

- (a) Shares transferred into the Depositor's Securities Account before 4:00 p.m. on 30 June 2017 in respect of transfers; and
- (b) Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

Subject to the approval of Bursa Malaysia Depository Sdn Bhd ("Bursa Depository") for the transfer of treasury shares under the Share Buy-Back Account via bulk transfer method of debiting and crediting, the treasury shares to be distributed under the share dividend will be credited into the entitled CDS account maintained with Bursa Depository within 8 market days from the entitlement date.

### **BY ORDER OF THE BOARD**

**Wong Wai Foong (MAICSA 7001358)**

**Joanne Toh Joo Ann (LS 0008574)**

Company Secretaries

Kuala Lumpur  
28 April 2017

Notes:-

#### **1. APPOINTMENT OF PROXY**

- (a) A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote at the meeting except where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, in which event it may appoint not more than two (2) proxies in respect of each Securities Account it holds in ordinary shares of the Company standing to the credit of the said Securities Account.
- (b) For an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
- (c) Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the appointments shall be invalid unless the proportion of shareholdings to be represented by each proxy is specified in the instrument appointing the proxies. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.
- (d) The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.

- (e) The instrument appointing a proxy must be deposited at the Registered Office located at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.
- (f) Only members whose names appear in the Record of Depositors as at 5 June 2017 will be entitled to attend, speak and vote at the meeting or appoint proxy(ies) to attend, speak and vote on their behalf.

## 2. **AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

The Audited Financial Statements is meant for discussion only as an approval from shareholders is not required pursuant to the provisions of Sections 248(2) and 340(1) of the Companies Act 2016. Hence, this item on the Agenda is not put forward for voting by shareholders of the Company.

## 3. **RE-APPOINTMENT AND RE-ELECTION OF INDEPENDENT DIRECTORS**

In line with the Recommendation 3.1 of the Malaysian Code on Corporate Governance 2012, the Nomination Committee and the Board of Directors ("Board") had undertaken an annual assessment on the independence of Dato' Dr. Freezailah Bin Che Yeom and Dato' Choong Moh Kheng who are seeking for re-appointment or re-election at the forthcoming Fourteenth Annual General Meeting. The annual assessment had been disclosed in the Corporate Governance Statement of the Company's 2016 Annual Report.

## 4. **RE-APPOINTMENT OF DIRECTORS**

The proposed Resolution 5 and Resolution 6 are to seek shareholders' approval on the re-appointment of Dato' Seri (Dr.) Goh Eng Toon and Dato' Dr. Freezailah Bin Che Yeom, who had been re-appointed in the previous Annual General Meeting held on 26 May 2016 as Directors under Section 129(6) of the former Companies Act 1965 which was then in force and whose term would expire at the conclusion of this meeting, as Directors of the Company. If passed, the proposed Resolution 5 and Resolution 6 will authorise the continuation of the Directors in office from the date of this Annual General Meeting onwards.

## 5. **RE-APPOINTMENT OF AUDITORS**

The audit firm KPMG, a conventional partnership, had on 27 December 2016 converted its status to a limited liability partnership ("LLP") pursuant to Section 29 of the LLP Act 2012 and registered in the name of KPMG PLT. PLT means "Perkongsian Liabiliti Terhad".

## 6. **EXPLANATORY NOTES TO SPECIAL BUSINESS:**

### (a) **AUTHORITY TO ALLOT SHARES PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016**

The proposed Resolution 8 is the renewal of the mandate obtained from the members at the last Annual General Meeting. As at the date of this Notice, the Company did not allot any shares pursuant to the mandate granted to the Directors at the Thirteenth Annual General Meeting held on 26 May 2016 as there were no requirements for such fund raising activities.

The proposed Resolution 8, if passed, would provide flexibility to the Directors to undertake fund raising activities, including but not limited to placement of shares for the purpose of funding the Company's future investment project(s), working capital and/or acquisition(s), by the issuance of shares in the Company to such persons at any time as the Directors may deem fit provided that the aggregate number of shares issued pursuant to the mandate does not exceed ten per centum (10%) of the total number of issued shares (excluding treasury shares) of the Company for the time being, without having to convene a general meeting. This authority, unless revoked or varied by the Company in a general meeting, will expire at the conclusion of the next annual general meeting of the Company or at the expiry of the period within which the next annual general meeting is required to be held after the approval was given, whichever is earlier.

### (b) **CONTINUATION IN OFFICE AS AN INDEPENDENT NON-EXECUTIVE DIRECTOR**

Pursuant to the Malaysian Code on Corporate Governance 2012, it is recommended that approval of shareholders be sought in the event the Company intends to retain an Independent Director who has served in that capacity for more than nine (9) years.

The Nomination Committee and the Board had assessed the independence of Dato' Dr. Freezailah Bin Che Yeom and recommended him to continue to act as an Independent Non-Executive Director of the Company based on the following justifications:-

- (i) he fulfilled the criteria of an Independent Director pursuant to Bursa Malaysia Securities Berhad Main Market Listing Requirements;
- (ii) he is familiar with the Company's business operations as he has been with the Company for a period of more than nine (9) years;
- (iii) his long tenure with the Company has neither impaired nor compromised his independent judgement. He is free from any business or other relationships which could interfere with his exercise of independent judgement. He continues to remain objective and is able to exercise independent judgement in expressing his views and in participating in deliberations and decision making of the Board and Board Committees in the best interest of the Company;
- (iv) he has devoted sufficient time and attention to his responsibilities as an Independent Non-Executive Director of the Company; and
- (v) he has exercised due care during his tenure as an Independent Director of the Company and carried out his duties in the interest of the Company and shareholders.

The proposed Resolution 9, if passed, will enable Dato' Dr. Freezailah Bin Che Yeom to continue to act as an Independent Non-Executive Director of the Company to hold office until the conclusion of the next annual general meeting of the Company.

(c) PROPOSED RENEWAL OF AUTHORITY FOR SHARE BUY-BACK

The proposed Resolution 10, if passed, will allow the Company to purchase its own shares through Bursa Securities up to ten per centum (10%) of the total number of issued shares of the Company. Please refer to the Statement to Shareholders dated 28 April 2017 in relation to the Proposed Renewal of Authority for Share Buy-Back for further details.

I/ We \_\_\_\_\_  
(FULL NAME IN BLOCK LETTERS)

NRIC No./Company No. \_\_\_\_\_ of \_\_\_\_\_

\_\_\_\_\_ (FULL ADDRESS)

being a Member/Members of **SALCON BERHAD** hereby appoint \_\_\_\_\_

\_\_\_\_\_ NRIC No. \_\_\_\_\_  
(FULL NAME IN BLOCK LETTERS)

of \_\_\_\_\_ (FULL ADDRESS)

or failing whom, \_\_\_\_\_ NRIC No. \_\_\_\_\_  
(FULL NAME IN BLOCK LETTERS)

of \_\_\_\_\_ (FULL ADDRESS)

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf, at the Fourteenth Annual General Meeting of the Company to be held at Victorian Ballroom, Level 1, Holiday Villa Hotel & Conference Centre, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Wednesday, 14 June 2017 at 10.30 a.m. and at any adjournment thereof.

NO.	RESOLUTIONS	*FOR	*AGAINST
1.	To approve the payment of the first and final dividend in respect of the financial year ended 31 December 2016.		
2.	To approve the payment of Directors' fees of RM270,000 for the financial year ended 31 December 2016.		
3.	To approve the payment of Directors' fees and benefits of up to RM500,000 for the period from 1 January 2017 until the next Annual General Meeting of the Company.		
4.	To re-elect Dato' Choong Moh Kheng as Director.		
5.	To re-appoint Dato' Seri (Dr.) Goh Eng Toon as Director.		
6.	To re-appoint Dato' Dr. Freezailah Bin Che Yeom as Director.		
7.	To re-appoint Messrs KPMG PLT as Auditors of the Company and to authorise the Directors to fix their remuneration.		
8.	To grant authority to allot shares pursuant to Sections 75 and 76 of the Companies Act 2016.		
9.	To approve Dato' Dr. Freezailah Bin Che Yeom to continue to act as an Independent Non-Executive Director.		
10.	To approve the Proposed Renewal of Authority for Share Buy-Back.		

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

Dated this \_\_\_\_\_ day of \_\_\_\_\_, 2017.

\_\_\_\_\_  
**Signature or Common Seal of Shareholder**  
**Contact Number:**

Notes:-

- A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote at the meeting except where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, in which event it may appoint not more than two (2) proxies in respect of each Securities Account it holds in ordinary shares of the Company standing to the credit of the said Securities Account.
- For an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
- Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the appointments shall be invalid unless the proportion of shareholdings to be represented by each proxy is specified in the instrument appointing the proxies.
- A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.
- The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.
- The instrument appointing a proxy must be deposited at the Registered Office located at 15<sup>th</sup> Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.
- Only members whose names appear in the Record of Depositors as at 5 June 2017 will be entitled to attend, speak and vote at the meeting or appoint proxy(ies) to attend, speak and vote on their behalf.

<b>CDS Account No.:</b>
<b>Number of shares held:</b>
If more than 1 proxy, please specify number of shares represented by each proxy
Name of Proxy 1: Number of Shares :
Name of Proxy 2: Number of Shares :

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AFFIX  
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**SALCON BERHAD** (593796-T)

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

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**SALCON BERHAD (593796-T)**

15<sup>th</sup> Floor, Menara Summit  
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Selangor Darul Ehsan

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47509 UEP Subang Jaya  
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