salcon

supplying clean water to all

annual report 2008

VISION

to be a world leader in water and sanitation services

MISSION

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

CORE VALUES

commitment

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

teamwork

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

professionalism

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

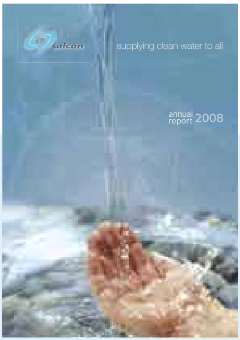
respect

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.

contents



cover rationale

Water is the lifeblood of a community. The quality of water is essential for the ongoing survival of this planet of ours. Salcon Berhad, through its chain of successful global water and wastewater projects endeavours to provide a sustainable supply of quality water, while conserving the environment for future generations all around the world.

notice of annual general meeting

NOTICE IS HEREBY GIVEN THAT the Sixth Annual General Meeting of the Company will be held at Victorian Ballroom, Level 1, Holiday Villa Hotel & Suites Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Thursday, 25 June 2009 at 10.30 a.m. for the following purposes:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2008 together with the Reports of the Directors and Auditors thereon.

   (SEE NOTE 2)

2. To approve payment of Directors' fees for the financial year ended 31 December 2008.

   (Resolution 1)

3. To re-elect Ho Tet Shin as Director of the Company.

   (Resolution 2)

4. To re-appoint Dato' Seri Goh Eng Toon as Director of the Company pursuant to Section 129(6) of the Companies Act, 1965, to hold office until the next Annual General Meeting.

   (Resolution 3)

5. To approve the payment of the first and final dividend of 1 sen per share, which comprises 0.67 sen per share, tax exempt and 0.33 sen per share less 25% income tax.

   (Resolution 4)

6. To re-appoint Messrs KPMG as Auditors of the Company and authorise the Directors to fix their remuneration.

   (Resolution 5)

AS SPECIAL BUSINESS

To consider and, if thought fit, pass the following ordinary resolution:

7. Ordinary Resolution

   Authority to Allot and Issue Shares in General Pursuant to Section 132D of the Companies Act, 1965 (SEE NOTE 4)

   "THAT, subject always to the Companies Act, 1965, the Articles of Association of the Company and the approval of any relevant governmental and/or regulatory authorities, where such approval is required, the Directors be and hereby authorised and empowered pursuant to Section 132D of the Companies Act, 1965 to allot and issue shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed ten (10) per centum of the issued and paid-up share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad and that authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

   (Resolution 6)

8. To transact any other business of which due notice have been given.

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS HEREBY GIVEN THAT subject to the approval of the shareholders at the Sixth Annual General Meeting to be held on 25 June 2009, a first and final dividend of 1 sen per share, which comprises 0.67 sen per share, tax exempt and 0.33 sen per share less 25% income tax, in respect of the financial year ended 31 December 2008, if approved, will be paid on 23 July 2009.

The entitlement date for the dividend is 3 July 2009.

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 3 July 2009 in respect transfers; and

(b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

Ng Yen Hoong (LS 008016)
Lim Poh Yen (MAICSA 7009475)
Company Secretaries
Kuala Lumpur
3 June 2009

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 in his/her stead. A proxy need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply.

(b) Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.

(c) 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.

(d) The instrument appointing a proxy must be deposited at the Registered Office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

The Audited Financial Statements in Agenda 1 is meant for discussion only as an approval from shareholders is not required pursuant to the provision of Section 169(1) of the Companies Act, 1965. Hence, this Agenda is not put forward for voting by shareholders of the Company.

3. RE-APPOINTMENT OF DIRECTOR PURSUANT TO SECTION 129(6) OF THE COMPANIES ACT, 1965

The Resolution 3, if passed, will authorise the continuity in office of the Director (who is over the age of 70 years) until the next Annual General Meeting.

4. EXPLANATORY NOTE TO SPECIAL BUSINESS:

AUTHORITY TO ALLOT AND ISSUE SHARES IN GENERAL PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965

The Resolution 6, if passed, will give the Directors authority to allot and issue new ordinary shares up to an amount not exceeding 10% of the issued share capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority will commence from the date of this Annual General Meeting and unless revoked or varied by the Company at a general meeting, will expire at the next annual general meeting.

statement accompanying notice of annual general meeting

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(pursuant to Paragraph 8.28(2) of the Listing Requirements of the Bursa Malaysia Securities Berhad)

Name of Director who is standing for re-election at the Sixth Annual General Meeting is as follows:

1. Ho Tet Shin

The profile of the above Director is set out in the section entitled "Profile of Directors" on pages 16 to 17. The details of his interest in the securities of the Company are set out in the section entitled "Analyses of Shareholdings and Warrantholdings" on pages 129 to 133.

corporate information

BOARD OF DIRECTORS

Dato' Seri Goh Eng Toon
Chairman, Non-Independent Non-Executive Director

Jaggit Singh a/l Tara Singh
Executive Director

Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas
Independent Non-Executive Director

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

Ho Tet Shin
Independent Non-Executive Director

AUDIT COMMITTEE

Ho Tet Shin (Chairman)
Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas
Dato' Dr. Freezailah bin Che Yeom

NOMINATION COMMITTEE

Dato' Seri Goh Eng Toon (Chairman)
Dato' Dr. Freezailah bin Che Yeom

REMUNERATION COMMITTEE

Dato' Seri Goh Eng Toon (Chairman)
Dato' Dr. Freezailah bin Che Yeom
Ho Tet Shin

EXECUTIVE COMMITTEE

Dato' Seri Goh Eng Toon (Chairman)
Jaggit Singh a/l Tara Singh
How See Hock

RISK MANAGEMENT COMMITTEE

Ho Tet Shin (Chairman)
Jaggit Singh a/l Tara Singh
How See Hock

COMPANY SECRETARIES

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

REGISTERED OFFICE

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

HEAD OFFICE

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

AUDITORS

KPMG (AF 0758)
Chartered Accountants
Level 10, KPMG Tower
8 First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan

PRINCIPAL BANKERS

EON Bank Berhad
Malayan Banking Berhad
Standard Chartered Bank Malaysia Berhad
United Overseas Bank (Malaysia) Berhad

SHARE REGISTRAR

PFA Registration Services Sdn Bhd
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Tel : 603-2264 3883
Fax : 603-2282 1886

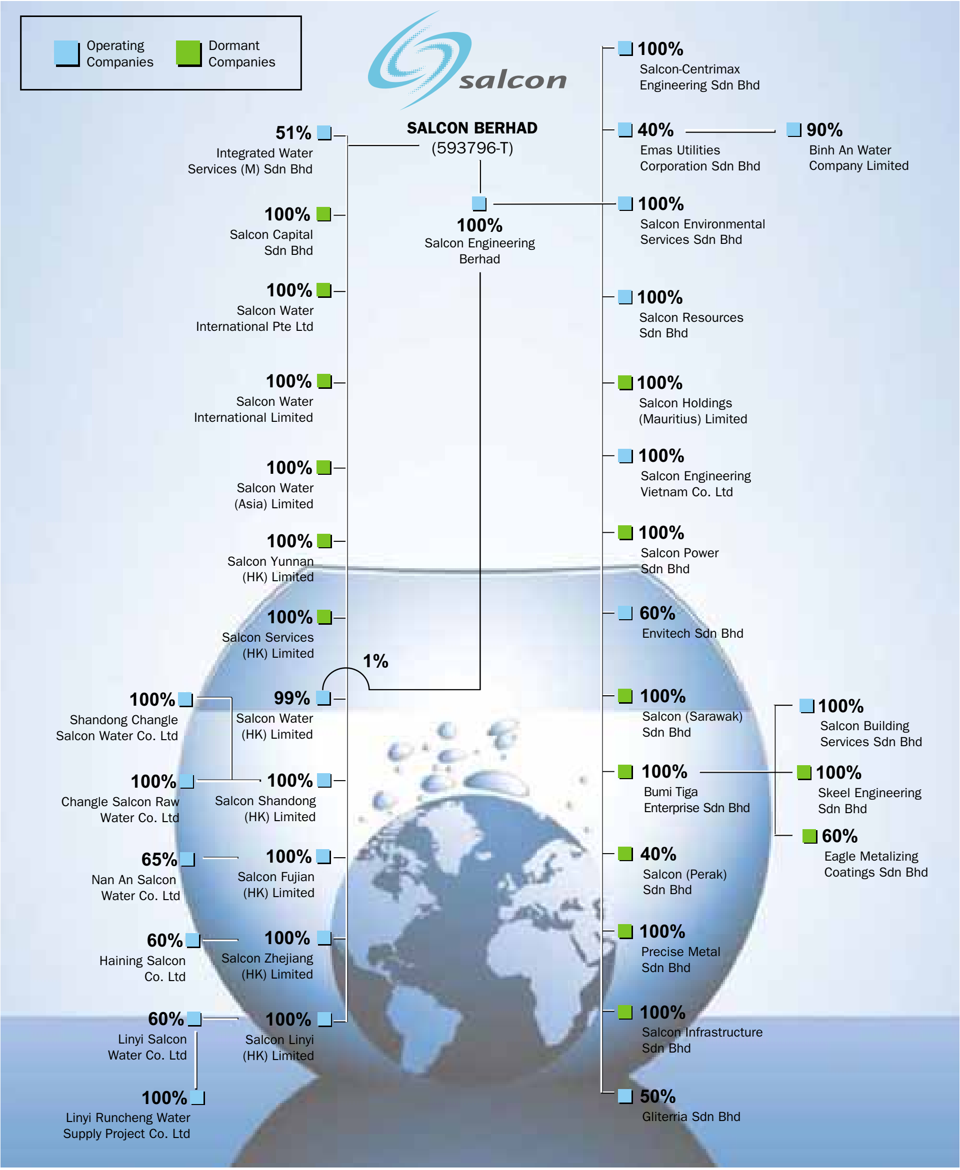
STOCK EXCHANGE LISTING

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

WEBSITE

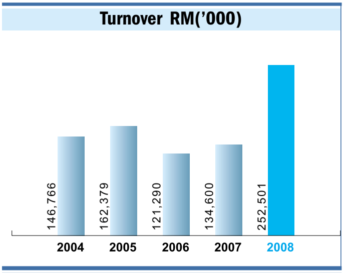
www.salcon.com.my

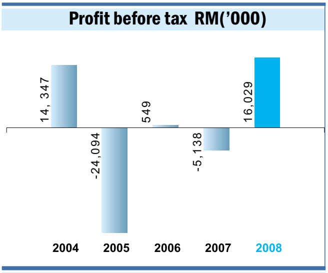
corporate structure

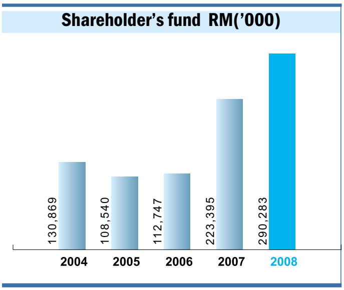


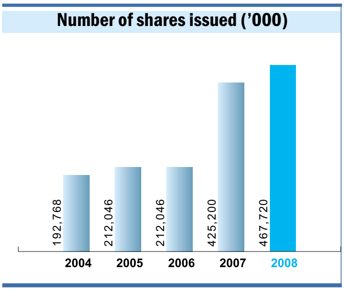
financial highlights

	2004	2005	2006	2007	2008
Turnover (RM'000)	146,766	162,379	121,290	134,600	**252,501**
Profit Before Tax (RM'000)	14,347	-24,094	549	-5,138	**16,029**
Shareholder's Fund (RM'000)	130,869	108,540	112,747	223,395	**290,283**
No. of Shares Issued ('000)	192,768	212,046	212,046	425,200	**467,720**
Net Assets per share (RM)	0.68	0.51	0.53	0.53	**0.62**









salcon in the news

Salcon secures 2 China deals worth RM95m

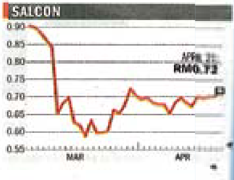
SALCON Bhd has secured two contracts worth RM95.13 million to build a water treatment plant and a water intake facility in China.

An agreement was signed between Shandong Changle and Salcon Water Co Ltd, a wholly-owned subsidiary of Salcon, for a RM45.51 million contract to build a 100 million litres of water per day water treatment plant in Changle.

The deal is part of Salcon's appointment as the sole integrated water supply and waste water treatment company in Changle by the Chinese government.

"This is an expansion of the treatment capacity under the existing concession, of which the remaining concession period is 45 years," said Salcon in a statement yesterday.

Another agreement was signed between Shandong Changle and Salcon Shandong (HK) Ltd (SSHK), also a wholly-owned subsidiary of Salcon, to implement a RM49.62 million 38km raw water intake project on a build-operate-transfer basis by a wholly-owned sub-



sidiary of SSHK to be incorporated in China.

The conc... ter project... Salcon sai... will provide... services in... ject manag... site acquisi... services

Salcon venture firm bags water deal

A JOINT-VENTURE company between Salcon Bhd's wholly-owned Salcon Engineering Bhd and Fallah Technology Sdn Bhd has won a RM129.9 million deal to help Kelantan cut losses in water supply. Salcon Engineering will hold a 60 per cent stake in the venture. The project, awarded by Air Kelantan Sdn Bhd, involves reducing waste from pipe leaks. The award is a first for Salcon in Kelantan, Salcon Engineering chief executive How See Hock said in a statement.

Salcon unit wins Kelantan water job

SUBANG JAYA: Salcon Bhd unit Salcon Engineering Bhd and Fallah...

BERITA HARIAN

Salcon bina loji rawatan air RM221j di Sri Lanka

SALCON Bhd menerusi anak syarikat usaha samanya, Aarsleff-Salcon (AS) telah memperoleh surat penge... penerimaan (LoA) bagi ...anaan projek loji rawatan Sri Lanka yang dianu... ...an kepadanya 11 April

...lah bagi pembinaan loji air dengan kapasiti me... ...0,000 meter padu air se... ...ungai Kelani terletak di ...mbatale, di barat negara

Salcon dalam kenyataannya ...rkata, syarikat usa... ...rkenaan memper... bernilai RM221 ju... ...la Kerajaan Sri Lan...

Salcon looks at membrane tech

> FROM B1

determining the problematic points and address them accordingly," How said.

He believes there were many opportunities to tap the NRW segment as clean water sources become more scarce and governments strive to achieve higher efficiency.

Membrane technology is one way forward as less and less clean water is available.

The technology, which uses a filtration system, treats highly polluted water to make it usable again.

How said while operational cost was high as electricity was used to power the pumps, the investment could be recovered in about two years.

The capital expenditure would depend on the size of the plant and the quality of raw water, he said.

He added that such technology was widely used in the Middle Eas...

membrane suppliers. We hope to up at least a pilot plant within... year," he said.

Salcon is also fortun... seas contracts usually... ation price claims cla... to defray the risk of ri... rial prices.

Now that the c... cleaned up its bala... cleared most of the... could maintain its ...

Firm sees strong double-digit revenue growth

FROM P1 Salcon

In the first seven months of the year, the company had won two concession jobs in China, and three construction jobs, one each in China, Vietnam and Sri Lanka. The contracts were worth over RM380 million.

How said under such a scenario, Salcon should return to the black this year and it expects a strong double-digit revenue growth.

He said normally the company's concession business would start generating profits one or two years after operations while its construction segment would start contributing almost immediately.

'Salcon should return to the black this year,' says How

SALCON UNIT TEAMS UP WITH VIETNAM COMPANY: Salcon Bhd's wholly owned subsidiary Salcon Engineering Bhd has inked ...

The project is valued at RM64.86mil. — Bernama

在斯国建滤水厂

实康获2.21亿合约

Salcon to spend RM95m on China water project

Salcon joint venture bags RM130m Kelantan job

By ALFEAN HARDY

SALCON Bhd's unit Salcon Engineering Bhd and its joint venture (JV) partner Fallah Technology Sdn Bhd, ... RM129.88 ...

state of Kelantan.

The scope of the work includes the provision of a core non-revenue water team and tec... nel to carry o... which involv...

The project is expected to be completed within the next three years with Aug 26, 2011, slated as the date of

Salcon bids for interstate water project contract

The company aims to be part of the RM8.9b Pahang-Selangor Raw Water Transfer project

Salcon arm wins Sri Lanka deal

SALCON Bh... company A... awarded the... the Kelani R... lons per da... project. "Th... funded by ... Developmen...

Salcon bina pusat rawatan air di China

KUALA LUMPUR 21 April – Salcon (Salcon) hari ini memeterai dua perja... ntuk konsesi pembinaan pusat r... dan projek pembekalan air m... RMB209 juta (RM93.79 juta) d... wilayah Shangdong, China. ... dalam kenyataan di sini hari ini ... anak syarikat milik penuhnya, ... Changle Salcon Water Company (... WCL) yang memulakan ... dangan ... hangle ... air di- ... (MLD) ... inggal

Salcon eyes water job in India

By YEOW POOI LING

Salcon wins 2 more contracts in China

Concession agreement and water treatment plant deal total RM93.13 million

力拓海外市場

實康料年底轉盈

（槟城再也18日讯）业务强稳持续贡献盈利，实康（SALCON，8567，主板贸…至今年底…，并力拓…

蒙受753万2000令吉净亏损。

侯诗富透露，顺应昌乐县人民政府要求，实康将斥资1亿令吉提升昌乐水务处理厂的产能，其中包括建设新厂和自30公里外转移水源。

他指出，目前每日水务处理量为4万立方公尺，当地政府要求提高到10万立方公尺。

平衡两者比重

"我们仍在洽谈中，预计两年内动工，当地政府却希望可提早到明年动工。"

谈及业务拓展计划时，他说，实康瞄准整个中国潜在商机，未局限山东，也在探讨数个可进军的城市。

"实康在中国共有6项工

获中国食水处理合约

实康股价写一个月新高

board of directors

From left to right: Dato' Dr. Freezailah bin Che Yeom, Jaggit Singh a/l Tara Singh, Dato' Seri Goh Eng Toon, Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas and Ho Tet Shin

profile of directors

DATO' SERI GOH ENG TOON

Chairman, Non-Independent Non-Executive Director

Dato' Seri Goh Eng Toon, aged 75, 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 Institute of Bankers Malaysia.

Dato' Seri 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 the 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 Goh presently serves on the Boards and as the Chairman of Rockwills Trustee Berhad and Pulau Pinang Clinic Sdn. Bhd. (Gleneagles Medical Centre, 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.

Dato' Seri Goh is currently the Chairman of the Executive Committee, Nomination Committee and Remuneration Committee of the Company.

JAGGIT SINGH A/L TARA SINGH

Executive Director

Mr. Jaggit Singh, aged 61, was appointed to the Board of Salcon on 21 July 2003.

He graduated with Bachelor of Mechanical Engineering degree from University of Roorkee, India, and is a Mechanical Engineer by profession.

Mr. Jaggit started his career as a lecturer and subsequently proceeded to be a project engineer. He has more than thirty (30) years of experience in the design and execution of water treatment and pumping projects for the public sector. He joined Salcon Engineering Berhad (SEB) in 1980 and currently heads the Water and Environmental Division.

Over the past two (2) decades, he has actively participated and provided his expertise in the design, construction, commissioning, testing and handover of numerous large water supply projects in Malaysia and overseas. Some of his notable achievements in Malaysia include the implementation of the first water Build-Operate-Transfer (BOT) project in Malaysia and the privatisation of the Greater Ipoh Water Supply Scheme (Phase II) involving sourcing, treatment and supply of water to Lembaga Air Perak. He also led the team in the Binh An Water Supply Project where SEB is a leading partner in the first operational water BOT project in the Republic Socialist of Vietnam.

He also provided leadership in the design and implementation of the first Integrated Dissolved Air Floatation System in Malaysia, utilising state-of-the-art technology in plant design as well as the largest sludge de-watering plant for the Johor River Water Supply Plant under the Public Utilities Board, Singapore.

Mr. Jaggit is also a Director of SEB.

Mr. Jaggit is a member of the Executive Committee and Risk Management Committee of the Company.

TAN SRI DATO' SERI MEGAT NAJMUDDIN BIN DATUK SERI DR. HJ MEGAT KHAS

Independent Non-Executive Director

Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas, aged 64, was appointed to the Board of Salcon on 21 July 2003.

He holds a Bachelor of Law (Hons) from the National University of Singapore.

Tan Sri Dato' Seri Megat Najmuddin was a member of the High Level Finance Committee of the Ministry of Finance and Capital Market Advisory Council of the Securities Commission. He was also a member of the 2nd National Economic Consultative Council and Bank Negara's Corporate Debt Restructuring Committee. He was a long time member of Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange) Listing Committee. He is now a member of the UMNO's Disciplinary Committee. In addition, he plays an active role in the Institute of Integrity Malaysia and Transparency International Malaysia. He now sits as a member of the Advisory Board of Malaysian Anti-Corruption Commission.

Tan Sri Dato' Seri Megat Najmuddin is prominent in the corporate sector and holds several important posts. He is the President of both of the Federation of Public Listed Companies Berhad and the Malaysian Institute of Corporate Governance, and the Non-Executive Chairman of Tradewinds Corporation Berhad, Asian Pac Holdings Berhad, Majuperak Holdings Berhad, Formis Resources Berhad (formerly known as MY-Info Tech (M) Berhad), SEG International Berhad, and sits as a Director of Dialog Group Berhad. He is also an Adjunct Professor of Law at the Universiti Utara Malaysia.

Tan Sri Dato' Seri Megat Najmuddin is a member of the Audit Committee of the Company.

DATO' DR. FREEZAILAH BIN CHE YEOM

Independent Non-Executive Director

Dato' Dr. Freezailah bin Che Yeom, aged 69, 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 forty (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.

Dato' Dr. Freezailah is currently the Chairman of the Malaysian Timber Certification Council. He is also a council member of the newly established Wawasan Open University College. 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 a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company.

HO TET SHIN

Independent Non-Executive Director

Mr. Ho Tet Shin, aged 58, was appointed to the Board of Salcon on 5 August 2005.

He is a member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Accountants, as well as a Fellow of the Institute of Chartered Accountants in England and Wales.

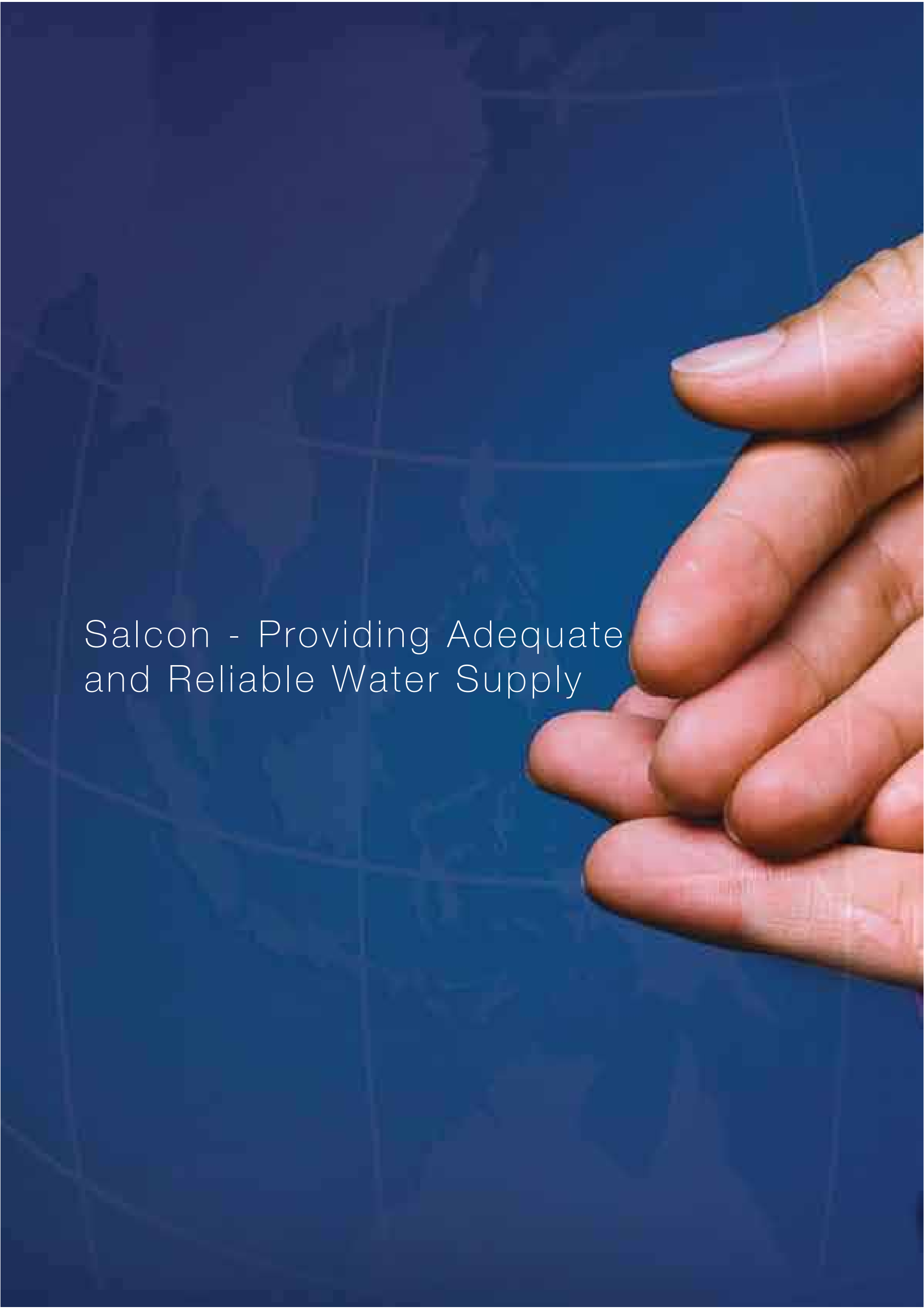
Mr. Ho started his accountancy training with KPMG London and qualified as a Chartered Accountant in 1974. He then joined KPMG Kuala Lumpur and played a leading role in its Receivership and Insolvency Department for two (2) years before he left to pursue a career in commerce and industry. He has since held senior management positions in a wide range of businesses, including manufacturing, banking, telecommunications and stock broking. His current interest is in the deployment of micro-algae based technologies for waste treatment and sustainable development.

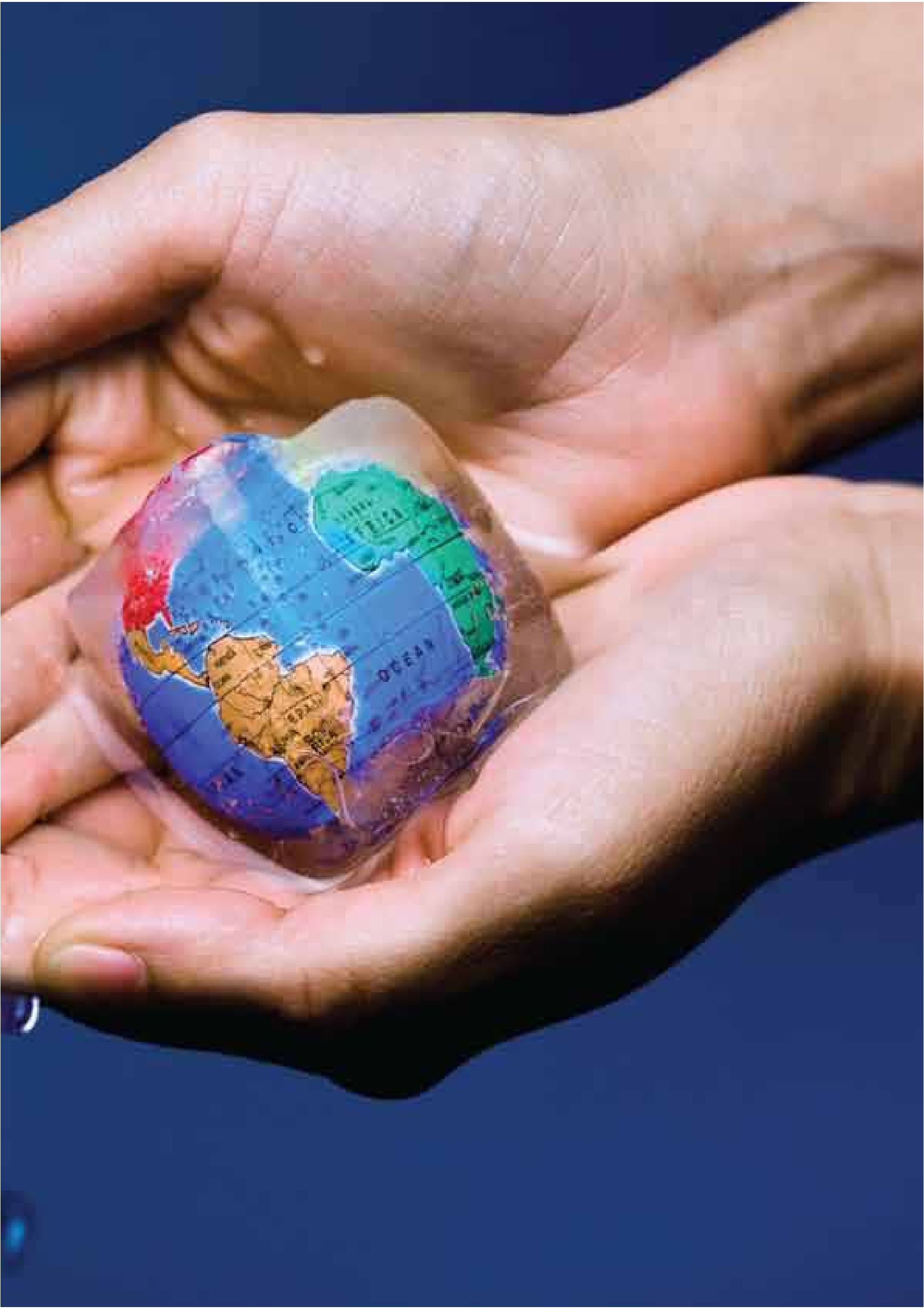
Mr. Ho is the Chairman of the Audit Committee and the Risk Management Committee and a member of the Remuneration Committee of the Company.

NOTES

1. *All Directors are Malaysian.*
2. *There is no family relationship between the Directors and/or major shareholders of the Company except for Dato' Seri Goh Eng Toon, who is a substantial shareholder of the Company by virtue of his interest in Naga Muhibah Sdn Bhd.*
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 ten (10) years.*

Salcon - Providing Adequate and Reliable Water Supply




OCEAN

chairman's message

"On behalf of the Board of Directors of Salcon Berhad, I have pleasure to present the annual report and the audited financial statements of Salcon Berhad for the financial year ended 31 December 2008."

View of Haining Water Treatment Plant, Zhejiang Province, People's Republic of China

The operating environment during the period under review has been a challenging one as fluctuations in commodity prices, coupled with the global sub-prime woes and the resulting financial crunch, has led to sluggish economic performances in many countries. Malaysia is not an exception.

FINANCIAL PERFORMANCE

Despite the challenging economic environment, 2008 was an excellent year resulting from contributions by all divisions of the Group which ended the year with record earnings. Indeed the Group recorded an impressive turnaround in performance. Group revenue climbed 88% to RM253 million while posting a profit before and after tax of RM16 million and RM12 million respectively. Earnings per share similarly improved to 1.91 sen from a loss of 2.29 sen last year.

The marked improvement of the financial results is attributable to the efforts of the Group in aggressively procuring projects over the past two (2) years which saw the Group's order book balloon to RM1.06 billion, a first in the Group's history! Notable projects secured during the period under review include the Kelantan Non Revenue Water project, Dong Tam project in Vietnam and Kelani Right Bank project in Sri Lanka.

The Group's balance sheet at end of December 2008 registered a significant improvement; shareholder funds increased to RM290 million and net asset per share climbed to 62 sen. The Group's cash/cash equivalents at the end of the financial year stood at RM186 million. Gearing is also maintained at a low leverage of only 0.56 times.

DIVIDENDS

As a consequence of the Group's strong growth in profits and positive cash flow, the Board is pleased to recommend the first and final dividend of 1 sen per ordinary share in respect of the financial year ended 31 December 2008, which comprises 0.67 sen per ordinary share, tax exempt and 0.33 sen per ordinary share less tax at 25%. This is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

Laying of new communication pipe from the new tapping point for the Kelantan Non Revenue Water Project

Laying of pipeline for Nhon Trach Project in Vietnam

Installation of treated water pumps in progress to increase pumping and treatment capacity of Sg. Terip Water Treatment Plant, Negeri Sembilan

Installation of 300mm diameter battery powered flow meter production measurement for Seremban Non Revenue Water works, Negeri Sembilan

Chlorine Scrubber at Kuala Jelai Water Treatment Plant, Negeri Sembilan

CORPORATE DEVELOPMENT

Disposals

The Group via its wholly owned subsidiary, Salcon Yunnan (HK) Ltd (SYHK) disposed of its 60% stake in Chenggong Salcon Water Co. Ltd (CSW) to Kunming Water Supply Group Co. Ltd. and recorded a gain of RM1.2 million and raised RM10 million in cash. The disposal was initiated due to the small plant capacity (20 mld water treatment plant) with restricted future expansion and located far away from our other investments in China. This enables the Group to refocus management and financial resources on other more lucrative opportunities in the People's Republic of China and elsewhere.

Aborted Acquisition

The rescission of the Share Sale Agreement to acquire Oriental Capital Assurance Berhad was confirmed in February 2009, after taking into consideration the on-going legal proceedings filed against the vendor, Maika Holdings Berhad, and the subsisting restraining order granted against Maika. Salcon is not named as a party in the proceedings.

INDUSTRY OUTLOOK

Looking forward, current trends in the global economic environment point to a challenging year ahead in 2009. A report by Malaysian Institute of Economic Research (MIER) stated that given the worsening external conditions, Malaysia's economy is expected to grow only 1.3% in 2009.

Nevertheless, the Group is confident that in the long term, regardless of economic cycles, the capital expenditure on water and wastewater infrastructure is set to happen. In all countries around the world, the sustainability and adequate development of water supply and sewerage infrastructure is a pre-requisite to economic development, poverty eradication and improvement of the quality of life of the people. Such investments are equally necessary to sustain industrial growth and economic development. This trend is evident in Malaysia where, under the 9th Malaysia Plan which spans from 2006-2010, construction of dams, water intakes,

Dong Tam Build-Own-Operate Water Works Project, Vietnam Ground Breaking Ceremony on 14 July 2008

water treatment plants and distribution systems will be undertaken and 219 projects amounting to RM8.101 billion has been approved for implementation. Similarly for sewerage projects a total budget of RM3.012 billion has been allocated for 11 new projects and 47 continuation projects.

Whilst the Water Service Industry Act 2006 and Suruhanjaya Perkhidmatan Air Negara Act 2006, Malaysia, are still very much at the infancy stage, these legislations and related initiatives are expected to bring tremendous benefits to the industry and consumers once fully implemented.

The Group believes that this institutional reform will help to establish a healthier and more orderly competitive environment. This is not only beneficial to the overall development of the water and sewerage industry in Malaysia, but will also contribute towards improving the management, operations and service quality of the Group. Salcon is well positioned to actively participate in such development.

Ground Breaking Ceremony of Changle Raw Water Project in Changle County, Shandong Province, People's Republic of China

PROSPECTS

Water and wastewater construction related projects continue to be the main focus of the Group. As at 31 December 2008, the Group's order book stands at an unprecedented RM1.06 billion with RM750 million balance of works to be carried out. Overseas projects contribute about 30% of the total order book. The Group has placed much emphasis in the tenders of sewerage and Non Revenue Water projects, which have exciting growth prospects. Todate, the Group has secured RM353 million worth of sewerage works and RM180 million of Non Revenue Water works.

In China, the Group had secured 5 water and 1 wastewater projects with a total investment of RM117 million and contributed a net profit of RM5.1 million, even in this infancy stage. The investment in China is to enable the Group to secure a sustainable income for the coming years.

The Group will continue to actively explore strategic investment opportunities in China to acquire quality water and sewage assets.

View of 8,000 m^3/day modular water treatment plant in Changle County, Shandong Province, People's Republic of China

View of Goa Ya Dam, source of water for Changle Water Treatment Plant, Changle County, Shandong Province, People's Republic of China

Changle Investment Promotion Symposium, March 2008

Laying of raw water pipelines for Nan An Raw Water Project in Fujian Province, People's Republic of China

The Group has established representative offices in Jakarta (Indonesia), Ho Chi Minh City (Vietnam) and Hyderabad (India) to tap into the tremendous opportunities available in these high population and high growth markets. The Group is also confident of securing projects in Thailand and Sri Lanka in the coming years.

In order for the Group to stay ahead of its competitors, an amount of 0.5% of yearly revenue has been set aside annually to fund Research & Development in new water and wastewater treatment processes. The Group strongly believes that membrane technology for water and wastewater treatment will be the future of our business. Through such technology we aspire to be a leader in this high end treatment process at affordable cost.

The Group remains cautiously optimistic on the prospects for 2009 and has taken proactive measures to sustain its outstanding performance in 2008. The Group's 4 pronged strategies to focus on the efficient execution of the balance of contract works, prudent cost cutting measures, aggressive pursuit of new construction projects and building recurrent income streams through strategic investments, are expected to fuel the Group's future growth.

With a strong management team, proven track record and barring any unforeseen circumstances, the Group is confident that it will be able to maintain and improve its growth and performance in 2009.

CORPORATE GOVERNANCE

As a responsible corporate citizen, Salcon is not only mindful but also implements projects taking into account international best practices and programmes encompassing issues on corporate governance, strategy, risk management, ethics, and the environment for the benefit of the various stakeholders, employees and community. Our Corporate Responsibility Report and Corporate Governance Statement is set out on pages 40 to 51 and pages 52 to 58 respectively. There were no sanctions, reprimands and/or penalties imposed on the Company or the Group, Directors or Management by the relevant authorities during the financial year.

View of clarifier tank and lime silo at Sg. Kinta Water Treatment Plant, Perak

Guided by the Group's policies on and commitment to Corporate Responsibility, the Group has, since 2002, embarked on the management and control of Non Revenue Water as a business, with the aim of reducing water losses and wastages, in a holistic and sustainable manner. In one of the Group's water concession projects in China, the Non Revenue Water rate was reduced from an average 32% to 8% within three (3) years of operation. Conscious of our responsibility to promote water conservation and sustainable development, the Group shared its findings and experience in pursuit of these objectives, by presenting papers at conferences. Training was also provided to our local and overseas staff and partners on measures to reduce water leakages.

ACKNOWLEDGEMENT

On behalf of Salcon Berhad Board of Directors, I would like to thank all the Group's employees for their hard work, dedication and support not only over the last year but throughout the years.

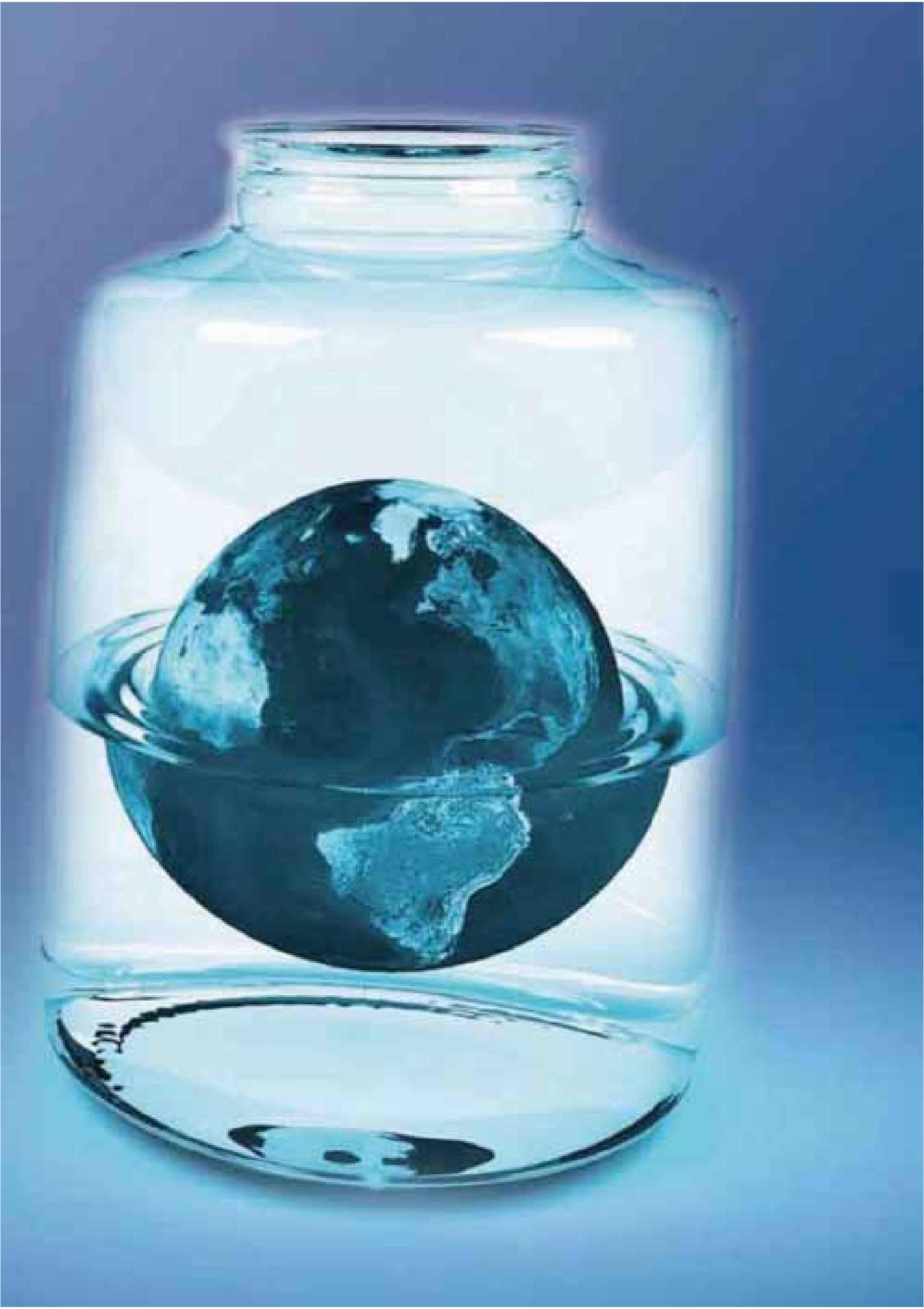
I also wish to take this opportunity to thank our shareholders, Government authorities and agencies, business partners, clients, financiers, and suppliers. All of you have contributed tremendously towards the success of the Group with your strong support.

Last but not least, I thank my fellow board members for their invaluable advice and contributions to the Group.

Rotary Drum Screen at Kuala Sawah Sewage Treatment Plant, Negeri Sembilan

Fifth Annual General Meeting of Salcon Berhad in 2008

Salcon - Ensuring Sustainability of Quality Water



The Group's core businesses are in the areas of Engineering & Construction, Concession Investments, Facilities Operation & Maintenance of water and wastewater works and Trading Services

View of Sedimentation Tank at Haining Water Treatment Plant, Zhejiang Province, People's Republic of China

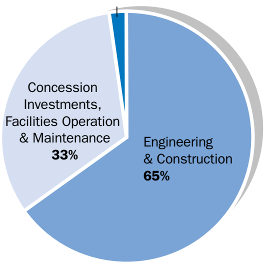
View of Changle Water Treatment Plant, Shandong Province, People's Republic of China

REVIEW OF OPERATIONS

The Group's core businesses are in the areas of Engineering & Construction, Concession Investments, Facilities Operation & Maintenance of water and wastewater works and Trading Services. Its current operations are spread across Malaysia, China, Vietnam, Indonesia, Sri Lanka and India.

The Engineering & Construction division retains its position as the Group's main growth driver contributing 65% of the Group's turnover for financial year ended 2008. This is followed by Concession Investments and Facilities Operation and Maintenance which contributed 33% to revenue and Trading Services, 2%.

Revenue Contribution By Division



Completed Dah Yeh Pump Station for Kota Kinabalu Sewerage Project, Sabah

Process unit of DAF Filter System at Sg. Kinta Water Treatment Plant, Perak

The Engineering & Construction division recorded a strong performance with revenues of RM164 million during the period under review. Contribution from this division is expected to increase further in the coming year as more and more projects are completed and further billings are recognized.

Laying of raw water pipelines to Changle Water Treatment Plant, Shandong Province, People's Republic of China

View of Sg. Terip Dam and Raw Water Intake, Negeri Sembilan

ENGINEERING & CONSTRUCTION

The Engineering & Construction division recorded a strong performance with revenues of RM164 million during the period under review. Contribution from this division is expected to increase further in the coming year as more and more projects are completed and further billings are recognized.

MALAYSIAN MARKET

Malaysia remains the Group's major market for the Engineering and Construction division. Major on-going projects in Malaysia include the Kota Kinabalu Sewage System project and Non Revenue Water Projects in Sandakan, Tawau, Lahad Datu, Seremban and Nilai.

During the review period, the Group clinched its largest Non Revenue Water project valued at RM130 million. The project which is to manage and reduce Non Revenue Water for the whole state of Kelantan, is to be completed in three (3) years by August, 2011 and is indeed another feather in the cap for the Group. Equipped with the latest technical know-how and equipment, the Group is able to identify and detect critical areas in Kelantan where water losses are high and to reduce these losses to an economic level.

Having successfully completed the Sandakan Non Revenue Water Reduction - Phase II project, the Group went on to win the Sandakan Non Revenue Water Plus project to manage and maintain the Non Revenue Water works already undertaken in earlier phases as well as to extend the project scope to include customer billing and collection for the client, Jabatan Air Sandakan, Sabah. This reflects the client's confidence in the Group's holistic approach in tackling Non Revenue Water issues.

In terms of wastewater projects, the Group's subsidiary, Envitech Sdn Bhd secured RM43 million worth of new contracts. Amongst its major projects are the design and construction of new sewerage facilities in Pulau Indah, Selangor valued at RM23.5 million.

Checking flow of meter in progress for Kelantan Non Revenue Water works

Cast in pipe installation works at Raw Water Pumping Station for Teriang Water Supply Package 2, Negeri Sembilan

The Group is also focused on further enlarging its presence in international construction to ensure that its income base is geographically diversified

Ozone Gas Tank at Haining Water Treatment Plant, Zhejiang Province, People's Republic of China

Clarifier at Kuala Sawah Sewage Treatment Plant, Negeri Sembilan

OVERSEAS MARKET

The Group is also focused on further enlarging its presence in international construction to ensure that its income base is geographically diversified. The countries in which the Group is active are Vietnam, Sri Lanka, Indonesia and India.

During the review period, the Group managed to secure 2 new projects valued at RM153 million i.e. the Dong Tam Build-Own-Operate Water Treatment Works Project, located in Vietnam and Kelani Right Bank 40 million gallons per day (MGD) Water Treatment Plant Project, located in Sri Lanka.

The Dong Tam Build-Own-Operate Water treatment works, valued at approximately RM64.86 million includes the design, building and commissioning of the Raw Water Pumping Station, Dong Tam Water Treatment Plant and Booster Pumping Station, with a capacity of 50,000 m^3/day, upgradeable to 90,000 m^3/day. When completed in about 18 months, the Dong Tam Build-Own-Operate Water treatment works which is located at Tien Giang province, will provide fresh drinking water for about 500,000 inhabitants in Go Cong Town and two local districts as well as to provide My Tho City with a supplementary water supply.

In Sri Lanka, the Group won its third and largest project to date, the Kelani Right Bank Water Treatment Project valued at RM221 million. The Group's portion of works corresponds to 40% of the total contract value i.e. approximately RM88.4 million. The project is funded by Danish International Development Agency (DANIDA), a Danish organisation within the Ministry of Foreign Affairs of Denmark and involves the design and construction of a 180,000 m^3/day (or 40 MGD) water treatment plant together with ancillary works at of Ambatale, Western Province of Sri Lanka. The health and living conditions in towns north of Colombo are expected to improve tremendously upon completion and construction of a proper water supply system.

The Group has also expanded its business to Indonesia with the opening of a representative office located Jakarta on April 2008. The Group looks forward to exploring good business opportunities there.

Flow measurement using ultrasonic meter for Kelantan Non Revenue Water works

Laying of pipelines for the Nan An Raw Water Transfer Project in Fujian Province, People's Republic of China

Changle Sewage Treatment Plant with capacity of 40,000 m^3/day in Shandong Province, People's Republic of China

Salcon Linyi Water Company Limited, Customer Service Centre in Shandong Province, People's Republic of China

Laying of 38km raw water pipelines in Changle, Shandong Province, People's Republic of China

India, with a population of around 1 billion people is a market with good growth prospects. The Group is rolling out its business expansion in India and has established a representative office there.

CONCESSIONS INVESTMENTS

Concession investments currently contribute 33% or RM83 million of the Group's turnover.

The Group's long term strategy to increase its recurring income base from this revenue source made good progress with the securing of a new concession in financial year ended 2008 i.e. Changle Raw Water Supply project with a total investment of RMB109 million.

Besides this, the Group has also expanded its existing Changle Water Treatment concession from current supply of 40 Million litres per day (MLD) to 100 MLD at a total investment of RMB100 million. These 2 concessions reflect the confidence which the Changle Government has in the Group and extends our long term partnership with them.

During the review period, the Group disposed of its concession in Chenggong for a cash consideration of RMB20.01 million (approximately RM10 million) in November 2008 and realised a gain of approximately RM1.2 million from the disposal. The disposal of the Chenggong concession has freed up cash of RMB20 million and allows the Group to invest in other more lucrative concessions.

Bio-oxidation tank at Haining Water Treatment Plant, Zhejiang Province, People's Republic of China

To date, the Group owns and operates 6 water and 1 wastewater concessions in the following areas:-

Project	Location	Capacity	Concession Period
Changle Water Treatment Plant	Changle County Shandong Province, China	100 MLD	50 years
Changle Sewage Treatment Plant	Changle County, Shandong Province, China	20 MLD – 40 MLD	50 years
Changle Raw Water Transfer Project	Changle County, Shandong Province, China	100 MLD	30 years
Nan An Raw Water Supply Project	Nanan City, Fujian Province, China	Phase 1 – 170 MLD Phase 2 – 175 MLD	30 years
Haining Water Treatment Plant	Haining City, Zhejiang Province, China	Phase 1 – 150 MLD Phase 2 – 150 MLD	30 years
Linyi Water Treatment Plant	Linyi City, Shandong Province, China	150 MLD	30 years
Binh An Water Supply Scheme	Ho Chi Minh City, Vietnam	100 MLD	20 years

Currently, the concessions with on-going construction works are Nan An Raw Water Supply works, the expansion of Changle Water Treatment project and laying of raw water pipelines for the Changle Raw Water project. The Group sees good growth potential upon the completion of these projects, scheduled between 2010 to 2011, which would see an increase in volume and supply capacity of our concession assets.

Nan An Raw Water Supply Project, Fujian Province, People's Republic of China pipe laying works in progress

Raw Water Intake of Changle Water Treatment Plant, Shandong Province, People's Republic of China

Lime Silo with a capacity of 100m³ each at Sg. Terip Water Treatment Plant, Negeri Sembilan

View of Kepis Water Treatment Plant, Negeri Sembilan

Asiawater 2008 Expo & Forum at Kuala Lumpur Convention Centre

FACILITIES OPERATIONS & MAINTENANCE

The Group will also focus on securing more Operation & Maintenance (O&M) contracts which also provide a long term recurrent income stream to the Group's earnings.

The Group provides long-term combined management services and solutions for water and wastewater treatment plants, which include operations & maintenance services for water treatment, storage, pumping and distribution facilities including plant start-up and commissioning, technical training, operations support, plant engineering and asset lifecycle management.

In Malaysia, the Group is involved in the management, operation and maintenance of Sg. Terip Water Treatment Plant, Kuala Jelai Water Treatment Plant and Kepis Water Treatment Plant in Negeri Sembilan which supply a total of 360,000 m³/day of potable water daily to Seremban, Senawang, Nilai, Mantin, Bahau, Kuala Pilah, Rompin and Tampin. The O&M contracts provide a long term recurrent income stream to the Group.

TRADING & SERVICES

The Group's wholly owned subsidiary, Salcon-Centrimax Engineering Sdn Bhd, markets a range of products and services. These include specialised engineering equipment and high precision components for use in industrial applications, trading of related water and wastewater pumping equipment and supply and installation of turbines to palm oil mills and will continue to do so to service existing clients.

Installation of surge vessel in progress to increase pumping and treatment capacity to Sg. Terip, Negeri Sembilan Water Treatment Plant

OUTLOOK FOR 2009

Against a backdrop of deteriorating world economy and worsening financial crisis, the Group will continue with its strategy of balancing construction projects against long term concession investments in water and wastewater infrastructure.

The Group's strategic goal is to maintain a balanced mix of income stream through construction projects which are inherently cyclical in nature and stable recurrent income from concession investments on a 60:40 ratio. The continued growth in our concession assets as well as operation and maintenance services will help achieve this goal.

Looking ahead, notwithstanding the prevailing economic conditions, the Group is confident that 2009 will be the second straight year of solid progress buoyed by a strong orderbook and a good project pipeline. More importantly, Salcon is on track to continue achieving steady growth through our strategy of emphasizing prudent investments in long term concessions balanced against shorter term engineering and construction projects.

Nevertheless, the Group remains cautious of potential and far-reaching effects of a global economic downturn. In these volatile times, the Group's has taken proactive strategies to be prudent in our expenditure, to focus on the efficient execution of the balance of works and to leverage on our reputation and track record to secure new projects and lucrative investments, both locally and overseas.

With a strong and experienced team as the backbone of the Group, we firmly believe that the ability of the Group to offer end to end water and wastewater solutions will greatly enhance our core competitiveness. We are full of passion about the future and look forward to create more value for our shareholders.

Sand V-Filter pipe gallery tank at Haining Water Treatment Plant, Zhejiang Province, People's Republic of China

Syphon Decanter installed at Canal City, Kuala Langat, Selangor

Salcon - Restoring the Ecological Landscape

corporate responsibility report

Gravity flow-based water intake at Sg Terip Water Treatment Plant, Negeri Sembilan

supplying clean water to all

1.0 ABOUT THIS REPORT

In line with the Salcon Group's Corporate Responsibility (CR) policy and statement of principles which was formulated in 2008, this report details Salcon's performance in the field of CR in 2008. The Group's CR policies not only serves to achieve our vision, mission and long term business objectives but also helps to define our strategy, identity and the way we do business.

In this report, we have identified 3 Key Performance Indicators (KPIs), i.e. Economy, Social and Environment to measure CR performance in Salcon Berhad in 2008 through the 4 main areas i.e. Workplace, Marketplace, Environment and Community. This report is based on information gathered from relevant divisions and departments i.e. Human Resources & Administration, Finance & Accounts, Safety, Health & Environment, Quality Assurance / Quality Control, Procurement and from Project Managers in the different regions where the Group operates.

The data in this report covers Salcon Berhad's subsidiaries in Malaysia, China and Vietnam.

2.0 MARKETPLACE

From a small engineering outfit in the 1970s, the Group has today, evolved into a well respected water and wastewater specialist in the industry. Having completed more than 800 projects locally and overseas, the Group devotes extensive efforts to ensure the sustainability and long term growth of our business.

The Group seeks to undertake its business operations in an environmentally and socially responsible manner that reflects the policies and principles of our responsibilities towards society and future generations. The Group's CR policy and principle statement are an important element of our business and serves as guidance for our decisions and actions in all aspects of works to generate valuable contribution on the company's efficiency, general reputation as well as commercial performance on long term basis.

Integrity and a high standard of ethics are fundamental to the Group's policy and operational procedures. Salcon aims to build an equitable and sustainable relationship with our various stakeholders i.e. clients, suppliers & sub-contractors, employees, investors, as well as local communities by being proactive, engaging and responsible.

Seremban Non Revenue Water Team on the go

In dealings with our various shareholders, we:

- conduct ourselves in a forthright and ethical manner
- are fair and considerate in all dealings
- maintain professional behavior in all relationships
- make only commitments we believe we can keep – and keep them
- respect the rights and dignity of all individuals
- comply with all relevant laws and regulations

Salcon Sandakan, Non Revenue Water Plus Service Centre, Sabah

OUR CORE VALUES:

- **Commitment**

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

- **Teamwork**

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

- **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.

2.1 ECONOMIC VALUE GENERATED & DISTRIBUTED

The creation and distribution of economic values in a responsible manner defines the Group's operations and long term objectives. The Group is keenly aware of the impact it has to everyone throughout the entire system of which it is part of and strives to protect stakeholders' interests with integrity, transparency and accountabilty.

Economic value to our principal stakeholders:

Economic Data - Group Level			
	2008	2007	2006
	RM('000)	RM('000)	RM('000)
Direct Economic Value Generated			
Revenue	252,501	134,600	121,290
Other income	10,226	3,848	1,917
Gross value generated	**262,727**	**138,448**	**123,207**
Economic Value Distributed to			
Our suppliers: operation costs	214,323	121,702	105,731
Our employees: salaries & benefits	25,242	21,300	18,459
Our Lenders: Payment to lenders (Finance cost)	9,513	5,530	4,679
The government: Payment to governments:			
Malaysia	3,826	973	-4,494
Outside Malaysia	314	363	25
The Rakyat: Community Investments	374	253	118
Net value added	9,135	-11,673	-1,311
Our shareholders: Payment to shareholders	-	-	-
Our Future: economic value retained	**9,135**	**-11,673**	**-1,311**

A Good Year

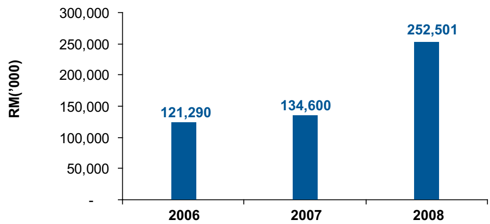
2008 was a good year for the Group, generating a gross economic value [based on Global Reporting Initiative (GRI) framework] of RM262.7 million, an increase of 90% compared to the previous year.

The economic value distributed by the Group amounted to RM 253.6 million in 2008. Cost of goods, materials and services purchased (RM214.3 million), employee wages and benefits (RM25.2 million), taxes and royalties to governments (RM4.1 million), and costs incurred to providers of capital (RM9.5 million) were the most significant components.

With the higher economic value generated, the Group's employees were also rewarded with higher compensation and benefits, which saw an increase of 19% in 2008 from 2007.

The economic value retained by the Group is RM9.1 million, a positive turnaround compared to the previous year.

Annual Group Revenues



The Group's annual net value added has improved from a negative of RM11.6 million to a positive of RM9.1 million. The Group did not receive any significant financial assistance from any national, regional or local governments of any of the countries where it operates.

Revenue by Region				
No.	**Revenue**	**2008 RM('000)**	**2007 RM('000)**	**2006 RM('000)**
1	Malaysia	163,046	95,427	88,577
2	Vietnam	12,483	1,266	2,325
3	China	56,526	33,485	23,341
4	Thailand	-	-	823
5	Sri Lanka	19,638	-	-
6	Indonesia	431	1,044	4,880
7	Others	377	3,378	1,344
	Total	**252,501**	**134,600**	**121,290**

2.2 PROCUREMENT POLICY

The Group views our suppliers and sub-contractors as key partners in making the Group's CR initiatives a success.

As an ISO 9001:2000 & ISO 14001: 2000 certified enterprise, the Group strictly adheres to the policies and procedures in place which help to ensure that our suppliers and sub-contractors are able to deliver quality services efficiently, and also operate in a socially responsible manner.

Qualified suppliers are given equal opportunities to participate in tendering and suppliers are awarded based on 5 primary factors:

- Quality
- Cost
- Reputation
- Meeting our technical specification
- Meeting our delivery request

A yearly evaluation is conducted as a benchmark to gauge the performance of suppliers and sub-contractors. The Group seeks to establish a long-term and mutually beneficial relationship with suppliers and sub-contractors who have good working track record and efficiency in delivering their products and services.

2.3 STAKEHOLDER ENGAGEMENT

The Group recognizes the importance of open, transparent and timely communication with our various stakeholders and is committed to the fair and timely disclosure of corporate information which helps build trust with our shareholders, and enhance our corporate standing.

The Group keeps under continuous review in order to improve our Investor Relations (IR) practices through interaction with the stakeholders and had engaged ShareInvestor.com Holding Pte Ltd as the agency to empower the investor relation section in Salcon official website. The new IR site provides our investors as well as potential investors a portal and channel to access updates and development of Salcon in a systematic way.

Salcon Berhad website

The Group also has a comprehensive website at www.salcon.com.my to enhance stakeholder communications. We also e-mail newsletters to over 400 people, including our institutional investors and people who have signed up on our website. The newsletter includes press releases on topics such as new products and services, and information on updates to our IR Website.

2.4 RESEARCH & DEVELOPMENT

Recognising the need to stay ahead of our competitors, the Group has set aside 0.5% of yearly revenue to be spent on Research & Development in new water and wastewater treatment processes to keep abreast with new technologies and development. The Group strongly believes that membrane treatment technology for water and wastewater will be the future of our business.

Through innovations and development of new technologies, the Group aims to protect the earth's resources environment and enhance the efficiency of our operations.

3.0 WORKPLACE

Water quality testing at Kuala Jelai Water Treatment Plant, Negeri Sembilan

Staying true to the Group's 4th core value of Respect – 'We respect our employees regardless of gender, race or religion and inspire them to be the best they can be', the Group respects the diversity of its employees and is committed to creating a corporate culture that encourages them be innovative and to constantly improve themselves.

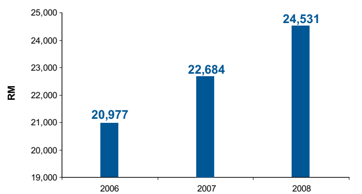
Technical discussion in progress

3.1 STAFF COMPENSATION & BENEFITS

The Group firmly believes that our employees are key assets for the Group to move forward and as a caring employer, we seek to ensure that our employees are well compensated in terms of competitive salaries and benefits in the form of health care, disability coverage, maternity/paternity leave, retirement provision, education assistance scheme, employee share option scheme etc.

For local staff, based on a survey by Malaysia Employer Federation (MEF), the Group's entry level salaries for technical and executive staff with recognized university degrees are between 2.8% to 4.7% above the average of the MEF survey. For staff holding Penilaian Menengah Rendah, Sijil Pelajaran Malaysia, vocational certification and diploma, entry level salaries are between 7.3% to 44.2% above average.

Salaries And Benefits Per Employee



Salaries and Benefits per employee show an increasing trend in line with the improved performance of the Group.

3.2 TRAINING & DEVELOPMENT

It is the Group's aim to create a workplace where our employees can develop their ability fully and achieve a rewarding and fulfilling career. In 2008, we invested RM168,590 in training and employee well-being.

The Group offers development opportunities to enable our employees to gain new skills for career advancement and personal growth. Various training courses are identified and cover all aspects of the Group's operations such as technical related courses as well as soft skills. External speakers are identified to conduct courses and some of the trainings provided in 2008 included technical skills training, leadership, contract administration, quality assurance, safety and health etc.

First Aid Training conducted from time to time

We are pleased to report that there are no instances of discrimination on grounds of race, colour, sex, religion, political orientation, national extraction or social origin in the workplace during the review period.

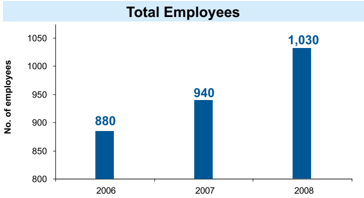
Performance evaluation serves as an important yardstick to gauge the performance of our employees. The Group conducts yearly performance evaluation of all employees regardless of job grading. The evaluation process provides an avenue for employees to have 2 way communications with their superior and forms a basis for the annual increment that employees receive every January. Based on the rating of the performance appraisal, the Group considers on the reward to be given to the employees. It also allows the Group to determine career development and training programmes for the employees.

3.3 NUMBER OF EMPLOYEES

As the number of employees grow yearly in tandem with the Group's business expansion beyond our national borders, our role as an employer has become more challenging in managing more than 1,000 employees in various regions such as Malaysia, China, Thailand, Vietnam, Sri Lanka and Indonesia.

Number of Employees			
Geographic Representation	**2008**	**2007**	**2006**
Malaysia	361	319	253
China	628	612	625
Thailand	2	2	2
Sri Lanka	17	6	-
Vietnam	21	-	-
Indonesia	1	1	-
Total	**1,030**	**940**	**880**

In 2008, the number of employees increased by nearly 10% due to manpower needs for new project operations in Sri Lanka and Vietnam.



3.4 WORK-LIFE BALANCE

We seek to balance the work life and leisure activities amongst the employees by organizing various kinds of events such as family day, movie day, company trip, annual dinner, sports etc. The purpose is to provide an avenue for the employees to bond with each other outside of the work sphere. Other than this, the regular in-house newsletter – Spotlight promotes employees communication and allow the employee to better know the Group's business strategy and directions.

China staff recreational activities

3.5 HEALTH & SAFETY

As a construction based company, health and safety issues are of paramount importance at the workplace. The Group is very proud to achieve the OHSAS 18000:1999 (Occupational Health & Safety Assessment Series) certification which is accredited by Bureau Veritas Certification in April 2008. The certification is a measure of the Group's commitment in ensuring a healthy and safe workplace for our employees and the general public.

OHSAS 18001
BUREAU VERITAS
Certification

Award of OHSAS 18001:1999 certification by Bureau Veritas Certification (M) Sdn Bhd.

The Group has in place comprehensive Safety, Health and Environmental policies and procedures which assists the various Safety & Health Management Review Committees to monitor, review and improve safety and health issues at Salcon. There are 45 members in total from Headquarters, Sg. Terip Plant, Kuala Jelai Plant, Seremban Non Revenue Water and Bukit Mandom. Meetings are held every 6 months at respective sites.

In 2008, the Group achieved 800,000 man-hours without Lost Time Injuries (LTI) at major sites such as Kota Kinabalu sewerage works, Seremban Non Revenue Water, O&M water treatment plant at Sg. Terip and Kuala Jelai and Bukit Mandom upgrading works.

Fire drill exercise at Sg. Terip, Negeri Sembilan

4.0 ENVIRONMENT

The Group's environmental policy is to minimize negative environmental impacts as well as to promote environmental conservation in its business operations. Where required by law, Environmental Impact Assessment (EIA) studies are conducted at project sites to ensure harmonious existence with the surrounding ecosystems.

In the context of the Group's core business of water and wastewater treatment, water conservation and efficiency is a key part of our corporate responsibility.

4.1 NON REVENUE WATER (NRW)

With increasing water scarcity around the globe, reducing leakages becomes ever more important for our customers, for the environment and for our business. By reducing NRW losses, the Group is able to delay the need of constructing new water treatment plants to produce treated water thus minimizing potential impacts on the environment and reducing pressure on scarce water resources.

By focusing our best people on reducing leakages and putting in place the necessary hardware and software required to identify and control leakages, losses can be reduced quickly thus assisting our customers and ourselves (as water concession owners) to reduce operational costs and increase efficiency. NRW is an effective way to reduce water wastage through leaks and make fresh drinking water supply sustainable in the long run.

A major cost component in water production is energy consumption. Reduction in losses also mean a reduction in energy consumption and the Group is exploring ways to generate carbon credits saved by a non-leaky distribution network. Studies are being done in developed countries to equate carbon credit to volume of water saved and we believe in the future, carbon credits can be redeemed for reducing NRW.

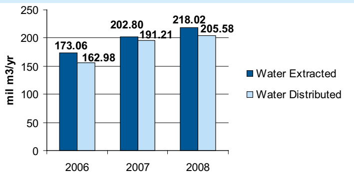
Non Revenue Water works in progress

Fixing of saddle and ferrule for new tapping point

4.2 WATER EXTRACTED & DISTRIBUTED

Total water extracted increased by 8% in 2008 compared to the previous year due to the completion of 1st phase of 150 MLD Water Treatment Plant project in Haining City, People's Republic of China in 2007. In tandem with the increase in extraction, total amount of water distributed also increased accordingly to meet water demand in Haining City.

Total Water Extracted and Distributed



Note: Data consolidated from the Sg Terip Water Treatment Plant, Kepis Water Treatment Plant, Kuala Jelai Water Treatment Plant, Linyi Water Treatment Plant, Changle Water Treatment Plant and Haining Water Treatment Plant

4.3 COST OF PRODUCING WATER

In the various concessions which the Group operates, we are committed to ensure that the operating efficiencies of the plants are optimized to improve sustainability. Planned preventive maintenance of plant equipment and machinery are implemented throughout the year to improve plant performance. Although there is a slight increase in the plant losses due to increased frequency of backwashing, the Group strives to keep plant losses to a minimum.

The amount of energy used to deliver 1 m^3 of water to our customers has reduced gradually over the past three (3) years recording 0.328 kWh in 2008.

There is a slight increase in the quantum of water lost during plant processing due to the increase in the total water extracted. In terms of percentage however, plant losses are kept to approximately 1% of total extracted. The Group will strive to keep such losses to a minimum.

Cost of Producing Water

To deliver 1 m^3 of water to a customer	2008	2007	2006
kWh of electricity used	0.328	0.330	0.339
m^3 of water lost from plant (plant losses)	2.95 mil	2.84 mil	3.41 mil

Note: Data consolidated from the Sg Terip Water Treatment Plant, Kepis Water Treatment Plant, Kuala Jelai Water Treatment Plant, Linyi Water Treatment Plant, Changle Water Treatment Plant and Haining Water Treatment Plant

4.4 DRINKING WATER QUALITY

During the year, we provided drinking water to over 2 million people. The Group is pleased to report that all plants are in compliance with the drinking water standards of the various countries which the Group operates in.

4.5 SCHEDULED WASTE

At project sites, pollution monitoring and waste management are of primary importance. Responsible personnel are required to present proper and detailed environment management documentation for inspection, regularly and on request as well as to ensure its successful implementation.

Scheduled waste is disposed off in an environmentally responsible manner via Kualiti Alam Malaysia, a renowned waste disposal and management service provider. For the past three (3) years, the total schedule waste i.e. used lubrication oil disposed by Sg. Terip, Kuala Jelai and Kepis water treatment plants is 347 kg.

Total Weight of Scheduled Waste Disposed at Sites

No.	Sites	2008(kg)	2007(kg)	2006(kg)
1	Sg. Terip	75	75	75
2	Kuala Jelai	30	45	25
3	Kepis	2	18	2
	Total	**107**	**138**	**102**

4.6 IN OUR OFFICE

Employees also play a significant role in protecting the environment for future generations. In order to encourage our employees to play an active part in fulfilling their responsibility towards the environment, a series of activities were implemented by the CR team to inculcate awareness on the impact of their actions towards the environment.

The activities include:

No.	Activities	Objective	Results
1	Let's Go Green - Recycling project 1: placing recycle bins at head office and project sites	To provide an avenue for employees to dispose recyclable items such as paper, aluminum and glass in workplace	Recycled 1385 kg of paper and 210 kg of bottles/aluminium within 4 months.
2	Let's Go Green - Recycling project 2: Environmentally friendly shopping bag for free distribution to all employees.	To reduce the consumption of plastic bags	Nearly 300 bags were distributed to all employees at different regions. An overwhelming response received from the staff and extra 171 bags were sold upon employees' request.
3	Save Electricity Contest: Attractive prizes were given to employees with the highest reduction in their electricity bills for 6 consecutive months via 2 categories i.e. individual and company.	To reduce unnecessary electricity consumption at home and office	Contestants were enthusiastic and participated fully to save electricity.
4	Essay Writing Contest: An essay writing contest entitled 'How to reduce the energy consumption from home to office' was organized for all employees.	To share the ideas of energy savings with each other.	Many ideas were generated from the contest. The implementation of the environmentally friendly shopping bag was derived from one of the ideas shared in the writing contest.

Let's Go Green-Recycling Project 1 - Recycle bins at head office and project sites

Let's Go Green-Recycling Project 2 - Environmentally friendly shopping bags

5.0 COMMUNITY

Community involvement offers the Salcon Group an opportunity to give something back to our local communities. We hope to contribute to the development of the society through active participation in volunteer activities.

5.1 SCHOOL CHILDREN EDUCATION PROGRAMME

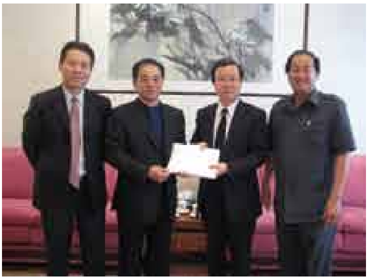
We firmly believe in fostering knowledge and awareness of water conservation from young especially amongst school-going children. Numerous educational visits are hosted at treatment plants in Negeri Sembilan throughout the year. A prominent one to highlight is a Water Treatment Plant Educational Visit organized in conjunction with World Water Monitoring Day™ (WWMD), with the support of Malaysia Water Association (MWA). 40 students and 2 teachers from Sekolah Kebangsaan Sri Kelana, Seremban, Negeri Sembilan participated in this event on 29 October 2008. The objective of the visit is to build awareness on water conservation amongst school children through basic water monitoring.

Student from Sekolah Kebangsaan Sri Kelana, Negeri Sembilan comparing the turbidity of water at Sg. Terip Water Treatment Plant.

Students holding World Water Monitoring Day Test Kits at Sg. Terip Water Treatment Plant

5.2 DONATIONS

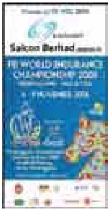
Throughout the year, we strive to give a hand to the people in need, giving nearly RM400,000 in donations during financial year ended 2008 to numerous charity organizations. On 12 May 2008, Salcon donated RMB50,000 to help out the quake victims who lost their homes and many loved ones in the earthquake which devastated Sichuan Province in China.



Salcon donates RMB50,000 to Sichuan Earthquake Fund at the China Embassy

5.3 PROMOTING SPORTS AND HEALTHY LIVING

With the objective of promoting sports and healthy living, Salcon supports sporting events through the sponsoring of the FEI World Endurance Championship 2008 in Terengganu which was held in November 2008 and Salcon Negeri Masters 2008 Invitational Golf Tournament in Negeri Sembilan which was held in July 2008.



Sponsorship of FEI world Endurance Championship 2008

salcon
NEGERI MASTERS 2008 INVITATIONAL

The winner of Salcon Negeri Masters 2008 Invitational - Mr Benjie Magada

5.4 SUPPORTING WATER RELATED EVENTS

We show our support for relevant water related events such as the 5th National Utilities Summit organized by Asian Strategic Leadership Institute or ASLI, which is a yearly event bringing together leading industry experts, decision makers, government officials from around the nation as the platform to exchange views on the Malaysian water industry. We are proud to be one of the main sponsors of this prestigious event.

A Sponsor at the National Utilities Summit 2008 organized by Asian Strategic Leadership Institute (ASLI)

As a sponsor in the Water Loss Asia 2008 Conference & Exhibition, the Group was given a speaking opportunity at the conference and had the chance to showcase our capabilities in Non Revenue Water management and control. The conference was held in July 2008 and was attended by many prominent leaders and movers in the water loss industry.

Salcon was proud to be one of the sponsors for the Water Loss Asia 2008

5.5. SHOWING CARE FOR THE UNDERPRIVILEGED

The Group continues to provide care and support to the underprivileged within the community with a contribution of RM100,000 to Persatuan Membantu Pesakit Kusta Malaysia (MaLRA) Negeri Kelantan. The amount will go towards alleviating the suffering of around 1,000 leprosy sufferers.

6.0 CONCLUSION

With its listing on the Main Board of the Bursa Malaysia Securities Berhad, in September 2003, Salcon has since evolved into a respected industry leader in the field of water and wastewater treatment and management, not only in Malaysia but also increasingly, in the regions. This has been achieved through painstaking project planning and implementation which ensures customer satisfaction in a competitive environment. Our proud track record is attributable to the dedication of our staff at all levels who work as a team.

Indeed, Salcon is ever mindful of its commitments to society as a responsible corporate citizen in sharing and caring with all our stakeholders with whom we have forged strong bonds of cooperation based on integrity, equity, transparency and respect. Salcon shareholders may expect their interests to be accorded utmost priority by the Group's management. Water is not only precious but essential to human survival and well-being. Sustainable supply of clean water is inextricably linked to environment factors and protection.

As outlined in this report, Salcon spares no efforts to plan and implement its projects in an environmentally friendly manner as much as possible. With resources allocated annually on research and development, Salcon continuously strives to move its frontiers ever deeper in the green territory of environmental care and protection in its operations.

Operation and maintenance work at Sg. Terip Water Treatment Plant, Negeri Sembilan

corporate governance statement

The Board of the Company continues to uphold its commitment to the highest standard of corporate governance in managing the affairs of the Group. This statement describes how the Group has applied the principles and best practices set out in the Malaysian Code on Corporate Governance (the Code) in protecting the interests of and enhancing shareholders' value throughout the financial year ended 31 December 2008.

PRINCIPLE A – BOARD OF DIRECTORS

Constitution of the Board and Board Balance

The Board, led by a Non-Executive Chairman is made up of five (5) members, comprising one (1) Executive Director and four (4) Non-Executive Directors. The number of independent directors is in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad (BMSB), which requires one third of the Board to comprise of independent directors. The profiles of the Directors are set out in Pages 16 to 17 of this Annual Report.

The Board's main roles are to create value for shareholders, provide leadership to the Group, endorse the Group's strategic objectives and ensure that all necessary financial and other resources are made available to enable those objectives to be achieved. Other key responsibilities of the Board include the principle responsibilities prescribed under the Best Practices Provision AA 1 in Part 2 of the Code. The Board's composition brings together a diverse wealth of business and financial experience and expertise to effectively discharge its stewardship responsibilities in spearheading the Group's growth and future direction.

There is clear segregation of responsibilities between the Non-Executive Chairman and the Executive Management to ensure a balance of power and authority. Generally, the Executive Directors and the Executive Committee are responsible for making and implementing operational and corporate decisions. Non-Executive Directors play a pivotal role in corporate accountability by providing unbiased and independent views in the sharing of knowledge and experience, towards the formulation of policies and in the decision-making process. Where a potential conflict of interest may arise, it is mandatory practice for the director concerned to declare his interest and abstain from the decision-making process.

Board Meetings

The Board meets every quarter to consider the quarterly financial results and operational performance of the Group. Additional meetings are convened as and when necessary with due notice of issues to be discussed. The proceedings and resolutions reached at each Board Meeting are recorded in the minutes of the meeting which are kept in the Minutes Book at the Company's registered office.

For the financial year ended 31 December 2008, the number of Board meetings held and the attendance of the Directors are listed below:

Directors	No. of Meetings Attended
Dato' Seri Goh Eng Toon (Chairman)	5/5
Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr. Haji Megat Khas	5/5
Dato' Dr. Freezailah bin Che Yeom	5/5
Ho Tet Shin	5/5
Jaggit Singh a/l Tara Singh	5/5

Directors' Trainings

All Directors are provided with the opportunity, and are encouraged, to attend training to keep them updated on relevant new legislations, best practices and financial reporting requirements. The Directors are also updated by the Company Secretary on any changes to legal and governance requirements of the Group. The training programmes attended by the Directors during the year, collectively or individually, included the following:

1. Norit Membrane Training

2. Tax Briefing by BDO Binder

All directors have attended the Mandatory Accreditation Programme conducted by Bursa Malaysia Training Sdn Bhd (formerly known as KLSE Training Sdn Bhd).

Access to Advice and Information

Board meetings are structured with a pre-set agenda, providing the Directors with relevant and timely information to enable them to discharge their duties and responsibilities. Board papers which provide updates on operational, financial and corporate developments are circulated in sufficient time to enable Directors obtain further explanation, where necessary, to facilitate informed decision-making.

Directors have access to all information within the Group and direct access to the advice and services of the Company Secretary, whether as a full Board or in their individual capacity. 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.

Board Committees

The Board has delegated specific responsibilities to six (6) committees, which operate within approved terms of reference, to facilitate their work. Notwithstanding the above, the ultimate responsibility for the final decision lies with the full Board. These committees are:

a) *Nomination Committee*

The membership of the Committee has not changed since the last report. The Board considers that the membership of the Committee is in compliance with the Code's recommendation. The Committee meets at least once a year or as required to, among others, review the optimal mix of qualifications, skills and experience of the Board, evaluation on the effectiveness of the whole Board, the various Committees and each individual Director's contribution to the effectiveness of the Board's decision making process and nominate and assess the candidates for appointment as directors.

The members are as follows:

Dato' Seri Goh Eng Toon (Chairman)

Dato' Dr. Freezailah bin Che Yeom

b) *Remuneration Committee*

The membership of the Committee has not changed since the last report. The Board considers that the membership of the Committee is in compliance with the Code's recommendation. The Committee meets at least once a year to deliberate on the remuneration framework and make recommendations to the Board on structuring Director's remuneration packages. The Executive Directors do not participate in decisions relating to their remuneration. The Board as a whole determines the remuneration of Non-Executive Directors with the Director concerned abstaining from participating in decisions in respect of his individual remuneration.

The members are as follows:

Dato' Seri Goh Eng Toon (Chairman)

Dato' Dr. Freezailah bin Che Yeom

Mr. Ho Tet Shin

c) *Executive Committee*

The membership of the Committee remains unchanged from the last report. The Executive Committee is responsible for implementing the decisions and policies approved by the Board.

The members are as follows:

Dato' Seri Goh Eng Toon (Chairman)

Mr. How See Hock

Mr. Jaggit Singh a/l Tara Singh

d) *Audit Committee*

The membership of the Committee has not changed since the last report. The Board considers that the membership of the Committee is in compliance with the Listing Requirements of BMSB and the Code's recommendation. The primary objective of the Committee is to assist the Board in fulfilling its responsibilities relating to the accounting and reporting practices of the Group. The terms of reference as well as the members of the Audit Committee are set out in Pages 60 to 62 of the Annual Report.

e) *Risk Management Committee*

The membership of the Committee has not changed since the last report. The Risk Management Committee is to oversee the implementation of risk management in the Group. The Committee reports directly to the Board and assists the Board in overseeing the management of risk factors. In addition, it reviews the efficacy of internal controls within the Company.

The members are as follows:

Mr. Ho Tet Shin (Chairman)

Mr. How See Hock

Mr. Jaggit Singh a/l Tara Singh

f) *ESOS Committee*

The Employees' Share Option Scheme (ESOS) Committee was responsible for administering the ESOS in accordance with By-Laws.

The members were as follows:

Mr. How See Hock

Mr. Jaggit Singh a/l Tara Singh

The ESOS has expired on 30 October 2008.

Re-election

All Directors will retire at regular intervals by rotation once at least every three years and they shall be eligible for re-election.

PRINCIPLE B - DIRECTORS' REMUNERATION

Details of the remuneration of Directors of the Company for the financial year ended 31 December 2008 are as follows:

1. Aggregate remuneration of the Directors categorised into appropriate components:

	Salary (RM)	Bonus (RM)	Fees (RM)	Meeting Allowances (RM)	Benefits in Kind (RM)	Statutory Contribution (RM)	Others (RM)	Total (RM)
Executive Director	346,212	26,964	-	-	10,200	44,856	-	428,232
Non-Executive Directors	-	-	135,000	20,000	-	-	-	155,000

2. Aggregate remuneration of each Director:

Directors	**RM'000**
Executive Director	
Jaggit Singh a/l Tara Singh	428
Non-Executive Directors	
Dato' Seri Goh Eng Toon (Chairman)	65
Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas	30
Dato' Dr. Freezailah bin Che Yeom	30
Ho Tet Shin	30

PRINCIPLE C - RELATIONSHIP WITH SHAREHOLDERS

Shareholders Communication and Investors Relation Policy

The Group recognises the need and importance of establishing a direct line of communication with shareholders and investors through timely dissemination of information on the Group's performance and major developments via appropriate channels of communication.

The Annual General Meeting (AGM) is viewed as an ideal forum to communicate with shareholders. Dissemination of information also includes the distribution of Annual Reports, relevant circulars, issuance of press releases and giving press conferences. The financial performance of the Group is communicated to the public via its quarterly report to the BMSB.

To further enhance transparency and communication with shareholders and all concerned, the Company established an internet website at www.salcon.com.my for the timely and wide dissemination of business related information for the benefit of all interested parties.

The Board has appointed Dato' Dr. Freezailah bin Che Yeom as the Senior Independent Non-Executive Director to whom shareholders' concerns may be conveyed.

Annual General Meeting

The AGM is the principal forum for communicating with shareholders. Henceforth, the Chairman and Board will take measures to encourage shareholders to attend and participate in an open discussion during the AGM. The Directors are available for questions, formally during the AGM and informally afterwards. Shareholders who are unable to attend are allowed to appoint not more than two (2) proxies, who need not be shareholders, to attend and vote on their behalf. Shareholders are given the opportunity to seek clarification on any matters pertaining to the affairs of the Company.

PRINCIPLE D - ACCOUNTABILITY AND AUDIT

Financial Reporting

In preparing the financial statements, the Directors have complied with Section 169(15) of the Companies Act, 1965 and applicable accounting standards in Malaysia so as to give a true and balanced view of the state of affairs and the result of the Company and the Group.

The Group presents its financial statements on an annual basis through its annual report and its interim results, every quarter via its submissions to the BMSB. The Audit Committee assists the Board in reviewing the information disclosed to ensure accuracy and adequacy.

Internal Control

The Internal Control Statement furnished on Pages 63 to 64 of the annual report provides an overview of the state of internal controls within the Group.

Relationship with Auditors

The Board through the establishment of an Audit Committee maintains a formal and transparent arrangement with the Company and the Group's auditors, both internal and external.

OTHER INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

Utilisation of Proceeds

The Renounceable Rights Issue was completed and the shares were granted listing and quotation on the Main Board of BMSB on 23 May 2007. The status of the utilisation of the proceeds as at 11 May 2009 is as follows:

	Proposed Revised Utilisation RM('000)	Actual Utilisation RM('000)	Unutilised / (Over) RM('000)
Working capital for the Sabah sewage system project	20,000	(16,131)	3,869
General working capital for the Group	79,978	(2,348)	77,630
Repayment of bank borrowings	19,000	(19,000)	-
Estimated expenses relating to the Rights Issue with Warrants	1,888	(1,913)	(25)
	120,866	**(39,392)**	**81,474**

The Private Placement of 42,520,000 new ordinary shares of RM0.50 each of the Company was issued at RM1.09 per share on 11 February 2008 and granted listing and quotation on the Main Board of the BMSB with effect from 19 February 2008. The status of utilisation of the proceeds raised from the Private Placement exercise as at 11 May 2009 is as follows:

	Proposed Utilisation RM('000)	Actual Utilisation RM('000)	Unutilised / (Over) RM('000)
Working capital for Nan An project	35,000	(31,012)	3,988
Repayment of bank borrowings	10,000	(10,000)	-
General working capital for Salcon Berhad and its subsidiaries	1,047	-	1,047
Estimated expenses relating to the Proposed Private Placement	300	(78)	222
Total	**46,347**	**(41,090)**	**5,257**

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 2008.

Non-audit Fee

Other than the following, there was no non-audit fees paid to the external auditors for the financial year ended 31 December 2008.

Auditor	Services	Amount Paid (RM)
KPMG	Professional Services in connection with the review of the Internal Control Statement	10,000

VARIATION IN RESULTS FOR THE FINANCIAL YEAR

The audited financial statements for the financial year ended 31 December 2008, contained in this Annual Report does not deviate by more than 10% from the unaudited results of the Group announced on 26 February 2009.

Share buybacks

The Company did not enter into any share buyback transactions during the financial year ended 31 December 2008.

Options, Warrants or Convertible Securities

The Company did not issue any Share Options, Warrants or Convertible Securities during the financial year ended 31 December 2008.

American Depository Receipt (ADR) or Global Deposit Receipt (GDR) Programme

The Company did not sponsor any ADR or GDR programmes during the financial year ended 31 December 2008.

Impositions of Sanctions / Penalties

There were no sanctions and / or penalties imposed on the Company and its subsidiaries, Directors or management by the relevant regulatory bodies.

Profit Guarantee

During the year, there were no profit guarantees given by the Company.

Revaluation Policy on Landed Properties

The Group revalue its property comprising land and building every 5 years and at shorter intervals whenever the fair value of the revaluated assets is expected to differ materially from their carrying value.

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 2008, 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, 1965. 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 Board Audit Committee of Salcon Berhad is pleased to present the Audit Committee Report for the financial year ended 31 December 2008.

MEMBERSHIP

The Audit Committee (the Committee) comprises of the following members:

Ho Tet Shin (Chairman)	Independent Non-Executive Director
Dato' Dr. Freezailah bin Che Yeom	Independent Non-Executive Director
Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas	Independent Non-Executive Director

MEETINGS

During the financial year ended 31 December 2008, five (5) meetings were convened, with details on the attendance of the members listed below:

Directors	No. of Meetings Attended
Ho Tet Shin (Chairman)	5/5
Dato' Dr. Freezailah bin Che Yeom	5/5
Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas	5/5

Representatives of the external auditors, Messrs. KPMG, Head of Internal Audit and Head of Finance and Accounts were also presented in the meetings to assist in the deliberations, where necessary.

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

SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

The activities carried out by the Committee during the financial year ended 31 December 2008 include, inter alia, the following:

- Reviewed the External Auditors' scope of work and audit plans for the year, prior to the commencement of their annual audit.
- Reviewed with the External Auditors, the results of the audit and major issues arising from the audit.
- Consideration and recommendation to the Board for approval of the audit fees payable to the External Auditors as disclosed in Note 21 to the financial statements.
- Reviewed the Statement of Internal Control and Report of Audit Committee and its recommendation to the Board for inclusion in the Annual Report.
- Reviewed the Internal Audit & Risk Management Department's resource requirements, programs and plans for the financial year under review as well as the plans for the financial year ending 31 December 2009.
- Reviewed the Summary of Pertinent Issues presented by the Internal Auditor on major findings, recommendations and management's responses. The Audit Committee also discussed management actions taken to improve the system of internal control based on improvement opportunities identified in the summary report.
- Reviewed and recommended the revised Terms of Reference of the Committee for approval of the Board.

- Reviewed and approved the revised Internal Audit Charter.
- Reviewed the Company's quarterly results and financial statements prior to submission to the Board.
- Reviewed the Company's compliance in particular the quarterly and year-end financial statements with the Listing Requirements of BMSB, Malaysian Accounting Standards Board (MASB) and other relevant legal and regulatory requirements.
- Reviewed pertinent issues of the Group which had a significant impact on the results of the Group which included enhancement and further investment in existing products and services offered, cost rationalization measures, reorganization of business units and human resource development.
- Reviewed the application of corporate governance principles and the extent of the Group's compliance with the best practices set out under the Code for the purpose of preparing the Statement of Internal Control pursuant to BMSB's Listing Requirements.
- Reviewed related party transactions entered into by the Group to ascertain that transactions are conducted at arm's length prior to submission to the Board.
- Noted the Minutes of the Risk Management Committee Meeting held during the financial year under review.

INTERNAL AUDIT FUNCTION

The Internal Audit & Risk Management Department plays a key role in undertaking independent, regular and systematic reviews of risk management, internal control and governance systems to provide the Group with reasonable assurance that the said systems are operating and will continue to operate satisfactorily and effectively. The internal audit function shall be performed in-house by the Internal Audit & Risk Management Department and its activities shall be independent from the management and operations of the Group.

It is the responsibility of the internal audit function to provide the Audit Committee with independent and objective reports on the state of risk management, control and governance processes pertaining to the various operating units within the Group, and the extent of compliance of the units with the Group's established policies, procedures and relevant statutory requirements.

Internal audit also plays its consultative and analytical roles by reviewing and recommending improvements to the risk management, internal control and governance processes, where appropriate.

TERMS OF REFERENCE

Composition

1. The Committee shall be appointed by the Board from amongst its Directors (except for alternate directors) who fulfills the following requirements:

   a. the audit committee shall comprise of no fewer than three (3) members;

   b. all members of the committee shall be non-executive directors, with a majority of them being independent directors; and

   c. at least one member of the audit committee:

      (i) must be a member of the Malaysian Institute of Accountants; or

      (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience, and:

aa. he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or

bb. he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.

(iii) shall fulfill such other requirements as prescribed or approved by BMSB.

2. The members of the Committee shall select a chairman from among their number who shall be an independent director.

3. The Board shall within three (3) months of a vacancy occurring in the Committee which result in the number of members reduced below three (3), appoint such number of new members as may be required to make up the minimum number of three (3) members.

4. The Board shall review the term of office and performance of the Committee and each of its members at least once every three years.

Rights

The Committee shall, in accordance with the procedure determined by the Board and at the cost of the Company:

a. have authority to investigate any matter within its terms of reference;

b. have the resources, which are required to perform its duties;

c. have full and unrestricted access to any information pertaining to the Company and Group;

d. have direct communication channels with the External and Internal Auditors, as well as employees of the Group;

e. be able to obtain independent professional or other advice; and

f. convene meetings with the external auditors at least twice a year, excluding the attendance of other Directors and employees of the Group.

Functions

The functions of the Committee shall include a review of the following:

a. the Management's compliance with laws, regulations, established policies, plans and procedures.

b. with the External Auditors, the scope of their audit plan, their evaluation of the system of internal control and the audit reports on the financial statements.

c. the adequacy of the scope, functions, competency and resources of the Internal Audit function and the authority necessary to carry out its work.

d. the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:

i. changes in major accounting policies;

ii. significant and unusual events;

iii. compliance with accounting standards and other legal requirements; and

iv. the going concern assumption.

e. the internal audit program, processes and the results of the internal audit work, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the Internal Audit function.

f. any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity.

g. the selection, remuneration, resignation or dismissal of the External Auditors.

h. any other matters as may be directed by the Board from time to time.

Meetings

Meetings of the Committee shall be held not less than four (4) times a year. The external auditors may request a meeting if they consider that one is necessary and shall have the right to appear and be heard at any meeting of the Committee. The Chairman shall convene a meeting whenever any member of the Committee requests for a meeting by giving not less than three (3) clear days notice thereof unless such requirement is waived by all members. Written notice of the meeting together with the agenda shall be given to the members and external auditor where applicable. However, consent from members who are overseas is not required. The quorum for a meeting for the Committee shall be two (2) provided always that the majority of members present must be independent directors.

Other Board members and employees may attend any particular meeting only at the Committee's invitation.

The Chairman shall not have a casting vote.

The Company Secretary shall be the Secretary of the Committee.

Reporting Procedures

The Secretary shall maintain minutes of the proceedings of the meetings of the Committee and circulate such minutes to all members of the Board. Key issues discussed shall be reported by the Chairman of the Committee to the Board.

internal control statement

Listing Requirements of Bursa Malaysia Securities Berhad (BMSB), Paragraph 15.27(b) requires the Board of Directors of Public Listed Companies to include an Internal Control Statement in their Annual Reports about the state of internal control in their companies as a group. The Malaysian Code on Corporate Governance (the Code) stipulates that the Board should maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets. In pursuance thereof and in accordance to the BMSB Statement on Internal Control: Guidance for Directors of Listed Companies, the Board is pleased to report to the shareholders the state of internal controls that affected the Group during the year under review.

BOARD RESPONSIBILITIES

The Board affirms the overall responsibility for maintaining a sound systems of internal controls and to review its adequacy and integrity so as to safeguard shareholders' investments and the Group's assets. The Group's systems of internal controls cover, inter alia, risk management, financial, operational, organizational, management information system and compliance controls. The systems of internal controls are designed to ensure that the risks facing the Group's businesses in pursuit of its objectives are continuously identified and managed at known and acceptable levels.

Due to the inherent limitations in any system of internal controls, these systems are designed to manage and thereby, to the maximum extent possible, mitigate, rather than to eliminate, the risk of failure to achieve its corporate objectives fully. Accordingly, these systems can only provide reasonable but not absolute assurance against material misstatement or loss.

RISK MANAGEMENT

The Board confirms that there is an embedded process for the ongoing identification, evaluation and reporting of the major business risks faced by the Group, excluding associated companies, during the financial year ended 31 December 2008 up to the date of the annual report and financial statements.

The Group has in place a Risk Management Committee to provide oversight function in the implementation and enforcement of the risk management process. Management from each business or operations area applies a risk/control assessment approach in identifying the risks relating to their area; the likelihood of these risks occurring; the consequences if they do occur and the actions being and/or to be taken to manage these risks to the desired level. The risk profiles and risk treatment measures determined from this process are documented in risk registers with each business or operations area having its respective risk register. The risk registers are compiled to form the Corporate Risk Register for reporting to the Risk Management Committee on a semi-annual basis. The overall process is facilitated by the Internal Audit & Risk Management Department who are dedicated to the role.

INTERNAL AUDIT FUNCTION

The Board complies with the Code (Part 2 - Best Practices in Corporate Governance), in setting up an internal audit function within the Group. As part of its key functions, the internal audit process reports directly to the Audit Committee to provide feedback regarding the adequacy and the integrity of the Group's systems of internal controls in managing its key risks.

The internal audit function reviews the key activities of the Group on the basis of an annual audit plan approved by the Audit Committee. The audit plan for the Group is prepared based on the direction given by the Audit Committee and the Corporate Risk Registers of the operating entities within the Group. The Audit Committee decides on the scope of the work to be carried out and reviews the 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 ensure that appropriate actions are taken to address internal control weaknesses highlighted. Subsequent to the reviews, the Audit Committee shall present its pertinent findings to the Board on a quarterly basis or as appropriate.

OTHER RISKS AND CONTROL PROCESSES

Salcon Engineering Berhad continues to be certified under the ISO9001:2000 and ISO14001:2004 quality and environmental management systems at the corporate office and at the project levels. These systems and their associate processes are consistently monitored by the Quality Assurance & Environment Department to ensure compliance with the ISO standards and to encourage continual improvements in environmental and quality performances for work activities undertaken at the project sites.

Further to the above, the Group also conforms to the Occupational Safety & Health OSHAS18001 (1994) requirements, with the development of a Corporate Safety & Health Manual and Procedures for implementation on project sites and the corporate office. As testimony to the Group's commitment in maintaining stringent safety work practices, a Safety & Health Policy Statement was established. These are periodically reviewed and updated by the Corporate Safety & Health Committee to continually improve the effectiveness of the Occupational Safety and Health Management System (OSHMS) adopted by the Group.

The Board has also put in place an organizational structure with formally defined lines of responsibility and delegation of authority, allowing internal checks and balances. The Group has also developed and distributed to its employees an Employee Handbook that highlights policies with respect to entitlements, benefits and conduct expected from them. As a form of preventive control and awareness on conflict of interest situation and to promote good employee conducts and ethics, the Group has developed and put in place, a policy on Code of Ethics and Conducts.

These policies and procedures are relevant to the Group and provide continuous assurance to the top management and the Board. The process is facilitated by internal audit, which provides a certain level of assurance on the operations and validity of the systems of internal controls. Quarterly updates of the financial results of the Group are reported to the Audit Committee and the Board. Regular management meetings, which involve the Chief Executive Officer and selected personnel, are held to promptly identify and address any issues encountered by the Group. Management, through the Audit Committee, is tasked to follow up and monitor the status of actions on recommendations made by the internal auditors. In addition, it can direct investigations in respect of any specific instances or events, which are deemed to have violated internal policies pertaining to confidentiality or financial impropriety, which has material impact on the Group.

WEAKNESSES IN INTERNAL CONTROLS THAT RESULT IN MATERIAL LOSSES

During the year under review, the Internal Audit & Risk Management Deparment has performed reviews on all major subsidiaries in Malaysia, project operations in Vietnam and Sri Lanka and three out of the four main subsidiaries in China. The Board confirms that the systems of internal controls are being properly implemented throughout the Group and continuous reviews are being carried out to ensure its adequacy and effectiveness. There were no major internal controls weaknesses detected which have a material impact on the Group's financial performance or operations.

Procedural and preventive control measures have and will continue to be enforced to strengthen the Group's internal control processes.

financial statements

director's report

for the year ended 31 December 2008

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2008.

Principal activities

The Company is principally an investment holding company, whilst the principal activities of the subsidiaries are as stated in Note 7 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

Results

	Group RM'000	Company RM'000
Profit attributable to:		
Shareholders of the Company	8,822	13,060
Minority interest	3,067	-
	11,889	13,060

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

No dividend has been paid or declared by the Company since the end of the previous financial year.

The first and final dividend of 1 sen per ordinary share recommended by the Directors in respect of the financial year ended 31 December 2008, which comprises 0.67 sen per ordinary share, tax exempt and 0.33 sen per ordinary share less tax at 25%, is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

Directors of the Company

Directors who served since the date of the last report are:

Dato' Seri Goh Eng Toon
Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas
Dato' Dr Freezailah bin Che Yeom
Jaggit Singh a/l Tara Singh
Ho Tet Shin

Directors' interests

The interests and deemed interests in the ordinary shares, options and warrants of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at 31 December 2008 (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 of RM0.50 each			
	At 1.1.2008	**Acquired**	**Disposed**	**At 31.12.2008**
The Company				
Direct Interest				
Dato' Dr Freezailah bin Che Yeom	50,400	-	-	50,400
Jaggit Singh a/l Tara Singh	3,490,000	-	-	3,490,000
Deemed interest				
Dato' Seri Goh Eng Toon	66,709,600	-	-	66,709,600
Ho Tet Shin	21,400	-	-	21,400
Integrated Water Services (M) Sdn. Bhd. (Subsidiary)				
Deemed interest				
Jaggit Singh a/l Tara Singh	2,800	-	-	2,800

		Number of options over ordinary shares of RM0.50 each			
	Option Price (RM)	**At 1.1.2008**	**Exercised**	**Lapsed**	**At 31.12.2008**
The Company					
Jaggit Singh a/l Tara Singh	1.28	840,000	-	(840,000)*	-

Particulars of the Directors' interest in the warrants during the financial year are as follows:-

	Number of Warrants 2007/2014			
	At 1.1.2008	**Acquired**	**Exercised/ Disposed**	**At 31.12.2008**
The Company				
Direct Interest				
Dato' Dr Freezailah bin Che Yeom	12,700	-	-	12,700
Jaggit Singh a/l Tara Singh	572,500	-	-	572,500
Deemed interest				
Dato' Seri Goh Eng Toon	16,704,800	-	-	16,704,800
Ho Tet Shin	10,700	-	-	10,700

* *The options have lapsed following the expiry of Employees' Share Option Scheme on 30 October 2008.*

None of the other Directors holding office at 31 December 2008 had any interest in the ordinary shares, options and warrants of the Company and of its related corporations 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 a benefit included in the aggregate amount of emoluments 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 apart from the issue of the Employees' Share Option Scheme ("ESOS") and Warrants 2007/2014. The ESOS has expired on 30 October 2008.

Issue of shares

During the financial year, the issued and paid-up share capital of the Company was increased from RM212,600,402 to RM233,860,402 by the issuance of 42,520,000 new ordinary shares of RM0.50 each at an issue price of RM1.09 per new ordinary share via private placement on 11 February 2008, raising additional capital amounting to RM46,346,800 for the Company.

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

Warrants 2007/2014

On 18 May 2007, the Company issued 106,022,701 free detachable warrants ("Warrants 2007/2014") pursuant to a renounceable rights issue of 212,045,402 new ordinary shares of RM0.50 each ("Rights Shares") to the entitled shareholders ("Rights Issue") on the basis of two (2) Rights Shares with one (1) Warrant 2007/2014 attached for every two (2) existing shares held.

Each Warrant 2007/2014 entitles the registered holder to subscribe for one (1) new ordinary share of RM0.50 each of the Company at any time on or after 18 May 2007 to 17 May 2014, at an exercise price of RM0.75 per share or such adjusted price in accordance with the provisions in the Deed Poll dated 12 April 2007. Any Warrants 2007/2014 not exercised during the exercise period will lapse and become void.

The shares arising from the exercise of Warrants 2007/2014 shall rank *pari passu* in all respects with the existing issued ordinary shares of the Company except that they shall not be entitled to any dividends, distributions or rights, the entitlement date of which is prior to the date of the allotment of the new shares arising from the exercise of Warrants 2007/2014.

In the previous financial year, 1,110,000 Warrants 2007/2014 were exercised at a subscription price of RM0.75 per ordinary share. The outstanding Warrants 2007/2014 remain unexercised at the end of the financial year amounting to 104,912,701.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the year apart from the issue of options pursuant to the Employees' Share Option Scheme ("ESOS").

The ESOS was implemented on 31 October 2003 for the benefit of the eligible employees (including Executive Directors) of the Salcon Berhad Group and was approved by the shareholders at an Extraordinary General Meeting held on 22 July 2003.

The exercise price and number of options over unissued shares of the Company had been adjusted on 14 May 2007 pursuant to Bye-Law 14 of the ESOS Bye-Laws following the Rights Issue.

Options granted over unissued shares (continued)

The options over unissued shares of the Company granted under the ESOS during the financial year were as follows:

		Number of options over ordinary shares of RM0.50 each			
Date of Offer	Exercise Price	At 1.1.2008	Exercised	Lapsed	At 31.12.2008
7.1.2004	RM1.28#	3,287,200#	-	(3,287,200)	-

#The option price and number of options had been adjusted following a renounceable rights issue of 212,045,402 new ordinary shares of RM0.50 each together with 106,022,701 free detachable warrants in 2007.

The salient features of the ESOS were as follows:

i) The maximum number of ordinary shares to be offered shall not exceed 10% of the issued and paid-up share capital of the Company at any point of time during the existence of the ESOS.

ii) Eligible employees are confirmed staff with at least one year service as at the date of offer including Executive Directors of any company comprised in the Group and employees under a fixed term employment contract for at least three years as at the date of offer.

iii) The options granted may be exercised in full or lesser number of ordinary shares provided that the number shall be in multiples of 100 shares.

iv) The option price for ordinary shares of RM0.50 each shall be at discount of not more than 10% from the five day weighted average market price of the shares immediately preceding the offer date of the option or at the par value, whichever is higher.

v) The scheme shall be in force for duration of five years to 30 October 2008 and it can be extended to another five years at the discretion of the Directors and the option committee.

vi) As at the date of offer, employees must not participate or have not been offered option(s) under any other ESOS implemented by any other member of the Salcon Group, which is in force for the time being.

The ESOS has expired on 30 October 2008.

Other statutory information

Before the income statements and balance sheets 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) all current assets have been stated at the lower of cost and net realisable value.

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 Group and in the Company financial statements 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, the results of the operations of the Group and of the Company for the financial year ended 31 December 2008 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 during the year

The significant events during the financial year are as disclosed in Note 31 to the financial statements.

Significant subsequent events

The significant subsequent events are as disclosed in Note 32 to the financial statements.

Auditors

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

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

…………………………………………………………..
Dato' Seri Goh Eng Toon

…………………………………………………………..
Jaggit Singh a/l Tara Singh

Kuala Lumpur

Date: 27 April 2009

balance sheets

at 31 December 2008

		Group		Company	
		2008	2007	2008	2007
	Note	RM'000	RM'000	RM'000	RM'000
Assets					
Property, plant and equipment	3	189,626	181,057	-	-
Intangible assets	4	13,854	10,969	-	-
Prepaid lease payments	5	29,037	32,328	-	-
Investment properties	6	4,720	2,068	-	-
Investments in subsidiaries	7	-	-	70,675	70,675
Investments in associate	8	29,541	35,148	-	-
Other investments	10	2,086	3,586	2,000	3,500
Deferred tax assets	11	4,921	6,159	-	-
Total non-current assets		273,785	271,315	72,675	74,175
Receivables, deposits and prepayments	12	236,138	108,770	214,682	97,514
Inventories	13	1,752	1,650	-	-
Current tax assets		354	879	2,202	-
Assets classified as held for sale	14	7,500	-	-	-
Cash and cash equivalents	15	185,628	117,832	104	68,869
Total current assets		431,372	229,131	216,988	166,383
Total assets		705,157	500,446	289,663	240,558
Equity					
Share capital		233,860	212,600	233,860	212,600
Reserves		67,721	30,917	57,217	32,208
Accumulated losses		(11,298)	(20,122)	(46,904)	(59,964)
Total equity attributable to shareholders of the Company	16	290,283	223,395	244,173	184,844
Minority interest		57,935	38,142	-	-
Total equity		348,218	261,537	244,173	184,844
Liabilities					
Loans and borrowings	17	74,165	124,189	-	45,000
Total non-current liabilities		74,165	124,189	-	45,000
Payables and accruals	19	194,205	91,955	490	482
Loans and borrowings	17	88,041	21,764	45,000	10,000
Current tax liabilities		318	592	-	232
Dividend payable		210	409	-	-
Total current liabilities		282,774	114,720	45,490	10,714
Total liabilities		356,939	238,909	45,490	55,714
Total equity and liabilities		705,157	500,446	289,663	240,558

The notes on pages 77 to 123 are an integral part of these financial statements.

income statements

for the year ended 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Revenue	20	252,501	134,600	10,571	627
Cost of sales		(196,777)	(98,203)	-	-
Gross profit		55,724	36,397	10,571	627
Other income		5,774	1,427	5,042	-
Distribution expenses		(4,065)	(2,608)	(3)	(3)
Administrative expenses		(34,650)	(27,953)	(559)	(3,953)
Other expenses		(4,447)	(7,538)	(1,500)	(1,000)
Loss on disposal of associated companies		-	(6,953)	-	-
Results from operating activities		18,336	(7,228)	13,551	(4,329)
Interest income		4,452	2,421	3,654	2,492
Finance costs		(9,513)	(5,530)	(3,397)	(4,196)
Operating profit/(loss)	21	13,275	(10,337)	13,808	(6,033)
Share of profit after tax of equity accounted associates		2,754	5,199	-	-
Profit/(Loss) before tax		16,029	(5,138)	13,808	(6,033)
Tax expense	23	(4,140)	(1,336)	(748)	(511)
Profit/(Loss) for the year		11,889	(6,474)	13,060	(6,544)
Attributable to:					
Shareholders of the Company		8,822	(7,841)	13,060	(6,544)
Minority interest		3,067	1,367	-	-
Profit/(Loss) for the year		11,889	(6,474)	13,060	(6,544)
Basic earnings/(loss) per ordinary share (sen)	24	1.91	(2.29)		

The notes on pages 77 to 123 are an integral part of these financial statements.

statements of changes in equity

for the year ended 31 December 2008

Group	Note	Share capital RM'000	Share premium RM'000	Warrant reserve RM'000	Translation reserve RM'000	Revaluation reserve RM'000	Accumulated losses RM'000	Total RM'000	Minority interest RM'000	Total equity RM'000
		Attributable to Shareholders of the Company								
					Non-distributable					
At 1 January 2007		106,023	19,011	-	(24)	18	(12,281)	112,747	37,735	150,482
Foreign exchange translation differences		-	-	-	(1,437)	-	-	(1,437)	(895)	(2,332)
Revaluation of property, plant and equipment		-	-	-	-	152	-	152	102	254
Net gains recognised directly in equity		-	-	-	(1,437)	152	-	(1,285)	(793)	(2,078)
Loss for the year		-	-	-	-	-	(7,841)	(7,841)	1,367	(6,474)
Total recognised income and expense for the year		-	-	-	(1,437)	152	(7,841)	(9,126)	574	(8,552)
Issuance of shares										
- rights issue		106,022	14,843	-	-	-	-	120,865	-	120,865
- exercise of Warrants 2007/2014		555	278	-	-	-	-	833	-	833
Rights issue expenses		-	(1,913)	-	-	-	-	(1,913)	-	(1,913)
Exercise of Warrants 2007/2014 expenses		-	(11)	-	-	-	-	(11)	-	(11)
Issuance of shares by a subsidiary to minority shareholders		-	-	-	-	-	-	-	640	640
Dividends to minority interest		-	-	-	-	-	-	-	(807)	(807)
At 31 December 2007, as previously reported		212,600	32,208	-	(1,461)	170	(20,122)	223,395	38,142	261,537
Allocation of reserves on issuance of Warrants 2007/2014	16	-	(22,384)	22,384	-	-	-	-	-	-
Exercise of Warrants 2007/2014	16	-	234	(234)	-	-	-	-	-	-
At 31 December 2007, as restated		212,600	10,058	22,150	(1,461)	170	(20,122)	223,395	38,142	261,537
At 31 December 2007, as restated/ 1 January 2008		212,600	10,058	22,150	(1,461)	170	(20,122)	223,395	38,142	261,537
Foreign exchange translation differences		-	-	-	10,446	-	-	10,446	4,780	15,226
Realisation of property, plant and equipment		-	-	-	-	(20)	2	(18)	-	(18)
Net gains recognised directly in equity		-	-	-	10,446	(20)	2	10,428	4,780	15,208
Profit for the year		-	-	-	-	-	8,822	8,822	3,067	11,889
Total recognised income and expense for the year		-	-	-	10,446	(20)	8,824	19,250	7,847	27,097
Issuance of shares										
- private placement		21,260	25,087	-	-	-	-	46,347	-	46,347
Private placement expenses		-	(78)	-	-	-	-	(78)	-	(78)
Acquisition of subsidiary		-	-	-	-	-	-	-	17,038	17,038
Realisation of reserves on disposal of subsidiary		-	-	-	1,369	-	-	1,369	(4,333)	(2,964)
Dividends to minority interest		-	-	-	-	-	-	-	(759)	(759)
At 31 December 2008		233,860	35,067	22,150	10,354	150	(11,298)	290,283	57,935	348,218

statements of changes in equity
for the year ended 31 December 2008 *(continued)*

Company	Share capital RM'000	Share premium RM'000	*Non-distributable* Warrant reserve RM'000	Accumulated losses RM'000	Total equity RM'000
At 1 January 2007	106,023	19,011	-	(53,420)	71,614
Issuance of shares					
- rights issue	106,022	14,843	-	-	120,865
- exercise of Warrants 2007/2014	555	278	-	-	833
Rights issue expenses	-	(1,913)	-	-	(1,913)
Exercise of Warrants 2007/2014 expenses	-	(11)	-	-	(11)
Loss for the year	-	-	-	(6,544)	(6,544)
At 31 December 2007, as previously reported	212,600	32,208	-	(59,964)	184,844
Allocation of reserves on issuance of Warrants 2007/2014	-	(22,384)	22,384	-	-
Exercise of Warrants 2007/2014	-	234	(234)	-	-
At 31 December 2007, as restated/1 January 2008	212,600	10,058	22,150	(59,964)	184,844
Issuance of shares					
- private placement	21,260	25,087	-	-	46,347
Private placement expenses	-	(78)	-	-	(78)
Profit for the year	-	-	-	13,060	13,060
At 31 December 2008	233,860	35,067	22,150	(46,904)	244,173
	Note 16	Note 16	Note 16		

The notes on pages 77 to 123 are an integral part of these financial statements.

cash flow statements

for the year ended 31 December 2008

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash flows from operating activities				
Profit/(Loss) before tax	16,029	(5,138)	13,808	(6,033)
Adjustments for:				
Unrealised (gain) / loss on foreign exchange	(187)	90	(5,042)	3,564
Amortisation of intangible assets	213	270	-	-
Amortisation of prepaid lease payments	2,048	814	-	-
Depreciation of property, plant and equipment	10,377	6,309	-	-
Dividend income	-	-	(10,571)	(627)
Finance costs	9,513	5,530	3,397	4,196
Loss on disposal of associated companies	-	6,953	-	-
Gain on disposal of a subsidiary	(1,225)	-	-	-
Gain on disposal of property, plant and equipment	(2,519)	(18)	-	-
Interest income	(4,452)	(2,421)	(3,654)	(2,492)
Allowance for diminution in value of investments	1,500	1,018	1,500	1,000
Impairment loss of property, plant and equipment, net of revaluation reserve	2,198	-	-	-
Change in fair value of investment property	-	250	-	-
Share of profit of equity accounted associates	(2,754)	(5,199)	-	-
Share of loss of jointly controlled entities	-	47	-	-
Property, plant and equipment written off	-	189	-	-
Operating profit/(loss) before changes in working capital:	30,741	8,694	(562)	(392)
Receivables, deposits and prepayments	(122,238)	(25,199)	(104,626)	(32,301)
Inventories	(165)	(193)	-	-
Payables and accruals	109,328	13,645	8	117
Cash generated from/(used in) operations	17,666	(3,053)	(105,180)	(32,576)
Interest paid	(9,513)	(5,530)	(3,397)	(4,196)
Income taxes (paid)/refunded	(2,651)	267	(682)	(258)
Net cash generated from/(used in) operating activities	5,502	(8,316)	(109,259)	(37,030)
Cash flows from investing activities				
Acquisition of property, plant and equipment	(22,906)	(68,254)	-	-
Acquisition of investment properties	(102)	-	-	-
Acquisition of subsidiary, net of cash acquired	3,937	-	-	-
Disposal of subsidiary, net of cash disposed	(50)	-	-	-
Prepayment of prepaid lease term	(391)	(17,608)	-	-
Dividends received form				
- Associated company	8,361	4,201	-	-
- Subsidiary	-	-	571	627
Interest received	4,452	2,421	3,654	2,492
Proceeds from disposal of associates	-	24,315	-	-
Proceeds from disposal of property, plant and equipment	7,112	138	-	-
Net cash generated from/(used in) investing activities	413	(54,787)	4,225	3,119

cash flow statements
for the year ended 31 December 2008 *(continued)*

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash flows from financing activities				
Dividends paid to minority shareholders	(958)	(602)	-	-
Proceeds from issuing of equity shares in a subsidiary to minority shareholders	-	640	-	-
Net proceeds from issue of share capital	46,269	119,774	46,269	119,774
Proceeds from borrowings	42,904	66,616	-	-
Repayment of borrowings	(29,028)	(26,987)	(10,000)	(17,000)
Payment of finance lease liabilities	(666)	(211)	-	-
Net cash from financing activities	58,521	159,230	36,269	102,774
Exchange differences on translation of the financial statements of foreign entities	1,983	394	-	-
Net increase/(decrease) in cash and cash equivalents	66,419	96,521	(68,765)	68,863
Cash and cash equivalents at 1 January	116,306	19,318	68,869	6
Effect of exchange rate fluctuations on cash held	1,982	467	-	-
Cash and cash equivalents at 31 December	184,707	116,306	104	68,869

Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Deposits placed with licensed banks	131,745	91,234	-	68,600
Cash and bank balances	53,883	26,598	104	269
Bank overdrafts	(921)	(1,526)	-	-
	184,707	116,306	104	68,869

Acquisition of property, plant and equipment

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM24,410,000 (2007 - RM69,815,000), of which RM1,504,000 (2007 - RM1,561,000) were acquired by means of finance leases.

The notes on pages 77 to 123 are an integral part of these financial statements.

Salcon Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Board 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 year ended 31 December 2008 comprise the Company and its subsidiaries and the Group's interest in associates and / or jointly controlled entities. The financial statements of the Company as at and for the year ended 31 December 2008 do not include other entities.

The Company is principally engaged in investment holding activities, whilst the principal activities of the subsidiaries are as stated in Note 7 to the financial statements.

The financial statements were approved by the Board of Directors on 27 April 2009.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group have been prepared in accordance with Financial Reporting Standards (FRSs), generally accepted accounting principles and the Companies Act, 1965 in Malaysia.

The Group has not applied the following accounting standards (including its consequential amendments) and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective:

FRSs / Interpretations	**Effective date**
FRS 4, *Insurance Contracts*	1 January 2010
FRS 7, *Financial Instruments: Disclosures*	1 January 2010
FRS 8, *Operating Segment*	1 July 2009
FRS 139, *Financial Instruments: Recognition and Measurement*	1 January 2010
IC Interpretation 9, *Reassessment of Embedded Derivatives*	1 January 2010
IC Interpretation 10, *Interim Financial Reporting and Impairment*	1 January 2010

The Group plans to apply the abovementioned FRSs / Interpretations that are applicable to the Group from the annual period beginning 1 January 2010.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The impact of applying FRS 7 and FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors* is not disclosed by virtue of the exemptions given in the respective FRSs. The initial application of the other standards (and its consequential amendments) and interpretations that are applicable to the Group is not expected to have any material impact on the Group's financial statements.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following as explained in the accounting policy note:

- Property, plant and equipment
- Investment properties

(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 has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements 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 estimate is revised and in any future periods affected.

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

- Note 11 - recognition of unutilised tax losses
- Note 2(r) - contract revenue
- Note 4 - measurement of the recoverable amounts of cash generating units
- Note 3 - revaluation of property, plant and equipment
- Note 6 - valuation of investment properties
- Note 12 - valuation of recoverability and allowance of debtors

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.

2. Significant accounting policies (continued)

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are consolidated using the purchase method of accounting.

Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(ii) Associates

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

Associates are accounted for in the consolidated financial statements using the equity method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated financial statements include the Group's share of the income and expenses of the equity accounted associates, after adjustments 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 equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil 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 investee.

Investments in associates are stated in the Company's balance sheet at cost less any impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(iii) Joint ventures

Jointly-controlled entities

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Joint ventures are accounted for in the consolidated financial statements using the equity and/or proportionate consolidation method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) Joint ventures (continued)

Under the equity method, the consolidated financial statements include the Group's share of the income and expenses of the equity accounted joint ventures, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

Under the proportionate consolidation method, the consolidated financial statements include the Group's share of assets, liabilities, income and expenses of the jointly controlled entities, after adjustments where necessary to align their accounting policies with those of the Group, from the date joint control commences until the date that joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted joint venture, the carrying amount of that interest (including any long-term investments) is reduced to nil 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 joint venture.

Investments in joint ventures are stated in the Group's balance sheet at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Jointly-controlled operation and assets

The interest of the Company and of the Group in unincorporated joint ventures and jointly-controlled assets are brought to account by recognising in the financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(iv) Changes in Group composition

Where a subsidiary issues new equity shares to minority interests for cash consideration and the issue price has been established at fair value, the reduction in the Group's interests in the subsidiary is accounted for as a disposal of equity interest with the corresponding gain or loss recognised in the income statement.

When a group purchases a subsidiary's equity shares from minority interests for cash consideration and the purchase price has been established at fair value, the accretion of the Group's interests in the subsidiary is accounted for as a purchase of equity interest for which the acquisition method of accounting is applied.

The Group treats all other changes in group composition as equity transactions between the Group and its minority shareholders. 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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(v) Minority interest

Minority interest at the balance sheet date, being the portion of the net identifiable assets / net assets (excluding goodwill) of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interest in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interest and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated with all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(vi) 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 investees are eliminated against the investment to the extent of the Group's interest in the investee. 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 the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the dates of the transactions except for those that are measured at fair value, which 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 the income statements.

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

The assets and liabilities of operations in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the balance sheet date, except for goodwill and fair value adjustments arising from business combinations before 1 January 2006 which are reported using the exchange rates at the dates of the acquisitions. The income and expenses of foreign operations, are translated to RM at exchange rates at the dates of the transactions.

Foreign currrency differences are recognised in translation reserve. On disposal, accumulated translation differences are recognised in the consolidated income statement as part of the game or loss on sale.

2. Significant accounting policies (continued)

(b) Foreign currency (continued)

(iii) Net investment in foreign operations

Exchange differences arising from monetary items that in substance form part of the Company's net investment in foreign operations, are recognised in the Company's income statement. Such exchange differences are reclassified to equity in the consolidated financial statements. Deferred exchange differences are recognised in the consolidated income statement upon disposal of the investment.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost / valuation less accumulated depreciation and impairment losses.

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

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" or "other expenses" respectively in the income statements. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

Property, plant and equipment under the revaluation model

The Group revalues its property comprising land and building every 5 years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statements.

2. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing part 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 and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statements as incurred.

(iii) Depreciation

Depreciation is recognised in the income statements on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. 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:

- buildings 30 - 50 years
- plant and machinery 5 - 50 years
- motor vehicles 5 - 8 years
- fixtures and fittings 10 years
- office equipment 5 years

Depreciation methods, useful lives and residual values are reassessed at the balance sheet date.

(d) Leased assets

(i) Finance lease

Leases in terms of which the Group 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.

2. Significant accounting policies (continued)

(d) Leased assets (continued)

(ii) Operating lease

Other leases are operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the Group's balance sheet.

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments.

Certain leasehold land were revalued in July 2001 and the Group has retained the unamortised revalued amount as the surrogate carrying amount of prepaid lease payments in accordance with the transitional provision in FRS 117.67A when it first adopted FRS 117, *Leases* in 2006.

Payments made under operating leases are recognised in the income statements on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(e) Intangible assets

(i) Goodwill

Goodwill arises on business combinations and is measured at cost less any accumulated impairment losses.

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

For business acquisitions beginning from 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in income statement.

(ii) Other intangible assets

Intangible assets, other than goodwill, that are acquired by the Group are stated 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.

(iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

2. Significant accounting policies (continued)

(e) Intangible assets (continued)

(iv) Amortisation

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that they may be impaired.

Intangible assets are amortised from the date that they are available for use. Amortisation of intangible assets is charged to the income statements on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful live is as follows:

- intangible assets 30 - 50 years

(f) Investments in debt and equity securities

Investments in debt and equity securities are recognised initially at fair value plus attributable transaction costs.

Subsequent to initial recognition:

- Investments in non-current equity securities other than investments in subsidiaries, associates and jointly-controlled entities, are stated at cost less allowance for diminution in value,
- Investments in non-current debt securities are stated at amortised cost using the effective interest method less allowance for diminution in value,
- All current investments are carried at the lower of cost and market value, determined on an aggregate portfolio / individual investment basis by category of investments.

Where in the opinion of the Directors, there is a decline other than temporary in the value of non-current equity securities and non-current debt securities other than investment in subsidiaries, associates and jointly-controlled entities, the allowance for diminution in value is recognised as an expense in the financial year in which the decline is identified.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

All investments in debt and equity securities are accounted for using settlement date accounting. Settlement date accounting refers to:

a) the recognition of an asset on the day it is received by the entity, and

b) the derecognition on an asset and recognition of any gain or loss on disposal on the date it is delivered.

2. Significant accounting policies (continued)

(g) Investments 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. These include land held for a currently undetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in the income statements.

(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 a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statements. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the income statements.

(iii) Determination of fair value

An external, independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Company’s investment property portfolio every year.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, where appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market’s general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Company and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and where appropriate counter-notices have been served validly and within the appropriate time.

Significant assumptions in arriving at the fair value of investment properties are disclosed in note 6.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost and includes expenditure incurred in acquiring the inventories and 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.

2. Significant accounting policies (continued)

(i) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

(j) Non-current assets held for sale

Non-current assets (or disposal groups 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 Company's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to investment property, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

(k) 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 billing 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.

Construction work in progress is presented as part of receivables, deposits and prepayments in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

(l) 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 value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

(m) Impairment of assets

The carrying amounts of assets except for financial assets / inventories / assets arising from construction contracts / deferred tax assets / investment properties that is measured at fair value are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

2. Significant accounting policies (continued)

(m) Impairment of 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 to sell. 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. 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 groups of assets (the “cash-generating unit”). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Impairment losses are recognised in the income statements. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of 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 each reporting date 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. 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 the income statements in the year in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus. Where an impairment loss on the same revalued asset was previously recognised in the income statements, a reversal of that impairment loss is also recognised in the income statements.

(n) Equity instruments

All equity instruments are stated at cost on initial recognition and are not re-measured subsequently.

Shares issue expenses

Incremental costs directly attributable to issue of shares and share options classified as equity are recognised as a deduction from equity.

Warrant reserve

Free warrants with rights issue are accounted for in accordance with Financial Reporting Standards Interpretation Committee (“FRSIC”) Consensus 8/2008, which require free warrants to be accounted for in accordance with the substance and economic reality of the transactions and accordingly, a value is assigned to the warrants using a reasonable and appropriate method of allocation.

(o) Loans and borrowings

Loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statements over the period of the loans and borrowings using the effective interest method.

2. Significant accounting policies (continued)

(p) 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 provision 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.

The Group's contribution to statutory pension funds are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(ii) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

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.

The fair value of employee share options is not applicable to the Group as it is applied retrospectively only for those shares options granted after 31 December 2004 and have not vested as of 1 January 2006 as provided in the transitional provision of FRS2.

(q) 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.

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 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 occurence or non-occurence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economics 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.

2. Significant accounting policies (continued)

(r) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(s) Revenue recognition

(i) Goods sold

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, 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.

(ii) Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statements in proportion to the stage of completion of the contract. 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.

The stage of completion is assessed by reference to surveys of work performed / the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs / 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 the income statements.

(iii) Rental income

Rental income from investment property is recognised in the income statements 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.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

(t) Interest income and borrowing costs

Interest income is recognised as it accrues, using the effective interest method.

All borrowing costs are recognised in the income statement using the effective interest method, in the period in which they are incurred.

2. Significant accounting policies (continued)

(u) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statements except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax 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 balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

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

Unutilised reinvestment allowance and investment tax allowance are treated as tax base of assets and are recognised as a reduction of tax expense as and when they are utilised.

(v) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. 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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3. Property, plant and equipment

Group Cost / Valuation	Freehold land RM'000	Freehold buildings RM'000	Long term leasehold 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 2007	491	10,409	38,646	45,980	5,861	3,993	26,738	132,118
Additions	-	-	8,551	8,306	1,384	864	50,710	69,815
Disposals/write-off	-	-	-	(215)	(426)	(79)	-	(720)
Revaluation	254	-	-	-	-	-	-	254
Reclassification	-	-	41,096	23,771	-	-	(64,867)	-
Effect of movements in exchange rates	-	-	(1,033)	(1,226)	(36)	(10)	(722)	(3,027)
At 31 December 2007/1 January 2008	745	10,409	87,260	76,616	6,783	4,768	11,859	198,440
Additions	-	-	3,687	3,056	3,169	617	13,881	24,410
Disposals	-	-	(4,696)	(358)	(1,382)	(197)	-	(6,633)
Acquisition of a subsidiary	-	-	-	-	-	-	8,527	8,527
Transfer to assets held for sale	-	(10,000)	-	-	-	(581)	-	(10,581)
Disposal of a subsidiary	-	-	-	(6,328)	(347)	(84)	(11,136)	(17,895)
Reclassification	-	-	(106)	443	(95)	(71)	(171)	-
Effect of movements in exchange rates	-	-	9,652	8,511	223	75	125	18,586
At 31 December 2008	745	409	95,797	81,940	8,351	4,527	23,085	214,854
Depreciation and impairment loss								
At 1 January 2007	-	35	1,431	4,099	3,488	2,573	-	11,626
Depreciation for the year	-	246	1,451	3,266	849	497	-	6,309
Disposals/write-off	-	-	-	(65)	(248)	(98)	-	(411)
Effect of movements in exchange rates	-	-	(38)	(96)	(4)	(3)	-	(141)
At 31 December 2007/1 January 2008	-	281	2,844	7,204	4,085	2,969	-	17,383
Depreciation for the year	-	248	3,151	5,464	1,022	492	-	10,377
Disposals	-	-	(375)	(181)	(1,293)	(191)	-	(2,040)
Disposal of a subsidiary	-	-	-	(663)	(82)	(23)	-	(768)
Impairment loss	-	2,024	-	-	-	192	-	2,216
Reclassification	-	-	24	(13)	(8)	(3)	-	-
Effect of movements in exchange rates	-	-	343	739	40	19	-	1,141
Transfer to assets held for sale	-	(2,500)	-	-	-	(581)	-	(3,081)
- Accumulated depreciation	-	476	-	-	-	389	-	865
- Accumulated impairment loss	-	2,024	-	-	-	192	-	2,216
At 31 December 2008	-	53	5,987	12,550	3,764	2,874	-	25,228
Carrying amounts								
At 1 January 2007	491	10,374	37,215	41,881	2,373	1,420	26,738	120,492
At 31 December 2007/1 January 2008	745	10,128	84,416	69,412	2,698	1,799	11,859	181,057
At 31 December 2008	745	356	89,810	69,390	4,587	1,653	23,085	189,626

*Included in long term leasehold buildings and plant and machinery are water treatment plant in China with carrying amount of RM76,131,000 (2007 - RM67,614,000).

3. Property, plant and equipment (continued)

Subsequent to the financial year end, a subsidiary of the Group disposed a freehold building together with the office equipment and furniture and fittings for total consideration of RM7.5 million. As a result, an impairment loss net of revaluation reserve amounting to RM2,198,000 has been recognised in the profit and loss of the current financial year.

Assets under finance lease

Included in property, plant and equipment of the Group are motor vehicles acquired under finance lease agreements with net book value of RM2,047,000 (2007 - RM525,000).

Property, plant and equipment under the revaluation model

Freehold land and building of a subsidiary were revalued on 21 December 2007 by independent professional qualified valuers using the open market value method.

Had the freehold land and building been carried at historical cost less accumulated depreciation, the carrying amount of the revalued assets that would have been included in the financial statements at the end of the year would be as follows:

	Group	
	2008	**2007**
	RM'000	**RM'000**
Freehold land and building	637	643

Long term leasehold building of the Group with carrying amount amounting to RM7,496,000 (2007 - RM7,650,000) has been charged to a licensed bank to secure a term loan granted to a subsidiary as disclosed in Note 17.

4. Intangible assets

Group	**Note**	**Goodwill RM'000**	**Intangible assets RM'000**	**Total RM'000**
Cost				
At 1 January 2007		11,239	-	11,239
Reclassification		(7,556)	7,556	-
At 31 December 2007/1 January 2008		3,683	7,556	11,239
Acquisition through business combinations	29	-	4,574	4,574
Disposal of a subsidiary	30	-	(1,533)	(1,533)
At 31 December 2008		3,683	10,597	14,280

4. Intangible assets (continued)

Group	Note	Goodwill RM'000	Intangible assets RM'000	Total RM'000
Amortisation				
At 1 January 2007		-	-	-
Amortisation for the year		-	270	270
At 31 December 2007/1 January 2008		-	270	270
Amortisation for the year		-	213	213
Disposal of a subsidiary	30	-	(57)	(57)
At 31 December 2008		-	426	426
Carrying amounts				
At 1 January 2007		11,239	-	11,239
At 31 December 2007/1 January 2008		3,683	7,286	10,969
At 31 December 2008		3,683	10,171	13,854

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the subsidiaries acquired which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The goodwill impairment test was based on value in use and was determined by the management.

Value in use was determined by assessing the subsidiaries' future budgets.

The value assigned to the key assumptions used in preparing the budgets represent management's assessment of future trends in the subsidiaries' principal activities and are based on internal sources (historical data).

The intangible assets of the Group comprised the water concession rights of 30 years for subsidiaries in China, namely, Linyi Salcon Water Company Limited, Haining Salcon Water Company Limited, Nan An Salcon Water Company Limited and Changle Salcon Raw Water Company Limited and of 50 years for Shandong Changle Salcon Water Company Limited.

5. Prepaid lease payments

Group	Leasehold land Unexpired period less than 50 years RM'000	Leasehold land Unexpired period more than 50 years RM'000	Total RM'000
Cost/Valuation			
At 1 January 2007	16,063	411	16,474
Additions	11,208	6,400	17,608
Effect of movements in exchange rates	(429)	-	(429)
At 31 December 2007/1 January 2008	26,842	6,811	33,653
Additions	391	-	391
Disposal	(5,075)	-	(5,075)
Effect of movements in exchange rates	3,255	-	3,255
At 31 December 2008	25,413	6,811	32,224
Amortisation			
At 1 January 2007	479	45	524
Amortisation for the year	798	16	814
Effect of movements in exchange rates	(13)	-	(13)
At 31 December 2007/1 January 2008	1,264	61	1,325
Amortisation for the year	1,942	106	2,048
Disposal	(341)	-	(341)
Effect of movements in exchange rates	155	-	155
At 31 December 2008	3,020	167	3,187
Carrying amounts			
At 1 January 2007	15,584	366	15,950
At 31 December 2007/1 January 2008	25,578	6,750	32,328
At 31 December 2008	22,393	6,644	29,037

During the financial year, a subsidiary in China transferred a piece of leasehold land at carrying amount of RM4,734,000 to the local government as a result of compulsory land acquisition.

Leasehold land of a subsidiary with a carrying value of RM369,000 was revalued on 31 July 2001 by an independent professional qualified valuers using the open market value method.

The title to long term leasehold land of a subsidiary with carrying amount of RM7,136,000 (2007 – RM10,824,000) is in the process of being transferred to the subsidiary company.

Leasehold land of the Group with carrying amount amounting to RM6,287,000 (2007 - RM6,388,000) has been charged to a licensed bank to secure a term loan granted to a subsidiary as disclosed in Note 17.

6. Investment properties

	Group	
	2008 RM'000	2007 RM'000
At 1 January	2,068	2,318
Acquisitions	2,652	-
Change in fair value	-	(250)
At 31 December	4,720	2,068

Included in the above are:

	Group	
	2008 RM'000	2007 RM'000
Freehold land	230	230
Freehold land and buildings	4,280	1,628
Leasehold land and building with unexpired lease period of more than 50 years	210	210
	4,720	2,068

The titles to freehold land and buildings with carrying amount of RM3,390,000 are in the process of being transferred to the subsidiary company.

The investment properties in 2007 were determined based on current market values valued by independent professional qualified valuers on 21 December 2007. The Directors have accessed the carrying value of the investment properties at 31 December 2008 and are of the view that they approximate their fair value.

7. Investments in subsidiaries

	Company	
	2008 RM'000	2007 RM'000
Unquoted shares, at cost	80,265	80,265
Unquoted preference shares, at cost	7,267	7,267
Less: Impairment losses	(16,857)	(16,857)
	70,675	70,675

7. Investments in subsidiaries (continued)

Details of the subsidiaries are as follows:-

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2008	Effective ownership interest 2007
Salcon Engineering Berhad	Malaysia	- Design, construction, operation and maintenance of municipal potable water, sewerage and waste water facilities; - Provision of mechanical and electrical engineering services for general industries; and - Investment holding.	100%	100%
Integrated Water Services (M) Sdn. Bhd.	Malaysia	Operation and maintenance of a water treatment plant.	51%	51%
Salcon Water (HK) Limited ^	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	100%	100%
Salcon Yunnan (HK) Limited ^	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	100%	100%
Salcon Linyi (HK) Limited ^	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	100%	100%
Salcon Zhejiang (HK) Limited ^	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	100%	100%
Salcon Water International Limited ^	Hong Kong	Dormant	100%	100%
Salcon Water (Asia) Limited ^	Hong Kong	Dormant	100%	100%
Salcon Capital Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Fujian (HK) Limited ^	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	100%	100%
Salcon Water International Pte. Ltd. ^	Singapore	Dormant	100%	100%
Salcon Shandong (HK) Limited ^	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	100%	-

7. Investments in subsidiaries (continued)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2008	2007
Salcon Services (HK) Limited ^	Hong Kong	Dormant	100%	-
Subsidiaries of Salcon Engineering Berhad:				
Salcon-Centrimax Engineering Sdn. Bhd.	Malaysia	Marketing, sales and servicing of equipment for water and palm oil industries.	100%	100%
Precise Metal Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Power Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Resources Sdn. Bhd.	Malaysia	Property investment	100%	100%
Bumi Tiga Enterprise Sdn. Bhd.	Malaysia	Investment holding	100%	100%
Salcon (Sarawak) Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Environmental Services Sdn. Bhd.	Malaysia	Operation and maintenance of water treatment plants.	100%	100%
Envitech Sdn. Bhd.	Malaysia	Design, building, operation and maintenance of waste-water and sewerage treatment plants.	60%	60%
Salcon Corporation Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon (Perak) Sdn. Bhd. @	Malaysia	Dormant	40%	40%
Salcon Infrastructure Sdn. Bhd.	Malaysia	Dormant	100%	100%
Glitteria Sdn Bhd @	Malaysia	Provision of engineering works	50%	-
Salcon Holdings (Mauritius) Limited#	Mauritius	Investment holding	100%	-
Subsidiaries of Bumi Tiga Enterprise Sdn. Bhd.:				
Skeel Engineering Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Building Services Sdn. Bhd.	Malaysia	Property investment	100%	100%
Eagle Metalizing & Coatings Company Sdn. Bhd.	Malaysia	Dormant	60%	60%

7. Investments in subsidiaries (continued)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2008	Effective ownership interest 2007
Subsidiary of Salcon Water (HK) Limited:				
Shandong Changle Salcon Water Company Limited ^	People's Republic of China	Management and operation of water production and distribution of water in Changle County, Shandong Province.	100%	100%
Subsidiary of Salcon Yunnan (HK) Limited:				
Chenggong Salcon Water Company Limited ^	People's Republic of China	Management and operation of water production and distribution of water in Chenggong County, Kunming City, Yunnan Province.	-	60%
Subsidiary of Salcon Linyi (HK) Limited:				
Linyi Salcon Water Company Limited ^	People's Republic of China	Management and operation of water production and distribution of water in Linyi City.	60%	60%
Subsidiary of Linyi Salcon Water Company Limited:				
Linyi Runcheng Water Supply Project Company Limited (formerly known as Linyi Water Supply Equipment Installation Company) ^	People's Republic of China	Repair and maintenance of municipal water supply pipeline, equipment, water supply equipment.	60%	60%
Subsidiary of Salcon Zhejiang (HK) Limited:				
Haining Salcon Water Company Limited ^	People's Republic of China	Management and operation of water production and sale of water in Haining City, ZheJiang Province.	60%	60%
Subsidiary of of Salcon Fujian (HK) Limited:				
Nan An Salcon Water Company Limited^	People's Republic of China	Design, build and operate of water transmission in Fujian Province.	65%	-

7. Investments in subsidiaries (continued)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2008	2007
Subsidiary of Salcon Shandong (HK) Limited:				
Changle Salcon Raw Water Company Limited.^	People's Republic of China	Design, built and operate of water transmission in Changle County, Shandong Province.	100%	-

^ Audited by other firm of accountants.

@Although the Group owns not more than 50% of the voting power of Salcon (Perak) Sdn. Bhd. ("SPSB") and 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 investment in these companies.

The financial statements of this subsidiary was not audited as the subsidiary was incorporated during the financial year and were not required to prepare audited financial statements as at 31 December 2008. Accordingly, this subsidiary was consolidated based on management financial statements.

8. Investment in associate

	Group 2008 RM'000	2007 RM'000
Unquoted shares, at cost	11,800	11,800
Unquoted preference shares, at cost	10,000	10,000
Share of post-acquisition profits	7,741	13,348
	29,541	35,148

Summary financial information on associate:

2008	Country of incorporation	Effective ownership interest	Revenue (100%) RM'000	Profit (100%) RM'000	Total assets (100%) RM'000	Total liabilities (100%) RM'000
EUC* #	Malaysia	40%	24,559	6,885	92,743	13,573
2007						
EUC* #	Malaysia	40%	24,794	10,378	107,243	27,745

* Emas Utilities Corporation Sdn. Bhd. ("EUC") holds 90% equity interest in Binh An Water Corporation Ltd, a company incorporated in Vietnam. The principal activities of EUC is investment holding whilst that of Binh An Water Corporation Ltd is production and supply of treated water in Vietnam.

Based on audited financial statements for the year ended 31 July 2008 (2007 : 31 July 2007) and management accounts for the period ended 31 December 2008 (2007 : 31 December 2007).

In 2007, a subsidiary of the Company, Salcon Engineering Berhad, disposed of its investment in an associated company, CCI, for RM24,700,000 and resulted in loss on disposal of RM6,953,000 for the Group.

9. Investment in jointly controlled entities

Details of jointly controlled entities are as follows:

	Principal activities	Proportion of ownership interest 2008	2007
WET- Envitech Joint Venture	Construction of sewage treatment plants, project management on sewage treatment plants and related activities.	50%	50%
Hydrotek - Salcon Joint Venture	Construction of Min Buri Water distribution pumping station.	49%	49%
Salcon - WHS Joint Venture	Undertaking projects in water development in the State of Sabah.	60%	60%

(i) The Group entered into a Joint Venture agreement with Water Engineering Technology Sdn. Bhd. and incorporated WET - Envitech Joint Venture on 2 April 2004. The principal activities of WET-Envitech JV are that of the construction of sewage treatment plants as well as project management in relation to sewage treatment plants and related activities. WET - Envitech JV commenced operations in 2007. The joint venture is accounted for using the proportionate consolidation method.

(ii) a) The Group entered into a joint venture with Hydrotek Company Limited and S.P.K. Construction Company Limited, both companies incorporated in Thailand, on 17 December 2001. There was no share of results accrued during the financial year.

b) The Group entered into a joint venture with Warisan Harta Sabah Sdn. Bhd., a company incorporated in Malaysia, on 31 January 2003. There was no share of results accrued during the financial year.

There are no contingencies and commitments relating to the Group's interest in the jointly controlled entities.

10. Other investments

	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
At cost				
Unquoted shares	175	175	-	-
Other investment	4,640	4,640	4,500	4,500
	4,815	4,815	4,500	4,500
Allowance for diminution in value				
- Unquoted shares	(175)	(175)	-	-
- Other investments	(2,554)	(1,054)	(2,500)	(1,000)
	2,086	3,586	2,000	3,500

11. Deferred tax assets and liabilities

Recognised deferred tax assets/(liabilities)

Deferred tax assets are attributable to the following:

	Assets		Liabilities		Net	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Property, plant and equipment	-	353	(328)	(370)	(328)	(17)
Provisions	233	338	-	-	233	338
Tax loss carry-forwards	5,016	5,838	-	-	5,016	5,838
Tax assets/(liabilities)	5,249	6,529	(328)	(370)	4,921	6,159
Set off of tax	(328)	(370)	328	370	-	-
Net tax assets	4,921	6,159	-	-	4,921	6,159

In recognising the deferred tax assets attributable to unutilised tax loss 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 loss carry-forwards amounting to approximately RM20 million will not be available to the Group, resulting in a decrease in net deferred tax assets of RM5 million.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Other deductible temporary differences	13,412	13,412	-	-
Unabsorbed capital allowance	1,902	1,902	-	-
Unutilised tax losses	2,665	2,665	-	-
	17,979	17,979	-	-

The deductible temporary differences do not expire under current tax legislation. If there is substantial change in shareholders (more than 50%), unutilised tax loss carry-forwards and unutilised capital allowance carry-forwards will not be available to the Group. 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 there from.

11. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

Group	At 1.1.2007 RM'000	Recognised in income statement (note 23) RM'000	At 1.1.2008 RM'000	Recognised in income statement (note 23) RM'000	At 31.12.2008 RM'000
Property, plant and equipment	(140)	123	(17)	(311)	(328)
Provisions	338	-	338	(105)	233
Other items	216	(216)	-	-	-
Tax loss carry-forwards	6,007	(169)	5,838	(822)	5,016
	6,421	(262)	6,159	(1,238)	4,921

12. Receivables, deposits and prepayments

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Trade					
Trade receivables		89,906	72,727	-	-
Less: Allowance for doubtful debts		(20,719)	(21,177)	-	-
	12.1	69,187	51,550	-	-
Amount due from contract customers	12.2	118,817	24,630	-	-
		188,004	76,180	-	-
Non-trade					
Amount due from associates	12.3	136	616	-	-
Amount due from subsidiaries	12.4	-	-	201,267	83,891
Other receivables	12.5	32,139	10,648	-	-
Deposits and prepayments	12.6	15,859	21,326	13,415	13,623
		48,134	32,590	214,682	97,514
		236,138	108,770	214,682	97,514

12.1 Included in trade receivables of the Group are 8 units of shop-offices agreed to be transferred in lieu of debts amounting to RM1,737,000. As of 31 December 2008, the said properties are in the process of being transferred to the Group. It is the intention of the Group to liquidate these assets.

Trade receivables denominated in currencies other than the functional currency comprise:

Currencies	Group 2008 RM'000	Group 2007 RM'000
U.S. Dollar (USD)	801	1,536
Renminbi (RMB)	6,518	3,057
Thai Baht (THB)	2,112	2,207

12. Receivables, deposits and prepayments (continued)

Included in trade receivables of the Group are retention sums amounting to RM6,597,000 (2007 - RM6,513,000) relating to construction work in progress. Retentions are unsecured, interest-free and are expected to be collected as follows:

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Within 1 year	3,899	1,745	-	-
1 – 2 years	602	1,951	-	-
2 – 3 years	433	1,125	-	-
3 – 4 years	1,043	1,125	-	-
4 – 5 years	620	567	-	-
	6,597	6,513	-	-

During the year, doubtful debts written off against allowance for doubtful debts made previously in the Group amounted to RM1,099,000 (2007 - RM800,000).

12.2 Amount due from contract customers

	Group	
	2008 RM'000	2007 RM'000
Aggregate costs incurred to date	629,516	444,711
Add: Attributable profit	92,100	71,768
	721,616	516,479
Less: Progress billings	(605,914)	(495,120)
	115,702	21,359
Amount due to contract customers reclassified (Note 19)	3,115	3,271
Amount due from contract customers	118,817	24,630

Included in aggregate costs incurred during the year is hiring of equipment amounting to RM335,000 (2007 - RM585,000).

12.3 The amount due from associates is unsecured, interest free and repayable upon demand.

12.4 The amount due from subsidiaries are unsecured, interest free and repayable upon demand except for an amount due from a subsidiary amounting to RM88 million (2007 - RM38 million) which bear interest at rate of 3% (2007 - 3%) per annum.

12.5 Included in other receivables of the Group in 2008 are as follows:

i) RM9,845,000 (2007 – Nil) being proceeds from disposal of a subsidiary during the financial year. Subsequent to the financial year end, RM9,567,000 has been received from the purchaser with the remaining RM278,000 to be received in 2009 as per the Sales and Purchase Agreement.

ii) RM6,968,000 (2007 – Nil) being advance payment to suppliers of a subsidiary which was paid in accordance with the terms of the contract.

Also included in other receivables of the Group in 2007 was 8 units of apartments received in lieu of debts amounted to RM2,550,000. As of 31 December 2008, the said properties had been transferred to the Group. It is the intention of the Group to liquidate these assets.

12. Receivables, deposits and prepayments (continued)

12.6 Included in deposits and prepayments of the Group and of the Company is a refundable deposit amounting to RM12,981,000 (2007 – RM12,981,000) relating to 10% downpayment paid to Maika Holdings Berhad's solicitors to hold as stakeholder for the proposed acquisition of 74.2% equity interest in Oriental Capital Assurance Berhad.

On 20 March 2009, the Company has received the full refund of deposit from the stakeholder (Please refer to Note 32).

Included in deposits and prepayments of the Group in 2007 was advances paid to contractors in constructing the water treatment plants in China amounted to RM4.3 million.

13. Inventories

	Group	
	2008	**2007**
	RM'000	**RM'000**
At cost:		
Raw materials and consumables	1,421	1,437
Spares	331	213
	1,752	1,650

In 2008, inventories recognised as cost of sales amounted to RM6,920,000 (2007 - RM4,882,000).

14. Assets classified as held for sale

A freehold building together with the office equipment and furniture and fittings are presented as assets held for sale pursuant to a Sale and Purchase Agreement entered into by a subsidiary of the Group with a third party to dispose of the assets. Efforts to sell the assets have commenced prior to the balance sheet date, and the sale is expected to be completed in 2009. As at 31 December 2008, the breakdown of the assets held for sale are as follows:

		Group
		2008
	Note	**RM'000**
Assets classified as held for sale		
Office equipment, furniture and fittings	14.1	-
Freehold building	14.2	7,500
		7,500

14. Assets classified as held for sale (continued)

14.1 Office equipment, furniture and fittings

Office equipment, furniture and fittings held for sale comprise the following:

	2008 RM'000
Office equipment, furniture and fittings:	
Cost	581
Accumulated depreciation	(389)
Accumulated impairment loss	(192)
	(581)
Net carrying value	-

14.2 Freehold building

Freehold building held for sale comprise the following:

	2008 RM'000
Freehold building:	
Cost	10,000
Accumulated depreciation	(476)
Accumulated impairment loss	(2,024)
	(2,500)
Net carrying value	7,500

15. Cash and cash equivalents

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Deposits placed with licensed banks				
- Malaysia	86,354	82,500	-	68,600
- Outside Malaysia	45,391	8,734	-	-
	131,745	91,234	-	68,600
Cash and bank balances				
- Malaysia	22,529	18,902	104	269
- Outside Malaysia	31,354	7,696	-	-
	53,883	26,598	104	269
	185,628	117,832	104	68,869

15. Cash and cash equivalents (continued)

The currency profile of cash and cash equivalents is as follows:

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Ringgit Malaysia (RM)	96,389	100,431	104	68,869
Renminbi (RMB)	76,649	16,344	-	-
U.S. Dollar (USD)	2,162	956	-	-
Japanese Yen (JPY)	9,165	-	-	-
Vietnamese Dong (VND)	1,042	-	-	-
Sri Lanka Rupee (LKR)	140	-	-	-
Thai Baht (THB)	42	79	-	-
Hong Kong Dollar (HKD)	17	22	-	-
Euro (EUR)	16	-	-	-
Indonesian Rupiah (IDR)	6	-	-	-
	185,628	117,832	104	68,869

16. Capital and reserves

Share capital

	Group and Company			
	Amount 2008 RM'000	Number of shares 2008 '000	Amount 2007 RM'000	Number of shares 2007 '000
Authorised:				
Ordinary shares of RM0.50 each	500,000	1,000,000	500,000	1,000,000
Issued and fully paid				
Ordinary shares of RM0.50 each				
On issue at 1 January	212,600	425,200	106,023	212,046
Issued for cash	21,260	42,520	106,577	213,154
On issue at 31 December	233,860	467,720	212,600	425,200

In 2007, the Company issued a renounceable rights issue of 212,045,402 new ordinary shares of RM0.50 each together with 106,022,701 free detachable warrants at an issue price of RM0.57 per new ordinary share.

During the financial year, the issued and paid-up share capital of the Company was increased from RM212,600,402 to RM233,860,402 by the issuance of 42,520,000 new ordinary shares of RM0.50 each at an issue price of RM1.09 per new ordinary share via private placement on 11 February 2008, raising additional capital amounting to RM46,346,800 for the Company.

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.

Adoption of FRSIC Consensus 8/2008, Accounting for Free Warrants with Rights Issue ("Warrant Reserve")

The warrant reserve relates to reserves allocated to free detachable warrants issued with rights issue effected on 18 May 2007.

Pursuant to the adoption of FRSIC Consensus 8/2008, Accounting for Free Warrants with Rights Issue, the proceeds received were allocated between the equity instruments using the proportionate fair value basis to account for the free warrants. The assignment of fair value to the free warrants had resulted in a reallocation of RM22,384,000 from the share premium account to warrant reserve. Upon the exercise of warrants, the proportionate amount of warrant reserve is transferred to the share premium account.

16. Capital and reserves (continued)

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Revaluation reserve

The revaluation reserve relates to the revaluation of property, plant and equipment.

17. Borrowings

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Non-current				
Finance lease creditors	2,407	1,194	-	-
Term loans (unsecured)	64,038	113,735	-	45,000
Term loan (secured)	7,720	9,260	-	-
	74,165	124,189	-	45,000
Current				
Bank overdrafts (unsecured)	921	1,526	-	-
Bankers' acceptances (unsecured)	16,361	2,993	-	-
Revolving credits (unsecured)	10,264	-	-	-
Term loans (unsecured)	58,197	15,301	45,000	10,000
Term loan (secured)	1,540	1,540	-	-
Finance lease creditors	758	404	-	-
	88,041	21,764	45,000	10,000

Included in unsecured term loans of the Group is RM18,373,000 (2007 – RM16,396,000) being long term loan obtained from Linyi Municipal Government which bear interest at rate of 2.55% (2007 – 2.55%) per annum.

17.1 Terms and debts repayment schedule

The unsecured bank overdrafts, bankers' acceptances and revolving credits are subject to interest at 7.50% to 9.25% (2007 - 7.75% to 9.25%), 4.42% to 5.19% (2007 - 4.60% to 5.00%) and 4.8% to 5.76% (2007 - 5.00% to 5.40%) per annum respectively.

The finance lease creditors, secured term loan and unsecured term loans are subject to interest at 2.25% to 3.88% (2007 - 2.39% to 3.88%), 5% (2007 - 5.45%) and 5% to 7.30% (2007 - 5.00% to 7.65%) per annum respectively.

The unsecured term loans comprise a Collateralised Loan Obligation ("CLO") which is repayable within 5 years, from the effective drawdown date of 3 June 2004.

Group 2008	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
Bank overdrafts	2009	921	921	-	-	-
Bankers' acceptances	2009	16,361	16,361	-	-	-
Revolving credits	2009	10,264	10,264	-	-	-
Term loans						
- RM	2009 - 2014	54,260	46,540	1,540	4,620	1,560
- RMB	2009 - 2014	77,235	13,197	17,747	27,918	18,373
Finance lease creditors	2009 - 2013	3,165	758	752	1,655	-
		162,206	88,041	20,039	34,193	19,933

17. Borrowings (continued)

Group 2007	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
Bank overdrafts	2008	1,526	1,526	-	-	-
Bankers' acceptances	2008	2,993	2,993	-	-	-
Term loans						
- RM	2008 - 2014	65,800	11,540	46,540	4,620	3,100
- RMB	2008 - 2013	74,036	5,301	13,141	39,207	16,387
Finance lease creditors	2008 - 2012	1,598	404	372	822	-
		145,953	21,764	60,053	44,649	19,487

Company	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
2008						
Term loans						
- RM	2009	45,000	45,000	-	-	-
2007						
Term loans						
- RM	2008 - 2009	55,000	10,000	45,000	-	-

17.2 Security

One of the term loans of the Group is secured over a building with a carrying amount of RM7,496,000 (2007 - RM7,650,000) and prepaid lease payments with a carrying amount of RM6,287,000 (2007 - RM6,388,000).

The facilities granted to the subsidiaries are guaranteed by the Company.

17.3 Finance lease creditors

Finance lease creditors are payable as follows:

Group	Gross 2008 RM'000	Interest 2008 RM'000	Principal 2008 RM'000	Gross 2007 RM'000	Interest 2007 RM'000	Principal 2007 RM'000
Less than one year	901	(143)	758	474	(70)	404
Between one and five years	2,609	(202)	2,407	1,293	(99)	1,194
	3,510	(345)	3,165	1,767	(169)	1,598

18. Employee benefits

Equity compensation benefits

Share option plan

On 7 January 2004, the Group offers vested share options over ordinary shares to Executive Directors and eligible employees.

The terms and conditions of the grants are as follows; all options are to be settled by physical delivery of shares:

Grant date/employees entitled	Number of instruments '000	Vesting conditions	Contractual life of options
Option granted to Executive Directors and eligible employees on 7 January 2004*	3,287	Eligible employees are confirmed staff with at least one year service as at the date of offer including Executive Directors of any company comprised in the Group and employees under a fixed term employment contract for at least three years as at the date of offer.	5 years
Total share options	3,287		

* The recognition and measurement principles in FRS 2 have not been applied to these grants as they were granted prior to the effective date of FRS 2.

Movements in the number of share options held by employees are as follows:

	Group and Company	
	2008 '000	2007 '000
Outstanding at 1 January	3,287	2,507
Addition*	-	988
Lapsed	(3,287)	-
Forfeited during the year	-	(208)
Outstanding at 31 December	-	3,287

Terms of the options outstanding at 31 December 2008:

Expiry date	Exercise price	Number
30 October 2008	RM1.28*	3,287,200*

* The option price and number of options had been adjusted following a renounceable rights issue of 212,045,402 new ordinary shares of RM0.50 each together with 106,022,701 free detachable warrants.

18. Employee benefits (continued)

Equity financial instruments held by the Group's equity compensation plan:

	Group and Company	
	2008	2007
	'000	'000
Number of ordinary shares		
Held at 1 January	3,287	2,507
Held at 31 December	-	3,287

	Group and Company	
	2008	2007
	RM'000	RM'000
Fair value		
At 1 January	3,945	3,410
Outstanding at 31 December	-	3,945

19. Payables and accruals

		Group		Company	
	Note	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Trade					
Trade payables	19.1	75,940	31,621	-	-
Amount due to contract customers (Note 12)		3,115	3,271	-	-
		79,055	34,892	-	-
Non-trade					
Amount due to associates	19.2	399	195	-	-
Other payables	19.3	111,983	54,525	21	23
Accrued expenses		2,768	2,343	469	459
		115,150	57,063	490	482
		194,205	91,955	490	482

19.1 Trade payables denominated in currencies other than the functional currency comprise:

Currencies	2008 RM'000	2007 RM'000
Renminbi (RMB)	4,740	10,259
Thai Baht (THB)	655	653
U.S. Dollar (USD)	37	26
Euro (EUR)	5	192
Danish Kroner (DKK)	-	12
Japanese Yen (JPY)	27,503	-
Singapore Dollar (SGD)	25	4

19. Payables and accruals (continued)

19.2 The amount due to associates is unsecured, interest free and repayable upon demand.

19.3 Included in other payables of the Group is an amount of RM27.1 million (2007 - RM30.3 million) being amount payable to the Linyi Municipal Government for the acquisition of water related assets.

Included in other payables of the Group is advances received from contract customers amounting to RM74,143,000 (2007 - RM11,111,000) being mobilisation costs received in advance in accordance with terms of the contracts.

20. Revenue

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Contract revenue	247,983	130,853	-	-
Invoiced sales	4,518	3,747	-	-
Dividends	-	-	10,571	627
	252,501	134,600	10,571	627

21. Operating profit/(loss)

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Operating profit/(loss) is arrived at after charging:				
Allowance for diminution in value of investments	1,500	1,018	1,500	1,000
Allowance for doubtful debts	647	1,802	-	-
Amortisation of intangible assets	213	270	-	-
Amortisation of prepaid lease payments	2,048	814	-	-
Auditors' remuneration:				
- Current				
- KPMG	182	127	40	30
- Other auditors	108	91	-	-
- Underprovided in prior year				
- KPMG	26	-	10	-
Bad debts written off	122	4,435	-	-
Depreciation of property, plant and equipment	10,377	6,309	-	-
Impairment loss of property, plant and equipment, net of revaluation reserve	2,198	-	-	-
Interest expense on:				
- Bank overdrafts	26	68	-	-
- Loans	9,151	5,360	3,397	4,196
- Other borrowings	336	102	-	-
Loss on disposal of associated companies	-	6,953	-	-
Change in fair value of investment property	-	250	-	-
Personnel expenses (including key management personnel):				
- Contributions to Employees Provident Fund	1,908	1,377	-	-
- Wages, salaries and others	31,016	21,344	187	20
Property, plant and equipment written off	-	189	-	-
Realised loss on foreign exchange	248	49	-	-
Expenses incured on :				
- Rental of premises	104	85	-	-
- Rental of investment properties	63	-	-	-
Unrealised loss on foreign exchange	-	90	-	3,564

21. Operating profit/(loss) (continued)

	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
and after crediting:				
Allowance for doubtful debts no longer required	6	178	-	-
Dividend income from subsidiaries (unquoted)	-	-	10,571	627
Gain on disposal of property, plant and equipment	2,519	18	-	-
Gain on disposal of subsidiary	1,225	-	-	-
Interest income:				
- Subsidiaries	-	-	1,984	1,258
- Others	4,452	2,421	1,670	1,234
Realised gain on foreign exchange	627	295	-	-
Rental income on premises	1,329	742	-	-
Rental income on investment properties	15	-	-	-
Unrealised gain on foreign exchange	187	-	5,042	-

22. Key management personnel compensation

The key management personnel compensation is as follows:

	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Directors of the Company:				
- Fees	155	20	155	20
- Remuneration	1,941	1,948	-	-
- Other short term employee benefits (including estimated monetary value of benefit-in-kind)	42	67	-	-
	2,138	2,035	155	20

23. Tax expense

Recognised in the income statement

	Group		Company	
	2008 RM'000	**2007 RM'000**	**2008 RM'000**	**2007 RM'000**
Tax expense	4,140	1,336	748	511
Current tax expense				
Malaysian - current year	2,873	3,005	950	515
- prior year	(285)	(2,294)	(202)	(4)
Overseas - current year	314	363	-	-
Total current tax recognised in the income statement	2,902	1,074	748	511
Deferred tax expense				
Origination and reversal of temporary differences	1,238	262	-	-
Total deferred tax recognised in the income statement	1,238	262	-	-
Total tax expense	4,140	1,336	748	511
Profit/(Loss) for the year	11,889	(6,474)	13,060	(6,544)
Total tax expense	4,140	1,336	748	511
Profit/(Loss) excluding tax	16,029	(5,138)	13,808	(6,033)
Tax calculated using Malaysian tax rate of:				
- income taxable at 20% *	159	95	-	-
- income taxable at 26% (2007 - 27%) **	3,235	(139)	3,590	(1,628)
Effect of tax rates in foreign jurisdiction	(3,072)	(115)	-	-
Non-deductible expenses	5,064	4,720	1,870	2,770
Tax exempt income	(416)	(931)	(4,510)	(627)
Utilised of tax benefit	(545)	-	-	-
	4,425	3,630	950	515
Under provided in prior years	(285)	(2,294)	(202)	(4)
	4,140	1,336	748	511

The subsidiaries operating in the People's Republic of China ("China") are entitled for a full tax exemption on profits for the first three years in operations and half tax exemption thereafter for the next two years.

* With effect from year of assessment 2004, companies with paid-up capital of RM2.5 million and below at the beginning of the basis period for a year of assessment are subject to corporate tax at 20% on chargeable income up to RM500,000.

** The corporate tax rates are 27% for year of assessment 2007, 26% for year of assessment 2008 and 25% for the subsequent years of assessment. Consequently deferred tax assets and liabilities are measured using these tax rates.

24. Earnings per ordinary share - Group

Basic earnings per share

The calculation of basic earnings per share at 31 December 2008 was based on the profit attributable to ordinary shareholders of RM8,822,000 (2007 - loss attributable to ordinary shareholders of RM7,841,000) and a weighted average number of ordinary shares outstanding calculated as follows:

Weighted average number of ordinary shares

	2008 '000	**2007 '000**
Issued ordinary shares at 1 January	425,200	212,046
Effect of shares issued	36,247	130,116
Weighted average number of ordinary shares at 31 December	461,447	342,162

	2008 sen	**2007 sen**
Basic earnings/(loss) per share	1.91	(2.29)

Diluted earnings per share

The diluted earnings/(loss) per share was not presented as it was anti-dilutive.

25. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

Inter-segment pricing is determined on an arm's length basis.

Business segments

The Group comprises the following main business segments:

Water Division ("WD") - Design, construction, operation and maintenance of water treatment plants and non-revenue water works.

Waste Water Division ("WWD") - Design, building, operation and maintenance of waste water and sewerage treatment plants.

Geographical segments

WD segment is mainly operated in Malaysia, Vietnam, Thailand, People's Republic of China and Sri Lanka.

WWD segment is mainly operated in Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are also based on the geographical location of assets.

25. Segment reporting (continued)

2008 Business segments	WD RM'000	WWD RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
Total external revenue	210,390	29,048	13,063	-	252,501
Inter segment revenue	-	6,877	298	(7,175)	-
Total segment revenue	210,390	35,925	13,361	(7,175)	252,501
Segment result	14,013	3,362	961	-	18,336
Results from operating activities					18,336
Interest income					4,452
Finance costs					(9,513)
Share of profit of equity accounted associates					2,754
Tax expense					(4,140)
Profit for the year					11,889
Segment assets	622,060	27,783	25,773	-	675,616
Investment in associates	29,541	-	-	-	29,541
Total assets	651,601	27,783	25,773	-	705,157
Segment liabilities	346,931	10,008	-	-	356,939
Capital expenditure	23,383	1,009	18	-	24,410
Depreciation	9,450	440	487	-	10,377
Amortisation of prepaid lease payments	1,946	-	102	-	2,048
Impairment loss on property, plant and equipment	-	-	2,198	-	2,198
Non-cash expense other than depreciation, impairment loss and amortisation	2,416	(80)	2,162	-	4,498

2007 Business segments	WD RM'000	WWD RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
Total external revenue	87,167	36,390	11,043	-	134,600
Inter segment revenue	-	-	714	(714)	-
Total segment revenue	87,167	36,390	11,757	(714)	134,600
Segment result	(10,948)	3,261	459	-	(7,228)
Results from operating activities					(7,228)
Interest income					2,421
Finance costs					(5,530)
Share of profit of equity accounted associates					5,199
Tax expense					(1,336)
Loss for the year					(6,474)

25. Segment reporting (continued)

2007 Business segments	WD RM'000	WWD RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
Segment assets	402,523	32,483	30,292	-	465,298
Investment in associates	35,148	-	-	-	35,148
Total assets	437,671	32,483	30,292	-	500,446
Segment liabilities	211,923	13,961	13,025	-	238,909
Capital expenditure	61,590	470	7,755	-	69,815
Depreciation	5,495	463	351	-	6,309
Amortisation of prepaid lease payments	802	-	12	-	814
Non-cash expense other than depreciation and amortisation	1,216	277	6,989	-	8,482

Geographical segments	Malaysia RM'000	Vietnam RM'000	Indonesia RM'000	Thailand RM'000	Sri Lanka RM'000	China RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
2008									
Revenue from external customers	163,046	12,483	431	-	19,638	56,526	377	-	252,501
Segment assets	285,956	63,006	72	-	25,258	301,097	227	-	675,616
Investment in associates	-	29,541	-	-	-	-	-	-	29,541
Total assets	285,956	92,547	72	-	25,258	301,097	227	-	705,157
Capital expenditure	2,394	-	-	-	-	22,016	-	-	24,410
2007									
Revenue from external customers	95,427	1,266	1,044	-	-	33,485	3,378	-	134,600
Segment assets	240,971	1,341	118	3,978	-	218,199	691	-	465,298
Investment in associates	-	35,148	-	-	-	-	-	-	35,148
Total assets	240,971	36,489	118	3,978	-	218,199	691	-	500,446
Capital expenditure	8,711	-	-	-	-	61,104	-	-	69,815

26. Financial instruments

Exposure to credit, interest rate, currency and liquidity risks arises in the normal course of the Group and of the Company's businesses. The policies for managing each of these risks are summarised below.

Credit 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 all customers requiring credit over a certain amount except for government bodies. Fixed deposits are placed only with established banks and financial institutions.

At balance sheet date, there were no significant concentrations of credit risk except for six major project debts which accounted for 61% of trade receivables. The Group would normally require advance payments to be paid for these projects and after taking into account advances received from these major project debts, net concentrations of credit risk amount to approximately 30% of net trade receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group and the Company are highly dependent on the domestic water and waste water industries.

26. Financial instruments (continued)

Interest rate risk

The Group and the Company borrowed for operations at variable rates using its overdrafts, revolving credit, bankers' acceptance and term loan facilities, and uses fixed rate finance lease agreements to finance capital expenditure. Deposits are placed with established banks or financial institutions at the prevailing market rate.

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their average effective interest rates at the balance sheet date and the periods in which they mature, or if earlier, reprice.

Group 2008	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	More than 5 years RM'000
Fixed rate instruments								
Deposits								
- RM	3.3	86,354	86,354	-	-	-	-	-
- RMB	2.6	45,391	45,391	-	-	-	-	-
		131,745	131,745	-	-	-	-	-
Term loan (unsecured)								
- RM	6.9	(45,000)	(45,000)	-	-	-	-	-
Finance lease creditors (secured)	5.3	(3,165)	(758)	(752)	(763)	(646)	(246)	-
		(48,165)	(45,758)	(752)	(763)	(646)	(246)	-
Floating rate instruments								
Bank overdrafts (unsecured)	8.3	(921)	(921)	-	-	-	-	-
Bankers' acceptances (unsecured)	4.5	(16,361)	(16,361)	-	-	-	-	-
Revolving credits								
- RM	4.9	(6,439)	(6,439)	-	-	-	-	-
- RMB	5.3	(3,825)	(3,825)	-	-	-	-	-
Term loans (unsecured)								
- RMB	6.2	(77,235)	(77,235)	-	-	-	-	-
Term loan (secured)								
- RM	5.5	(9,260)	(9,260)	-	-	-	-	-
		(114,041)	(114,041)	-	-	-	-	-
2007								
Fixed rate instruments								
Deposits								
- RM	3.3	82,500	82,500	-	-	-	-	-
- RMB	3.3	8,734	8,734	-	-	-	-	-
		91,234	91,234	-	-	-	-	-
Term loan (unsecured)								
- RM	6.9	(45,000)	-	(45,000)	-	-	-	-
Finance lease creditors (secured)	5.0	(1,598)	(404)	(372)	(330)	(318)	(174)	-
		(46,598)	(404)	(45,372)	(330)	(318)	(174)	-

26. Financial instruments (continued)

Group 2007	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	More than 5 years RM'000
Floating rate instruments								
Bank overdrafts (unsecured)	8.3	(1,526)	(1,526)	-	-	-	-	-
Bankers' acceptances (unsecured)	4.8	(2,993)	(2,993)	-	-	-	-	
Term loans (unsecured)								
- RM	5.0	(10,000)	(10,000)	-	-	-	-	-
- RMB	5.2	(74,036)	(74,036)	-	-	-	-	-
Term loan (secured)								
- RM	5.5	(10,800)	(10,800)	-	-	-	-	-
		(99,355)	(99,355)	-	-	-	-	-
Company								
2008								
Fixed rate instruments								
Term loan (unsecured)								
- RM	6.9	(45,000)	(45,000)	-	-	-	-	-
2007								
Fixed rate instruments								
Term loan (unsecured)								
- RM	6.9	(45,000)	-	(45,000)	-	-	-	-
Floating rate instruments								
Term loan (unsecured)								
- RM	5.0	(10,000)	(10,000)	-	-	-	-	-

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 Renminbi, United States Dollary, Japanese Yen and Vietnamese Dong.

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents and bank facilities deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

Fair values

The carrying amount of cash and cash equivalents, receivables, deposits and prepayments, payables and accruals, and short term borrowings, approximate fair value due to the relatively short term nature of these financial instruments.

The Company provides financial guarantees to bank for credit facilities extended to certain subsidiaries. The fair value of such financial guarantees is not expected to be material as the probability of the subsidiaries defaulting on the credit lines is remote.

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 inability to estimate fair value without incurring excessive costs.

26. Financial instruments (continued)

The fair values of the other financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

Group	2008 Carrying amount RM'000	2008 Fair value RM'000	2007 Carrying amount RM'000	2007 Fair value RM'000
Other investment	2,086	2,086	3,586	3,586

It is not practicable within constraints of timeliness or cost to determine the fair value of investment in unquoted shares as the 6% Cumulative Redeemable Preference Shares will be redeemed at the discretion of the Directors. Therefore, the Directors deemed the fair value of the unquoted shares to approximate its carrying amount.

Unrecognised financial instruments

The valuation of financial instruments not recognised in the balance sheet reflects their current market rates at the balance sheet date.

The contracted amount and fair value of financial instruments not recognised in the balance sheet as at 31 December are:

	2008 Carrying amount RM'000	2008 Fair value RM'000	2007 Carrying amount RM'000	2007 Fair value RM'000
Forward foreign exchange Sale contracts (JPY)	17,310	(790)	-	-

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. These foreign exchange contracts would all expire within a year from balance sheet date.

Estimation of fair values

The following summarises the methods used in determining the fair values of financial instruments reflected in the table.

Fair value of quoted shares is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

27. Contingencies (unsecured)

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Bank guarantees given to financial institutions in respect of facilities granted to subsidiary companies	-	-	373,021	330,772
Bank guarantee given to third parties relating to performance, tender and advance payment bonds - unsecured	144,295	94,605	-	-

28. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to 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 party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Group has a related party relationship with its subsidiaries (see Note 7), associates (see Note 8), Directors and key management personnel.

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation is disclosed in Note 22.

Significant transactions with subsidiaries

	Transaction value Year ended 31 December	
Company	**2008 RM'000**	**2007 RM'000**
Interest income	1,984	1,258
Advance to subsidiary	49,569	16,230

The outstanding balances due from subsidiary companies are disclosed in Note 12.

29. Acquisition of subsidiaries

Business combination

(i) Salcon Berhad had on 16 April 2008 acquired 100% of the issued and paid-up share capital of Salcon Shandong (HK) Limited comprising 1 ordinary share of HK$1.00 each for a nominal consideration of HK$1.00.

(ii) Salcon Berhad had on 18 April 2008, incorporated Nan An Salcon Water Company Limited ("Nan An Salcon"), a company incorporated in the People's Republic of China. The registered capital for Nan An Salcon is RMB100 million (approximately RM44.80 million) and subscribed by Salcon Fujian (HK) Limited and Nan An City Trading Industry & Agriculture Investment Co. Ltd on a 65:35 basis.

(iii) Salcon Berhad had on 12 June 2008, incorporated a wholly-owned subsidiary, Changle Salcon Raw Water Company Limited ("CSRW"), a company incorporated in the People's Republic of China. The registered capital for CSRW is USD6.32 million (approximately RM19.85 million) and subscribed by Salcon Shandong (HK) Limited.

(iv) Salcon Berhad had on 24 July 2008 acquired 100% of the issued and paid-up share capital of Salcon Services (HK) Limited comprising 1 ordinary share of HK$1.00 each for a nominal consideration of HK$1.00.

(v) Salcon Holdings (Mauritius) Limited ("SHM") was incorporated in Mauritius on 19 September 2008. The paid up capital of SHM is USD2.00, and is wholly-owned by Salcon Engineering Berhad, a wholly-owned subsidiary of Salcon Berhad.

(vi) Salcon Engineering Berhad, a wholly-owned subsidiary of Salcon Berhad had on 3 March 2008 acquired 50% of the issued and paid-up share capital of Glitteria Sdn Bhd comprising 1 ordinary share of RM1.00 each for a nominal consideration of RM1.00.

29. Acquisition of subsidiaries (continued)

Business combination (continued)

In 2008, the acquisition of Nan An Salcon Water Company Limited had the following effect on the Group's assets and liabilities on acquisition date:

Group	Note	Recognised values on acquisition RM'000
Property, plant and equipment		8,527
Cash and cash equivalents		39,328
Minority interest		(17,038)
Net identifiable assets and liabilities		30,817
Intangible assets on acquisition	4	4,574
Consideration paid		35,391
Cash acquired		(39,328)
Net cash inflow		(3,937)

Pre-acquisition carrying amounts were determined based on applicable FRSs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values.

30. Disposal of subsidiary

On 6 November 2008, a wholly-owned subsidiary of the Company disposed of its entire 60% equity interest in Chenggong Salcon Water Company Limited for a cash consideration of RMB20.01 million (approximately RM10.15 million).

The disposal had the following effect on the Group's assets and liabilities on disposal date:

Group	Carrying Amount RM'000
Property, plant and equipment	17,127
Current assets	8,115
Current liabilities	(13,455)
Minority interest	(4,333)
Intangible assets	1,476
Net assets	8,930
Gain on disposal	1,225
Disposal consideration	10,155
Other receivables	(9,845)
Consideration received, satisfied in cash	310
Cash and cash equivalent disposed	(360)
Net cash outflow	(50)

31. Significant events during the year

Salcon Yunnan (HK) Limited, a wholly-owned subsidiary of the Company has on 6 November 2008 entered into an Equity Transfer Agreement with Kunming Water Supply Group Co. Ltd, China for the disposal of its entire 60% equity interest in Chenggong Salcon Water Company Limited ("CSW"), China for a cash consideration of RMB20.01 million (approximately RM10.15 million). The disposal resulted in a gain on disposal of RM1,225,000.

32. Significant subsequent events

(i) Salcon Engineering Berhad, a wholly-owned subsidiary of Salcon Berhad had on 20 January 2009 incorporated a wholly-owned subsidiary, Salcon Engineering Vietnam Company Limited ("SEV"), a company incorpated in Vietnam. The registered capital for SEV is USD250,000 (approximately RM901,000).

(ii) On 11 February 2009, the Company has written officially to Maika Holdings Berhad ("Maika") on the proposed acquisition of 74.2% equity interest in Oriental Capital Assurance Bhd, to confirm the rescission of the Share Sale Agreement ("SSA") dated 28 August 2007 and to further request for the full refund of the deposit paid pursuant to the SSA, after taking into consideration the on-going legal proceedings filed against Maika, and the subsisting restraining order granted against Maika. Salcon is not named as a party in the proceedings.

On 20 March 2009, the Company has received the full refund of deposit amounting to RM12,981,000 from the stakeholder.

(iii) Subsequent to the financial year end, a subsidiary of the Group has entered into a Sale and Purchase Agreement to dispose of its freehold building together with the office equipment and furniture and fittings for a total consideration of RM7.5 million. As a result, an impairment loss net of revaluation reserve, amounting to RM2,198,000 have been recognised in the current financial year.

33. Prior year's adjustment

The following comparative figures have been adjusted upon the adoption of FRSIC Consensus 8/2008, Accounting for Free Warrants with Rights Issue.

	Group and Company	
	As restated RM'000	As previously stated RM'000
Statements of changes in equity		
Share premium	10,058	32,208
Warrants reserve	22,150	-

statement by directors pursuant to section 169(15) of the companies act, 1965

In the opinion of the Directors, the financial statements set out on pages 71 to 123 are drawn up in accordance with Financial Reporting Standards and 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 2008 and of their financial performance and cash flows for the year then ended.

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

……………………………………………………..

Dato' Seri Goh Eng Toon

……………………………………………………..

Jaggit Singh a/l Tara Singh

Kuala Lumpur,

Date: 27 April 2009

statutory declaration pursuant to section 169(16) of the companies act, 1965

I, **Law Woo Hock**, the officer primarily responsible for the financial management of Salcon Berhad, do solemnly and sincerely declare that the financial statements set out on pages 71 to 123 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur on 27 April 2009.

……………………………………………………..

Law Woo Hock

Before me:

....

P. Thurirajoo, AMM. PJK.
(W 438)
Commissioner for Oaths
Kuala Lumpur

independent auditors' report to the members of Salcon Berhad

(Company No. 593796-T)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Salcon Berhad, which comprise the balance sheets as at 31 December 2008 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 71 to 123.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and 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 2008 and of their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 7 to the financial statements.

c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

independent auditors' report to the members of Salcon Berhad (continued)

(Company No. 593796-T)
(Incorporated in Malaysia)

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong
Approval Number: 2613/12/10(J)
Chartered Accountant

Petaling Jaya, Selangor

Date: 27 April 2009

particulars of group properties

The properties of the Group at 31 December 2008 and their net book values ("NBV") are indicated below:

Freehold Land And Building

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	12 years	14.03.2002	258
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	29 years	15.03.2002	843
					1,101

Long-Term Leasehold Properties

Company	Location/Address	Description / Existing use	Tenure	Date of Acquisition/ Revaluation	NBV RM'000
Shandong Changle Salcon Water Co. Ltd.	LeGuoYong2003, CL640 No. B003, Changle County, Nanliu Village, Shandong Province, People's Republic of China.	10,872 sq. metres for public and municipal utilities use.	50 years leasehold expiring on 19.01.2053	16.11.2003	1,260
Shandong Changle Salcon Water Co. Ltd.	LeGuoYong2003, CL641 No. B005, Changle County, Nanliu Village, Shandong Province, People's Republic of China.	4,082 sq. metres for public and municipal utilities use.	50 years leasehold expiring on 19.01.2053	16.11.2003	2,200
Shandong Changle Sal-con Water Co. Ltd.	Western end north side of outside ring road of Changle County, Shandong Province, People's Republic of China.	32,617 sq. metres for public and municipal utilities use.	30 years leasehold expiring on 05.01.2036	05.01.2006	4,095
Linyi Salcon Water Co. Ltd.	Dong Bei Yuan Water Plant Northern Yi Meng Road, Linyi City, Shandong Province, People's Republic of China.	34,467 sq. metres for public and municipal utilities use.	30 years leasehold expiring on 07.11.2035	07.11.2005	22,077

particulars of group properties (continued)

Long-Term Leasehold Properties (continued)

Company	Location/Address	Description / Existing Use	Tenure	Date of Acquisition/ Revaluation	NBV RM'000
Haining Salcon Water Co. Ltd.	No. 37 Nan Xu Jia Men, Shuang Xi Qiao Village, Hai Chang Street, Haining City, Zhejiang Province, People's Republic of China.	20,386 sq. metres for public and municipal utilities use.	30 years leasehold expiring on 09.09.2036	10.09.2006	52,682
Salcon Building Services Sdn Bhd	HSD 175343 PT 34, Bandar Petaling Jaya, District of Petaling, Selangor Darul Ehsan.	9,376.5 sq. metres of office and warehouse space.	99 years leasehold expiring on 22.08.2070	20.11.2007	7,496
					89,810

analyses of shareholdings & warrantholdings

as at 27 April 2009

Analysis of Shareholdings

Authorised share capital		:	RM1,000,000,000
Issued and paid-up share capital		:	RM233,860,402
Class of shares		:	Ordinary share of RM0.50 each
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	No. of shareholders	No. of shares	Percentage of issued capital
Less than 100	1,440	74,211	0.02
100 – 1,000	987	558,275	0.12
1,001 – 10,000	2,691	13,602,528	2.91
10,001 – 100,000	1,212	39,382,892	8.42
100,001 – less than 5% of issued shares	235	347,393,298	74.27
5% and above of issued shares	1	66,709,600	14.26
Total	**6,566**	**467,720,804**	**100.00**

List of Substantial Shareholders

Name of substantial shareholders	Direct Interest		Indirect Interest	
	No. of shares	Percentage of issued capital	No. of shares	Percentage of issued capital
Naga Muhibah Sdn Bhd	66,709,600	14.26	-	-
Dato' Seri Goh Eng Toon	-	-	66,709,600*	14.26
Datin Seri Kee Seok Ai	-	-	66,709,600*	14.26

List of 30 Largest Shareholders

No.	Name of shareholders	No. of shares	Percentage of issued capital
1.	Naga Muhibah Sdn Bhd	66,709,600	14.26
2.	Lew Siew Ping	22,249,400	4.76
3.	Teng Li Ling	19,445,100	4.16
4.	Leong Lai Shen	18,742,333	4.01
5.	Alliancegroup Nominees (Tempatan) Sdn Bhd *Pheim Asset Management Sdn Bhd for Employees Provident Fund*	15,000,000	3.21
6.	Chai Moy Fong	14,919,500	3.19
7.	AIBB Nominees (Tempatan) Sdn Bhd *Hawang Kim Lian*	14,881,500	3.18
8.	Mayban Securities Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Chua Carmen (Dealer 072)*	14,881,500	3.18
9.	HDM Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Wong Swee Yee (M12)*	14,000,000	2.99

List of 30 Largest Shareholders (continued)

No.	Name of shareholders	No. of shares	Percentage of issued capital
10.	Syed Feisal Alhady	12,757,000	2.73
11.	Chai Seong Min	11,176,900	2.39
12.	HSBC Nominees (Asing) Sdn Bhd *RBS Coutts SG for Beadle Group Limited*	11,157,300	2.39
13.	Pembinaan Punca Cergas Sdn Bhd	10,000,000	2.14
14.	HSBC Nominees (Asing) Sdn Bhd *KBC Bank NV Brussels for KBC Equity Fund*	9,981,000	2.13
15.	HSBC Nominees (Asing) Sdn Bhd *RBS Coutts SG for Grandly Star Capital Limited*	9,700,000	2.07
16.	How Teng Teng	9,638,400	2.06
17.	Cartaban Nominees (Asing) Sdn Bhd *The Governor and Company of The Bank of Ireland for KBC Eco Water Fund*	8,074,600	1.73
18.	Ong Aun Kung	6,445,000	1.38
19.	Warisan Harta Sabah Sdn Bhd	5,785,200	1.24
20.	Citigroup Nominees (Tempatan) Sdn Bhd *Exempt An for Prudential Fund Management Berhad*	4,748,500	1.02
21.	Employees Provident Fund Board	4,735,500	1.01
22.	HSBC Nominees (Asing) Sdn Bhd *Exempt An for Credit Suisse (SG BR-TST-ASING)*	4,733,000	1.01
23.	Hari Narayanan a/l Govindasamy	4,400,000	0.94
24.	Kong Sum Mooi	4,227,400	0.90
25.	Citigroup Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Beh Hang Kong (474099)*	4,200,000	0.90
26.	AIBB Nominees (Tempatan) Sdn Bhd *Chua Ma Yu*	4,161,000	0.89
27.	HSBC Nominees (Asing) Sdn Bhd *Exempt An for The Hongkong and Shanghai Banking Corporation Limited (HBFS-I CLT ACCT)*	3,871,500	0.83
28.	EB Nominees (Tempatan) Sendirian Berhad *Pledged Securities Account for Jaggit Singh a/l Tara Singh (SFC)*	3,390,000	0.72
29.	Wong Swee Yee	3,029,200	0.65
30.	Choong Moh Kheng	2,000,000	0.43
	Total	**339,040,433**	**72.50**

analyses of shareholdings & warrantholdings (continued)
as at 27 April 2009

Analysis of Warrantholdings

Number of outstanding warrants 2007/2014	:	104,912,701
Exercise price	:	RM0.75
Exercise period	:	18 May 2007 to 17 May 2014
Exercise rights	:	Each warrant entitles the holder to subscribe for one new ordinary share of RM0.50 each in the Company
Voting rights: On show of hands	:	One vote for each warrantholder
On poll	:	One vote for each warrant

Distribution of Warrantholdings

Size of warrantholdings	No. of warrantholders	No. of warrants	Percentage of outstanding warrants
Less than 100	338	15,769	0.01
100 – 1,000	382	217,835	0.21
1,001 – 10,000	557	2,313,359	2.20
10,001 – 100,000	206	7,110,145	6.78
100,001 – less than 5% of outstanding warrants	54	54,664,925	52.11
5% and above of outstanding warrants	4	40,590,668	38.69
Total	**1,541**	**104,912,701**	**100.00**

List of 30 Largest Warrantholders

No.	Name of warrantholders	No. of warrants	Percentage of outstanding warrants
1.	Naga Muhibah Sdn Bhd	16,704,800	15.92
2.	Leong Lai Shen	12,080,088	11.51
3.	Teng Li Ling	6,500,000	6.20
4.	HSBC Nominees (Asing) Sdn Bhd *RBS Coutts SG for Beadle Group Limited*	5,305,780	5.06
5.	Chai Seong Min	5,028,450	4.79
6.	Kong Sum Mooi	4,764,750	4.54
7.	Wong Swee Yee	4,273,750	4.07
8.	HDM Nominees (Asing) Sdn Bhd *UOB Kay Hian (Hong Kong) Ltd for K.I.P. Investment Holdings Ltd*	4,050,000	3.86
9.	Chai Moy Fong	3,867,615	3.69
10.	Leong Kok Wah	3,600,000	3.43
11.	HSBC Nominees (Asing) Sdn Bhd *RBS Coutts SG for Grandly Star Capital Limited*	2,500,000	2.38
12.	Seraya Acres Sdn Bhd	2,500,000	2.38
13.	How Teng Teng	2,409,600	2.30
14.	Alliancegroup Nominees (Tempatan) Sdn Bhd *Pheim Asset Management Sdn Bhd for Employees Provident Fund*	1,850,000	1.76

List of 30 Largest Warrantholders (continued)

No.	Name of warrantholders	No. of warrants	Percentage of outstanding warrants
15.	Citigroup Nominees (Tempatan) Sdn Bhd *Exempt An for Prudential Fund Management Berhad*	1,629,150	1.55
16.	Ong Aun Kung	1,616,100	1.54
17.	Shum Yuen Ming	1,417,000	1.35
18.	Amsec Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Beh Hang Kong*	1,300,000	1.24
19.	Leong Fee Foon	1,000,000	0.95
20.	Tan Kok Sing	1,000,000	0.95
21.	Hari Narayanan a/l Govindasamy	850,000	0.81
22.	HSBC Nominees (Asing) Sdn Bhd *TCSB for Diam China Open Mother Fund*	775,000	0.74
23.	EB Nominees (Tempatan) Sendirian Berhad *Pledged Securities Account for Jaggit Singh a/l Tara Singh (SFC)*	572,500	0.55
24.	Lee Thiam Lai	500,000	0.48
25.	Loo Say Peng	500,000	0.48
26.	Ong Aun Kung	500,000	0.48
27.	Mahadevan A/L Kathirgamathamby	462,950	0.44
28.	EB Nominees (Tempatan) Sendirian Berhad *Pledged Securities Account for How See Hock (SFC)*	439,950	0.42
29.	SJ Sec Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Tan Hun Meng (SMT)*	417,000	0.40
30.	HDM Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Teoh Toh Eng (M06)*	400,000	0.38
	Total	**88,814,483**	**84.65**

Directors' Interests in the Company and Related Corporations

Directors' Shareholdings

Name of Directors	Direct Interest No. of shares	Direct Interest Percentage of issued capital	Indirect Interest No. of shares	Indirect Interest Percentage of issued capital
Dato' Seri Goh Eng Toon	-	-	66,709,600*	14.262
Jaggit Singh a/l Tara Singh	3,490,000	0.746	-	-
Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas	-	-	-	-
Dato' Dr. Freezailah bin Che Yeom	50,400	0.011	-	-
Ho Tet Shin	-	-	21,400#	0.005

Directors' Warrantholdings

Name of Directors	Direct Interest No. of warrants	Direct Interest Percentage of outstanding warrants	Indirect Interest No. of warrants	Indirect Interest Percentage of outstanding warrants
Dato' Seri Goh Eng Toon	-	-	16,704,800*	15.922
Jaggit Singh a/l Tara Singh	572,500	0.546	-	-
Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas	-	-	-	-
Dato' Dr. Freezailah bin Che Yeom	12,700	0.012	-	-
Ho Tet Shin	-	-	10,700#	0.010

Notes:-

* Indirect interest held through Naga Muhibah Sdn Bhd

Indirect interest held through his spouse, Wong Sook Kuen

Other than Integrated Water Services (M) Sdn Bhd, Mr. Jaggit Singh a/l Tara Singh does not have any interest in shares of other related corporations.

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salcon

proxy form

I/We ....
(FULL NAME IN BLOCK LETTERS)

of ....
(ADDRESS)

being a member(s) of **SALCON BERHAD** hereby appoint ....

....
(FULL NAME IN BLOCK LETTERS)

of ....
(ADDRESS)

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Sixth Annual General Meeting of the Company to be held at Victorian Ballroom, Level 1, Holiday Villa Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Thursday, 25 June 2009 at 10.30 a.m. and at any adjournment thereof.

Resolutions	*For	*Against
1. **Ordinary Business** To approve the payment of Directors' fees for the financial year ended 31 December 2008.		
2. To re-elect Ho Tet Shin as Director.		
3. To re-appoint Dato' Seri Goh Eng Toon as Director.		
4. To approve the payment of the first and final dividend of 1 sen per share, which comprises 0.67 sen per share, tax exempt and 0.33 sen per share less 25% income tax.		
5. To re-appoint Messrs KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration.		
6. **Special Business** Authority to allot and issue shares in general pursuant to Section 132D of the Companies Act, 1965.		

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

Dated this . . . . day of 2009

Number of shares held :

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

Proxy 1 :

Proxy 2 :

. . . .

Signature of Shareholder(s) or Common Seal

Notes :-

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company and Section 149 (1)(b) of the Companies Act, 1965 shall not apply.

2. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.

3. 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.

4. The instrument appointing a proxy must be deposited at the Registered Office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof .

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STAMP

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

2nd FOLD HERE