salcon

Leader in water
& sanitation services

2006
Annual Report

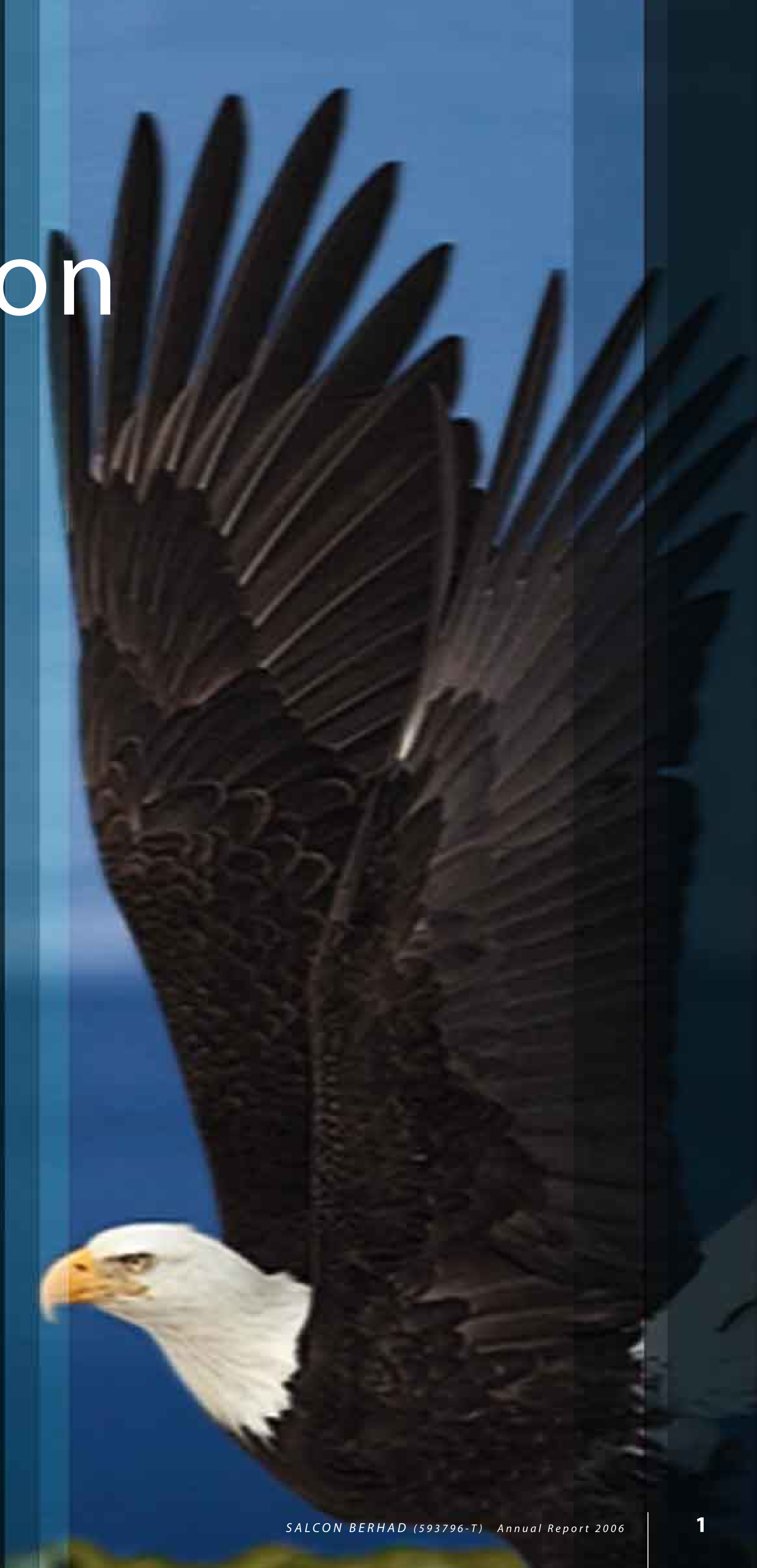
SALCON BERHAD
(593796-T)

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 social 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.

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Proxy Form

Cover Rationale

The eagle is profoundly associated with man's triumph, valor & victory. The eagle also represents leadership, strength, courage, honor, action, high inspiration, keen vision, wisdom, intelligence, success & wealth.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT *the Fourth Annual General Meeting of the Company will be held at Caymans 1, 2 & 3, Level 10, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 46150 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 26 June 2007 at 2.30 p.m. for the following purposes:-*

AGENDA

1. To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2006 together with the Reports of the Directors and Auditors thereon.
(Resolution 1)

2. To approve payment of Directors' fee.
(Resolution 2)

3. To re-appoint the following persons as Directors of the Company pursuant to Article 96 of the Articles of Association of the Company :

   i) Jaggit Singh a/l Tara Singh
(Resolution 3)

   ii) Dato' Dr Freezailah Bin Che Yeom
(Resolution 4)

4. 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, to pass the following Ordinary/Special Resolutions:

Ordinary Resolutions

5. Re-appointment pursuant to Section 129 of the Companies Act, 1965:

   "That Dato' Seri Goh Eng Toon, retiring in accordance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed as a Director of the Company to hold office until the next Annual General Meeting."
(Resolution 6)

6. Authority to allot and issue shares in general pursuant to Section 132D of the Companies Act, 1965 (SEE NOTE 2.1)

   "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 are hereby empowered pursuant to Section 132D of the Companies Act, 1965 to issue and allot 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 7)

7. Authority to allot and issue shares pursuant to the Employees' Share Option Scheme ("ESOS") (SEE NOTE 2.2)

   "That, subject to the Companies Act, 1965 and the Articles of Association of the Company, the Directors be and are hereby empowered pursuant to Section 132D of the Companies Act, 1965 to allot and issue such number of new ordinary shares of RM0.50 each in the capital of the Company as may be required to be issued pursuant to the exercise of options under the ESOS which was approved by an Ordinary Resolution passed at the Extraordinary General Meeting of the Company held on 22 July 2003."
(Resolution 8)

8. **Special Resolution**
   Proposed Amendments to the Articles of Association of the Company ("Proposed Amendments to the Articles") (SEE NOTE 2.3)

   "THAT the proposed amendments to the Articles of Association of the Company as contained in the Appendix II which is attached in the Circular to Shareholders dated 1 June 2007 be and are hereby approved.

   AND THAT the Directors be and are hereby authorised to assent to any modifications, variations and/or amendments as may be required by the relevant authorities and to do all acts and things and take all steps as may be considered necessary to give full effect to the proposed amendments to the Articles of Association of the Company."
(Resolution 9)

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

BY ORDER OF THE BOARD

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

Petaling Jaya, Selangor
Date : 1 June 2007

NOTES

1. Appointment Of Proxy

(a) A Member of the Company entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. A proxy need not be a member of the Company and the provisions of Section 149 (1) of the 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 proportions of his/her holdings to be represented by each proxy.

(c) In the case of a corporate body, the proxy appointed must be in accordance with the Memorandum and Articles of Association, and the instrument appointing a proxy shall be given under the Common Seal of the Company or under the hand of an officer or attorney duly authorized.

(d The Form of 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. Explanatory Notes To Special Business :

2.1 Authority to allot and issue shares in general pursuant to Section 132D of the Company Act, 1965

The proposed Resolution 7, 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.

2.2 Authority to allot and issue shares pursuant to the Employees' Share Option Scheme ("ESOS")

On 22 July 2003, the Shareholders of the Company had approved the ESOS. According to Section 132D of the Companies Act, 1965, the approval given by the Shareholders to the Directors of the Company to allot and issue shares pursuant to the ESOS expires at the forthcoming Annual General Meeting. As such, the Directors seek the Shareholders' approval to allot and issue shares for the ESOS.

2.3 Proposed Amendments to the Articles of Association of the Company

Proposed Amendments to the Articles of Association of the Company will bring the Articles of Association of the Company in line with the amendments to the Listing Requirements of Bursa Malaysia Securities Berhad.

Statement Accompanying Notice of Annual General Meeting

Statement accompanying notice of 4th Annual General Meeting

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

Names of Directors who are standing for re-appointment

The Directors who are standing for re-appointment at the Fourth Annual General Meeting are as follows :-

a) Jaggit Singh a/l Tara Singh
b) Dato' Dr Freezailah bin Che Yeom

The profiles of the above Directors are set out in the Section entitled "Profile of Directors" on page 13 & 14. Their shareholdings in the Company and subsidiary companies are set out in the Section entitled "Directors' Report" on page 42.

Corporate Information

Board of Directors

Tan Sri Razali Ismail
Chairman, Independent Non-Executive Director

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

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

Jaggit Singh a/l Tara Singh
Executive Director

Ho Tet Shin
Independent Non-Executive Director

Audit Committee

Ho Tet Shin

Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas

Dato' Dr Freezailah bin Che Yeom

Nomination Committee

Dato' Seri Goh Eng Toon

Dato' Dr Freezailah bin Che Yeom

Remuneration Committee

Tan Sri Razali Ismail

Dato' Seri Goh Eng Toon

Executive Committee

Dato' Seri Goh Eng Toon

Dato' Tee Tiam Lee

Dato' Leong Kok Wah

How See Hock

Risk Management Committee

Jaggit Singh a/l Tara Singh

How See Hock

Ho Tet Shin

ESOS Committee

Jaggit Singh a/l Tara Singh

How See Hock

Company Secretary

Ng Yen Hoong

Lim Poh Yen

Registered Office

15th Floor, Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Tel : 03 8024 8822
Fax : 03 8024 8811

Head Office

15th Floor Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Website: http://www.salcon.com.my

Auditor

KPMG (AF0758)
Chartered Accountants
Wisma KPMG, Jalan Dungun
Damansara Heights
50490 Kuala Lumpur

Principal Bankers

- EON Bank Berhad
- Malayan Banking Berhad
- Standard Chartered Bank Malaysia Berhad
- United Oversea Bank (Malaysia) Berhad

Registrar

PFA Registration Services Sdn Bhd
Level 13, Uptown 1, No. 1, Jalan SS 21/58
Damansara Uptown, 47400 Petaling Jaya
Selangor Darul Ehsan.
Tel : 03 7725 4888
Fax : 03 7722 2311

Stock Exchange Listing

Main Board of Bursa Malaysia Securities Berhad

Corporate Structure

SALCON BERHAD
(593796-T)

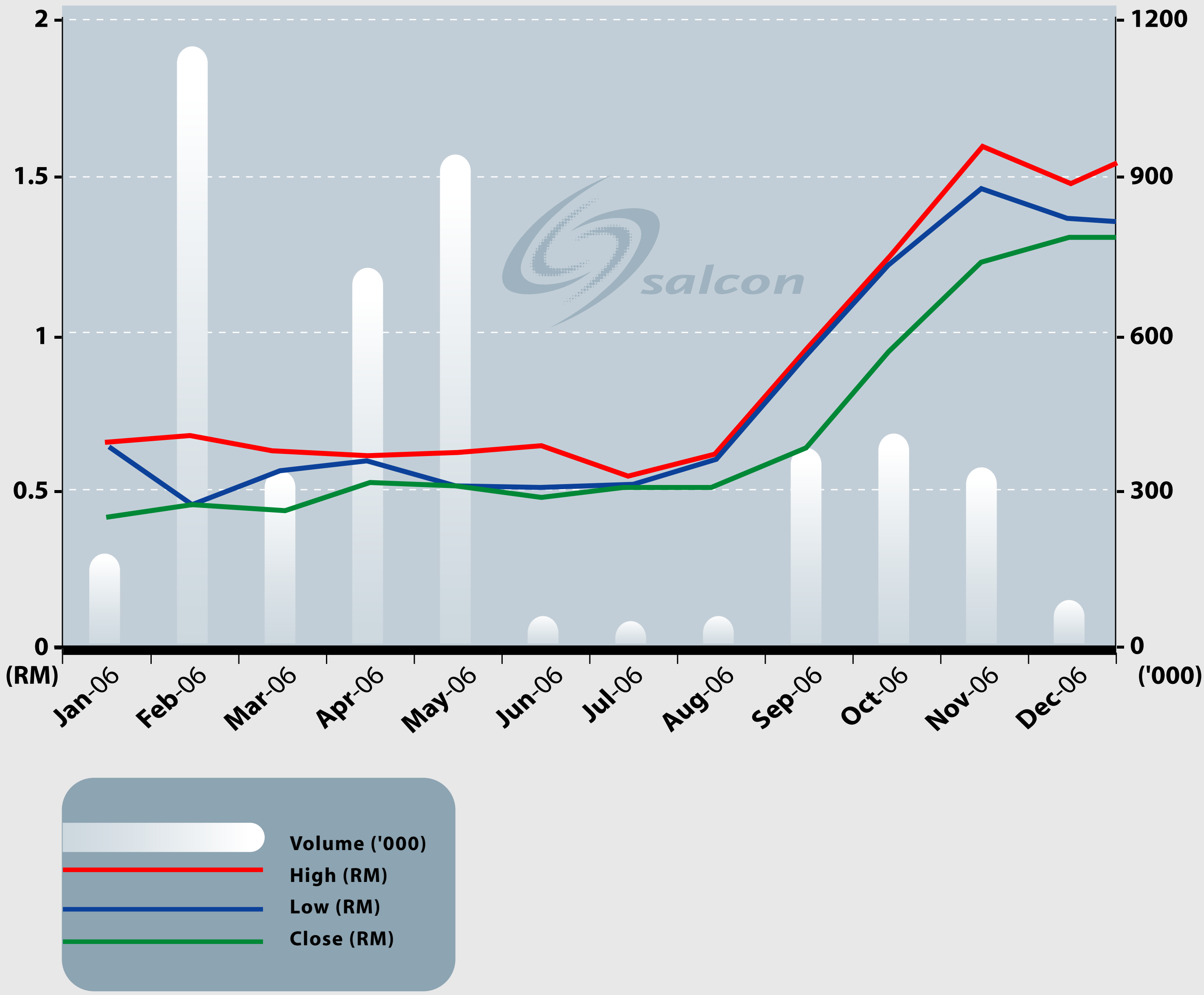
- 51% Integrated Water Services (M) Sdn Bhd
- 100% Salcon Capital Sdn Bhd (formaly known as Salcon Technology Sdn Bhd)
- 100% Salcon Water (Asia) Limited
- 100% Salcon Water International Limited
  - 100% Salcon Water (HK) Limited
    - 100% Shandong Changle Salcon Water Company Limited
  - 100% Salcon Linyi (HK) Limited
    - 60% Linyi Salcon Water Company Limited
      - 100% Linyi Water Supply Equipment Installation Company
  - 100% Salcon Yunnan (HK) Limited
    - 60% Chenggong Salcon Water Company Limited
  - 100% Salcon Zhejiang (HK) Limited
    - 60% Haining Salcon Water Company Limited
- 100% Salcon Engineering Berhad
  - 100% Salcon-Centrimax Engineering Sdn Bhd
  - 100% Salcon Environmental Services Sdn Bhd
  - 100% Salcon Resources Sdn Bhd
  - 60% Envitech Sdn Bhd
  - 100% Salcon Power Sdn Bhd (formaly known as Salcon Agro Sdn Bhd)
  - 100% Salcon (Sarawak) Sdn Bhd
  - 100% Salcon Corporation Sdn Bhd
  - 100% Precise Metal Sdn Bhd
  - 60% Salcon (Perak) Sdn Bhd (formaly known as Mantap Realiti Sdn Bhd)
  - 100% Salcon Infrastructure Sdn Bhd
  - 40% Emas Utilities Corporation Sdn Bhd
    - 90% Binh An Water Corporation Limited
  - 49% Cross Continental Investment (CCI)
    - 96.47% Palm Tech India Limited
  - 100% Bumi Tiga Enterprise Sdn Bhd
    - 100% Salcon Building Services Sdn Bhd
    - 100% Skeel Engineering Sdn Bhd
    - 60% Eagle Metalizing & Coatings Company Sdn Bhd

Legend:
- Operating Companies
- Dormant Companies
- Associates
- Hong Kong Companies
- China Companies

Share Price

	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06
High (RM)	0.65	0.67	0.62	0.60	0.62	0.63
Low (RM)	0.40	0.44	0.43	0.51	0.49	0.47
Close (RM)	0.64	0.45	0.56	0.59	0.50	0.50
Volume ('000)	175	1148	331	724	939	36

	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
High (RM)	0.54	0.62	0.96	1.26	1.59	1.47
Low (RM)	0.50	0.50	0.61	0.95	1.22	1.30
Close (RM)	0.51	0.61	0.95	1.24	1.46	1.36
Volume ('000)	22	35	375	404	341	76



Salcon in the News

The company expects to secure several more contracts, both in Malaysia and overseas, by year-end

Salcon more confident of bigger projects

BY YEOW POOI LING
lingyp@thestar.com.my

SALCON Bhd is expected to return to the black in the next financial year, said chief operating officer How See Hock.

For the second quarter ended June 30, the water engineering company made a net profit of RM263,000 on the back of RM35mil sales. (There were no comparative figures as Salcon changed its financial year to Dec 31 from July 31 previously.)

Since former banker Datuk Seri Goh Eng Toon joined the company as one of its substantial shareholders in June last year, Salcon has managed to secure five concessions in China.

The latest was also the largest – to operate and manage the supply of treated water in bulk to Haining city in ...

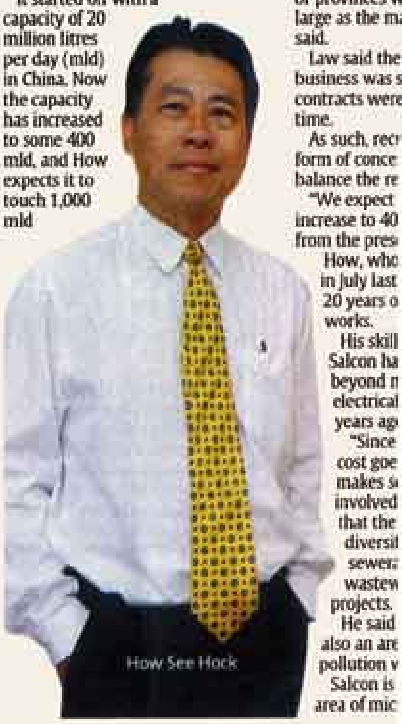
the political, economic and social centre of the province with a population of 521,000 and a land area of 154 sq km. The Nhon Trach District has a population of 115,000 and a land area of 410 sq km.

Salcon financial controller Law Won Hock said overseas revenue ...

that with the proven track record and strong reference in China, the company had better "bargaining power."

"Although the provinces in China are different in terms of culture and customs, the legal framework and guidelines are similar," he said.

It started off with a capacity of 20 million litres per day (mld) in China. Now the capacity has increased to some 400 mld, and How expects it to touch 1,000 mld



within two years.

Salcon plans to implement a similar strategy in Vietnam as what it has done in China. Its targeted cities are usually growing areas instead of mature metropolitans.

"These places have a lot of growth potential as eventually, these cities or provinces will also become as large as the mature cities," How said.

Law said the construction business was subject to volatility, as contracts were not offered all the time.

As such, recurring income in the ...

involving membrane system to remove pollutants. It has already submitted proposals for this segment.

To indicate the importance of the sewerage operations as well as to maintain quality, How has set up a sewerage department as well as a quality control division.

The initiative would fit into the company's five-year plan, which it was currently formulating, How said.

In addition, demand for Salcon's non-revenue water (NRW) ...

Salcon unit gets sewerage project

SALCON Bhd's subsidiary Envitech Sdn Bhd has accepted a RM14.7 million job to design and construct a vacuum sewerage system for a proposed mixed development project in Klang, Selangor. The letter of award from Gabungan Efektif Sdn. Bhd stated that the company will be in charge of the design, construction, completion, testing and commissioning of the sewerage system.

Salcon dapat konsesi RM150j

SALCON Bhd mengumumkan anak syarikatnya, Haining Salcon Water Co Ltd memeterai Perjanjian Konsesi bagi projek loji rawatan air bernilai RM150 juta di Wilayah ZheJiang, China.

Menerusi perjanjian konsesi itu, Haining Salcon Water bertanggungjawab dalam reka bentuk, pembinaan, operasi dan penyenggaraan loji berkenaan untuk tempoh 30 tahun.

Salcon dalam kenyataannya kepada Bursa Malaysia semalam menyatakan Haining Salcon Water tu- ...terai perjanjian pembe- ...bagi menjual semua air ...aripada projek bekalan ...ada syarikat bekalan air ...a Haining.

... Salcon Water adalah ...na yang diperbadankan ...ebagai pemegang kon- ... bekalan air di China. ...ZheJiang (HK) Ltd, anak ...ilik penuh Salcon me- ...0 peratus ekuiti dalam ...lcon Water.

...erkata, operasi daripada ...sesi itu dijangkakan me- ...n aset bersih dan me- ... pendapatan positif ke- ...pulan pada masa depan.

Katanya, syarikat memperoleh kelulusan daripada Bank Negara ...

Salcon to start talks on deals

SALCON Bhd is eyeing to supply pumps and provide maintenance works for a number of water treatment and sewerage projects in the country this year.

Its subsidiary, Salcon Centrimax Sdn Bhd, will be negotiating with the parties involved as earlier as next week for the projects.

Salcon Centrimax general manager Derrick Soo said the deals could be worth between RM4 million and RM6 million each.

"Several parties such as Lembaga Air Perak and Kedah have shown interest to work together with us to install Kirloskar pumps and for maintenance works," he said.

Salcon signed an exclusive distribution deal with India's largest pump manufacturer and exporter Kirloskar Brothers Ltd in Seri Kembangan, Selangor, yesterday to market the pumps in the country.

Speaking to reporters after the signing ceremony, Soo said the addition of Kirloskar pumps is in line with its quest to expand product range and revenue stream.

Last year, the market for pumps and spare parts in Malaysia was worth about RM190 million.

Looking up

Better net profit and overseas jobs do Salcon good

By TEE LIN SAY in HAINING CITY, CHINA

OVER the last three months, shares of water and waste cessions in China.

Not an easy feat, considering the demanding environment in unforgiving China.

Whether its a change of fortune or a case of better management, its hard to on shaky ground, things do appear to be looking up.

In fact, Salcon's chief operating officer (another new feature of Salcon) How See Hock says that the company is expected to break

Salcon seeks to triple capacity

cessions have borne fruit — it has wrapped up its biggest water concession to date.

Last week, it entered into a joint venture (JV) with the authorities of Haining City, China, to operate water treatment plants with a total capacity of 360mld. The plants are to supply the city with treated water at a bulk supply rate.

Haining, which is a two-hour drive from Shanghai, is China's 19th largest county city by GDP (22.9 billion renminbi in 2004). Salcon had been negotiating with the Haining authorities since early this year.

The 30-year concession is held by the JV — Haining Salcon Water Co Ltd — which has a share capital of

The 60mld water treatment plant in Haining City that was injected into the JV

expand to about 1,450mld.

Currently, the company's 410mld is from several plants in

Salcon unit gets RM57mil job in Sri Lanka

KUALA LUMPUR: Salcon Bhd's wholly-owned subsidiary, Salcon Engineering Bhd, via joint venture company, China Geo-SalconAccess JV, has been awarded a RM57.1mil contract to design and build a water treatment plant together with ancillary works in Sri Lanka.

Salcon gets RM20m contract extension

SALCON Bhd, a total water and ...utions provider, ...20 million con... Water Depart... with Phase 2 ... Non Revenue ...ntract.

...yesterday, Sal... scope of work in...ng core NRW ...nical personnel ... the NRW re... such as pipe re...ng up of District ...active leakage ...repairs, con...

Salcon wins deal to supply treated water to Chinese city

SALCON Bhd ... water and ... providers in ... a contract to ... the supply of ... to Haining ... China.

The 30-year ... signed with ... ment is exp... mulative reve... lion.

Under the ... ment, Salcon ... a wholly-own... con, holds a 6... joint venture ... Salcon Water Co Ltd (HSW).

Holding the majority stake, Salcon will be responsible for the man-

Salcon gets RM20mil Sandakan project

KOTA KINABALU: Salcon Bhd has been awarded a RM20mil contract for phase two of the Sandakan non-revenue water (NRW) project.

In a statement yesterday, the waste water treatment concessionaire announced the signing of an agreement between 100%-owned subsidiary Salcon Engineering Bhd and the Sabah Waterworks Department.

The two-year contract is a continuation of the phase one works, which was undertaken by Salcon.

Salcon Engineering chief operating officer How See Hock said: "We are proud of this achievement and look forward to replicate this success in other parts of Malaysia and the Asian region."

He added that Salcon had also received further letters of intent, both locally and overseas, to implement NRW reduction works.

Salcon's scope of work for the project will include the provision of core NRW team and technical personnel.

Phase one of the Sandakan project was successfully completed in October 2005.

water treatment plant with a design capacity of 60,000 cu m/day

Salcon chief operating officer How See Hock said the contract is

Profile of Directors

Dato' Seri Goh Eng Toon **Tan Sri Razali bin Ismail** **Mr Jaggit Singh a/l Tara Singh**

Tan Sri Razali Ismail

Chairman, Independent Non-Executive Director
Malaysian

Tan Sri Razali Ismail, aged 68, was appointed to the Board of Salcon on 21 July 2003. He holds a Bachelor of Arts (Honours) from University of Malaya.

Tan Sri retired from government in 1998 after a career in the Malaysian Diplomatic Service over 35 years. In that period Tan Sri Razali Ismail was assigned to various countries including to senior posts as Ambassador to Poland (and German Democratic Republic, Czechoslovakia and Hungary – 1978-1982), Ambassador to India (1982-85), Deputy Secretary-General (Political Affairs at the Ministry - 1985-88), and finally Malaysia's Ambassador to the United Nations 1988-98. He served in various capacities at the United Nations inter alia as Chairman of the Group of 77 in 1989, Chairman of the Commission on Sustainable Development in 1993 and as President of the United Nations General Assembly 1996-1997 session. He was closely involved in developing positions on issues such as development and sustainability, poverty and marginalisation, political reforms in the United Nations especially the Security Council and the General Assembly and on human rights and the environment. Tan Sri Razali Ismail continues to keep abreast on these subjects at home and abroad. He was the UN Secretary-General's Special Envoy for Myanmar for the last 5 years.

In Malaysia, Tan Sri Razali Ismail is involved in IT and environmental industries. He is the Pro Chancellor of the University Science Malaysia, Chairman of the National Peace Volunteer Corp (Yayasan Salam) and was appointed as the Malaysian Prime Minister's Special Envoy to facilitate assistance on Tsunami disaster victims in the affected areas. He is a Council member of the Geneva-based Humanitarian Dialogue Centre, and President of World Wildlife Fund in Malaysia.

Tan Sri is currently serves on the Board of Allianz General Insurance Berhad, IRIS Corporation Berhad, Leader Universal Holdings Bhd and PLUS Expressways Berhad.

Tan Sri is a member of the Remuneration Committee. His shareholding in the Company was disclosed under page 43 of the Directors Report. Tan Sri has no family relationship with any other Director and/or major shareholder of the Company. He has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company and has no convictions for offences within the past 10 years.

Tan Sri attended all five (5) Board meetings held during the financial year ended 31 December 2006.

Dato' Seri Goh Eng Toon

Vice Chairman, Non-Independent Non Executive Director
Malaysian

Dato' Seri Goh Eng Toon, aged 73, was appointed to the Board of Salcon Berhad (the "Company") and the Vice Chairman of the Company on 15 June 2005. He holds a Cambridge General Certificate of Education and is a Fellow of the Institute of Bankers Malaysia (FIBM).

Dato' Seri Goh started his banking career with Midland Bank in the United Kingdom in the early fifties and Malayan Banking Bhd 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 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.

Dato' Seri Goh 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 Committee of Aviva. He retired from Aviva in September 2006 when it merges into MSIG Insurance Berhad.

Dato' Seri Goh presently serves on the Boards and as Chairman of Rockwill Trustee Bhd 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.

Dato' Seri Goh is currently a member of the Executive, Nomination and Remuneration Committee of Salcon Berhad. He is a substantial shareholder of the Company by virtue of his indirect substantial shareholding in Naga Muhibah Sdn. Bhd. Apart from the above, he has no family relationship with any other Director and/or major shareholder of the Company. He has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company and has no convictions for offences within the past 10 years.

Dato' Seri Goh attended five (5) out of five (5) Board meetings held during the financial year ended 31 December 2006.

Jaggit Singh a/l Tara Singh

Non-Independent Executive Director
Malaysian

Mr. Jaggit Singh, aged 59, was appointed to the Board on 21 July 2003. He 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 29 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 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. One of his notable achievements in Malaysia includes the implementation of the first water BOT project in Malaysia, 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.

Mr, Jaggit 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 a member of the Risk Management, ESOS and Tender Committees of the Company. His shareholding in the Company was disclosed under page 43 of the Directors Report. He has no family relationship with any other Director and/or major shareholder of the Company. He has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company and has no convictions for offences within the past 10 years.

Mr. Jaggit Singh attended four (4) out of five (5) Board meetings held during the financial year ended 31 December 2006.

Profile of Directors

Dato' Dr Freezailah bin Che Yeom | Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas | Mr Ho Tet Shin

Dato' Dr Freezailah bin Che Yeom

Independent Non-Executive Director
Malaysian

Dato' Dr. Freezailah Bin Che Yeom, aged 67, 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 Edinburgh University, United Kingdom.

Dato' Dr Freezailah has more than 40 years of experience in various fields of the forestry sector including holding several senior management positions. In 1987 he was elected to serve as the founding Executive Director of the UN-Sponsored International Tropical Timber Organisation (ITTO) based in Yokohama, Japan with the rank of Assistant Secretary-General on the UN-Scale. He provided leadership to the 57-member-country ITTO and nurtured its growth and development into a respected global body to promote the conservation, sustainable management and utilisation of the world's tropical forests. In recognition of his contributions to the forestry sector, the ITTO created the "Freezailah Fellowship Fund" on his retirement in 1999 and he was conferred "Award of Excellence" by the Commonwealth Forestry Association. Recently, His Majesty the Emperor of Japan conferred the "Order of the Rising Sun, Gold Rays with Neck Ribbon" to Dato' Dr Freezailah. 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 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 and Nominating Committees of the Company. His shareholding in the Company was disclosed under page 43 of the Directors Report. He has no family relationship with any other Director and/or major shareholder of the Company. He has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company and has no convictions for offences within the past 10 years.

Dato' Dr Freezailah attended four (4) out of five (5) of the Audit Committee and Board meetings held during the financial year ended 31 December 2006.

Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas

Independent Non-Executive Director
Malaysian

Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas, aged 62, was appointed to the Board of Salcon on 21 July 2003. He holds a Bachelor of Law LLB (Hons) from the National University of Singapore.

Dato' Seri Megat 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 ("FPLC") and the Malaysian Institute of Corporate Governance ("MICG").

Dato' Seri Megat is currently the Non-Executive Chairman of Tradewinds Corporation Berhad, Asian Pac Holdings Berhad and My-Infotech (M) Berhad. He also sits on the Boards of SEG International Berhad and Dialog Group Berhad. He was a member of the High Level Finance Committee of the Ministry of Finance and Capital Market Advisory Council of the Securities Commission ("CMAC"). He was also a member of the 2nd National Economic Consultative Council ("NECC2") and Corporate Debt Restructuring Committee ("CDRC"). He is a long time member of Bursa Malaysia (Formerly known as Kuala Lumpur Stock Exchange) Listing Committee. He is now a member of UMNO's Disciplinary Committee. In addition, he plays an active role in the Institute of Integrity Malaysia ("IIM").

Dato' Seri Megat is a member of the Audit Committee. His shareholding in the Company was disclosed under page 43 of the Directors Report. He has no family relationship with any other Director and/or major shareholder of the Company. He has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company and has no convictions for offences within the past 10 years.

Dato' Seri Megat attended four (4) out of five (5) of the Audit Committee and Board meetings held during the financial year ended 31 December 2006.

Ho Tet Shin

Independent Non-Executive Director
Malaysian

Mr. Ho Tet Shin, aged 56, was appointed to the Board 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 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.

Mr. Ho is the Chairman of the Audit Committee and a member of the Risk Management Committee. He has no shareholding in the Company and has no family relationship with any other Director and/or major shareholder of the Company. He has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company and has no convictions for offences within the past 10 years.

Mr. Ho attended four (4) out of five (5) of the Audit Committee and Board meetings held during the financial year ended 31 December 2006.

"On behalf of the Board of Directors of Salcon Berhad ("Salcon"), I have the pleasure of presenting to you the Annual Report and Audited Financial Statements of the Company for the financial year ended 31st December 2006.

Chairman's Message

Financial Performance

For financial year ending December 2006, the Group achieved a profit after tax of RM5 million on the back of revenues of RM121 million. This reflects a turnaround from the loss of RM26.4 million reported in the previous financial period.

The improvement in financial results is due to higher gross profit margins achieved as a result of the management's cost control measures despite rising prices of construction materials and lower provisions for doubtful debts as a result of tighter credit controls.

The Group's gross profit for the year was approximately RM29 million compared to RM12.4 million in the comparable period in 2005 (annualized).

Strategic Developments

In engineering and construction, the Group has tendered for water and waste water projects locally and overseas in Vietnam, Sri Lanka, India, Indonesia and Cambodia and has successfully secured a maiden project in this financial year to build a water treatment plant in Hambantota, Sri Lanka. The Group is confident to secure more similar projects in the coming years.

The Group has achieved significant progress in the implementation of our strategy to diversify our revenue base and to focus on increasing contribution from concessions and O&M contracts to ensure sustainable long term recurrent income streams.

In the People's Republic of China, in particular, the Group secured yet another water concession in Haining City, Zhejiang Province, for the construction of a 300 MLD water treatment plant in 2 phases.

Artist impression of Haining Water Treatment Plant, Zhejiang Province, PRC, which is currently under construction.

Opening Ceremony of Haining Salcon Water Co Ltd

In total, the Group now owns 5 water and wastewater concessions in China with a daily treatment capacity of approximately 600,000 m3/day. With these strategic achievement in place, the Group expects to secure more of such water and wastewater concessions which are expected to enhance shareholders' value through a steady stream of income within the next 2-3 years.

Salcon's position as the premier NRW specialist in Malaysia was further reinforced with the award of Phase 2 of the Sandakan NRW by the Sabah Government. Bolstered by our success in Sabah, Salcon is also making inroads into other states in Malaysia as well as overseas in countries such as Vietnam and China to export our expertise.

In order to strengthen the Group's internal operations with a view of imminent future growth, the Group has restructured the organization and embarked on a staff recruitment drive to meet these challenges. During the year, staff succession planning, business continuity and risk management plans were reviewed, rationalized and implemented.

The Group is committed to the ISO 9001: 2000 quality standards and ISO 14001: 1996 environmental standard where standards are maintained and regularly monitored through quality audits. The Group is also currently embarking on the attainment of the OSHAS 18001 certification.

As the world faces a looming water crisis due to the scarcity of existing water resources brought about by global warming, severe draught and pollution, there is increasing focus on harnessing sea water as an alternative water resource. Recognizing this need, a Technology Development Department was set up to develop and keep abreast with the latest technological advances in advanced water treatment process such as membrane technology.

Industry Outlook

In Malaysia, significant events in the water industry during 2006 include the passing of the Water Service Industry (WSI) Bill 2006 and National Water Services Commission (SPAN) Bill 2006, on May 10 2006.

A special-purpose vehicle – Water Asset Management Company ("WAMCO") has been established to tackle the issue of the huge amount of funds required to undertake water

Regional Sewage Treatment Plant for mix development for Bandar Bukit Tinggi 2, Klang, Selangor (Module 2)

Detecting underground leaks

infrastructure projects. It is reported that about RM10 billion would be needed in the next 3 years, or RM50 billion over 10 years, to improve the infrastructure of the country's water industry. As a Federal Government-owned entity with valuable water assets, WAMCO will be able to source for funds at a lower cost.

Under the framework of the WSI Act, regulation of SPAN and formation of WAMCO, it is anticipated that the restructuring of the water industry will be aligned within a clear legal policy and framework aimed at efficiency, transparency and equitability for all stakeholders in the Malaysian water industry.

All these developments augur well for the Malaysian water industry as efficiency and performance targets become the main drivers for growth.

As with other water players in the Malaysian market, Salcon will be licensed by SPAN and required to comply with its service standards and key performance indicators.

We are confident of meeting these challenges ahead and are optimistic that these policies will provide ample opportunities for Salcon, given our extensive experience and ability to offer value added services in the design, construction and operation of water and wastewater treatment plants.

Funding from the 9th Malaysian Plan totaling RM11.3 billion over 5 years is also expected to further boost the water sector.

Sg. Kinta Water Treatment Plant - View of Chemical and Chlorine Plants

Prospects

In Malaysia, we view 2007 as a better year aided by the speedy implementation of the 9th Malaysia Plan. Among the potential opportunities for the Group under the 9MP are NRW works, as well as design and construction of water and sewage treatment facilities. Under the new framework mooted by the Government, the Group is also exploring opportunities for strategic partnerships, equity participation, O&M contracts and private funding initiatives.

Salcon, with the experience, expertise and proven track record, expects to play a significant role in the development of water and sewerage treatment facilities in Malaysia and overseas.

The Group's strategy to expand our revenue base to include long term recurrent income streams is on track and we have targeted high growth markets such as China, Vietnam, Indonesia and India. The Group's proven track record of securing viable and income

Bukit Tinggi Regional Sewage Treatment Plant (population equivalent of 280,000 persons)

Installation of acoustic loggers in distribution system for leak detection

generating concession investments in China will stand in good stead for further investment opportunities in this rapidly expanding market.

In addition to China, the Group has also participated in international tenders for water projects in India, Sri Lanka and Vietnam.

The Group will continue to implement the projects it has in hand with a residual contractual value of RM250 million. Construction works from the balance of the order book should keep the Group busy for the next 2 to 3 years. More than half of the current projects involved long term operation and maintenance contracts with duration of five years or more.

With the proposed Rights Issue which is expected to be completed by the 2nd quarter of FYE 2007, the equity base of the Group will be enlarged significantly to gear up for future growth.

Against this backdrop, the Board is optimistic that the Group will perform satisfactorily in the financial year ahead. The Group is stronger today than it was last year and has strategically positioned itself for future growth. Together with the Group's good management and technical track records, we are confident of meeting the challenges arising from the ongoing structural changes in the Malaysian water industry as well as the Group's overseas expansion.

Corporate Governance

Our statement on Corporate Governance is set out on page 30 to 35. There were no sanctions, reprimands and/or penalties imposed on the Company, Directors or Management by the relevant authorities during the financial year.

Acknowledgements

On behalf of the Board of Directors, I would like to express my sincere appreciation and gratitude to Dato Lim See Teok, the Executive Director cum Chief Executive Officer who vacated office on 9 June 2006. We thank him for his contribution to the Group throughout the years.

Binh An Water Treatment Plant in Ho Chi Minh city, Vietnam

Changle Water Supply Project, Shandong Province, People's Republic of China

I would also like to record my deepest appreciation to our customers, shareholders, government authorities and agencies, bankers and business partners for their continued trust and confidence in us.

Last but not least, my heartfelt thanks go to all our dedicated management and staff for their strong commitment and contribution towards the success of our Group.

Tan Sri Razali Ismail
Chairman

Management Review

Engineering & Construction

Traditionally, the Engineering & Construction division has been Salcon's main growth driver with Malaysia being the Group's major market. As such, this division is dependent upon Federal Government expenditure in expanding and improving water facilities in Malaysia.

However since 2003, the on-going restructuring of the Malaysian water industry had adversely affected the performance of the Engineering & Construction division as the Government put on hold the award of new water projects pending the formation of SPAN and WAMCO.

Under these restrictive conditions, we focused on improving profitability in our existing construction projects and maintaining contract flow by tendering for engineering and construction projects overseas as well as through private finance initiatives (PFIs) mooted by the Government in the 9th Malaysia Plan.

Overall view of Dong Bei Yuan Water Treatment Plant, Linyi City, Shandong Province, People's Republic of China

Project Activities

During the period under review, Salcon successfully completed 3 major projects valued at RM93.3 million. These projects are the Sg Kinta Water treatment project, Sam Lae raw water pumping station no. 4 under the 7th Bangkok Water Supply & Improvement Project and the Sandakan Non Revenue Water Project, Phase 1.

Reflecting confidence in Salcon’s holistic approach towards the reduction of NRW, Salcon received a Letter of Award for Phase 2 of the NRW reduction programme in February 2006.

Besides this, Salcon also secured RM29.7 million worth of wastewater projects via our subsidiary, Envitech Sdn Bhd. The Group also successfully completed the design and construction of three sewage collection systems using the state of the art vacuum system.

Subsequent to the financial year end, Salcon also announced the receipt of a letter of intent from the Sabah Government for the design and construction of the Kota Kinabalu Sewage System. The project, valued at RM183 million will assist to improve the sewerage system in the city of Kota Kinabalu.

With proven track record and expertise, Salcon successfully secured our maiden project in Sri Lanka, the Hambantota Water Supply project which is funded by Asian Development Bank (ADB). The project involves the construction and completion of head Works, raw water transmission main, water treatment plant and treated water pumping main.

Salcon is responsible for all treatment process, mechanical, electrical and instrumentation works valued at approximately 30% of the contract sum of RM57 million.

We are proud to have gained a foothold in Sri Lanka and look forward to securing similar projects funded by multilateral agencies in the country.

View of Sg. Kinta Water Treatment Plant

Vacuum/Gravity sewerage reticulation for Bandar Bukit Tinggi 3, Klang, Selangor

Concession Investments

Since the last 3 years, Salcon has been repositioning its business focus to building up the recurrent income potential of concession investments especially in high growth markets such as China, Vietnam, Indonesia and India.

Our technical expertise coupled with our ability to arrange financing has enabled us to package winning deals in our overseas concessions especially in the People's Republic of China.

View of clarifier at Dong Bei Yuan Water Treatment Plant, Linyi City, Shandong Province, People's Republic of China

China – Strategic Growth Market

Salcon, over the past few years, has been actively involved in the China water and wastewater market, making strategic equity investments in targeted areas with high demand growth potential. We have the breadth of expertise to design, build, own, operate and maintain infrastructure facilities and systems.

During the period under review,Salcon signed a 30 year concession agreement for the design, construction, operation and maintenance of a 300 MLD water treatment plant in Haining, Zhejiang Province, People's Republic of China. The plant will be constructed on Build-Operate-Transfer basis in 2 phases of 150 MLD each and the first phase is expected to be completed by end 2007. As part of the concession, Salcon also took over an existing water treatment plant of 60 MLD which is currently in operation.

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

Chenggong Water Treatment Plant, Yunnan Province, People's Republic of China

This concession represents Salcon's biggest investment thus far in China and adds to our other existing portfolio of investments which include the following:-

1) Changle Water Supply, Shandong Province – 50 year concession
2) Changle Wastewater Treatment Plant, Shandong Province – 30 year concession
3) Chenggong Water Supply, Yunnan Province – 30 year concession
4) Linyi Water Supply, Shandong Province – 30 years

As these concessions mature within the next 2-3 years, they will contribute significantly to the company's profits, providing a long term recurrent income.

Given these successes, the China market is seen to be the major driver for the Group's growth in the years ahead.

Vietnam

We continue to operate and manage our first Build – Operate - Transfer contract in Vietnam which is supplying 100 MLD of treated water to Ho Chi Minh city on a take-or-pay basis. Payment from the Vietnamese authorities have been prompt and this concession contributes a steady stream of income to the Group.

Facilities Operations & Maintenance

Salcon provides 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, for water and wastewater treatment plants.

Salcon's existing portfolio include the Operation & Maintenance contract for the operation, management and maintenance of Sungai Terip Water Treatment Plant Phase I, II and III and Kuala Jelai Water Treatment Plant, Phase 1 and 2, Kepis Water Treatment Plant, all located in Negeri Sembilan as well as monitoring of the Sungai Terip Dam. Supplying a total of 360 MLD of potable water daily to Seremban, Senawang, Nilai, Mantin, Bahau, Kuala Pilah, Kepis, Rompin and Tampin, the O&M contracts provide a long term recurrent income stream to the Salcon group.

Aerial view of Sg. Terip Dam, Negeri Sembilan

Regular preventive maintenance checks conducted at water treatment plants.

Outlook for FYE 2007

Water is crucial to development and for Malaysia to reach developed nation status by year 2020, water infrastructure facilities will have to be constructed in tandem with the country's future growth.

Under the Ninth Malaysian Plan (9MP), the government has allocated RM11.3 billion for the water and sewerage infrastructure development, an increase of 117% over the Eighth Malaysian Plan. This bodes well for the water and wastewater industry which has seen a decline in activities over the past few years. With the finalization of WAMCO and SPAN, the Group sees brighter days ahead in the Malaysian water industry.

Salcon, with our experience, expertise and track record, expect to play a significant role in the development of water treatment facilities in Malaysia.

The Group's balance sheet remain strong and with the forthcoming rights issue, we have the cash flow required to meet our immediate goals for the future and we will continue to develop lucrative concessions, where we have established a track record in China.

Calender of events

Sg. Terip Educational Trip
11/03/2006

Buses were filled with staff and their family members as parents and excited children took the opportunity to educate themselves on the operations of a water treatment plant. Besides the water treatment plant tour and visit, a fishing competition was also held for the adults and a coloring contest for the children.

AsiaWater 2006
21 to 24/03/ 2006

Salcon Berhad participated as sponsor and exhibitor in the tradeshow that brought together the latest technology on water and wastewater treatment, management and services. The event was officiated by YB Dato' Seri Lim Keng Yaik, Minister of Energy Water and Communications.

Salcon-Centrimax Engineering Sdn Bhd (SCESB) Signing Ceremony with Kirloskar Pumps being Exclusive Distributors for Water and Sewage Industry
23/03/2006

SCESB, a wholly owned subsidiary of Salcon Engineering Berhad, was appointed the Exclusive Distributor in the water and sewerage industry for Kirloskar Brothers Limited, India's largest pump manufacturer and exporter. This strategic partnership strengthens SCESB's position as a major supplier of Engineered Centrifugal Pumps in the water and sewerage industry.

Salcon Appreciation Dinner 2006
15/04/2006

Themed "Nite of Blue", Salcon's annual dinner was held at the Palace of Golden Horses. Employees from Salcon HQ, Sandakan, Sabah, N. Sembilan, Thailand and China came together to celebrate the yearly event. The night was filled with entertainment ranging from dance performances, games to a singing competition.

Salcon Berhad 3rd Annual General Meeting (AGM)
09/05/2006

Salcon AGM was held at the Summit Hotel, Subang USJ. Shareholders were briefed on the company's performance and future direction.

Salcon Bowling Competition
20/05/2006

Time to play and get together. A bowling competition was held at Ampang SuperBowl Summit Complex, USJ Subang where. 52 employees took part. The champion for the male and female category walked away with RM200 cash prize whilst winning teams won RM600 cash prize.

Enterprise-Wide Risk Management (ERM) Seminar
07/06/2006

Senior management staff came together to assess and analyze risks, identify key areas of concern and proactively develop measures to ensure competitiveness, compliance with regulations and internal procedures during an Enterprise-Wide Risk Management (ERM) Seminar.

Mayor Lian of People's Government of Linyi City, China and Delegates visit to salcon

12/06/2006

Salcon was honored to receive the visit of Mayor Lian and delegates to Salcon's office for business discussions.

Jiaxing China Trade Delegation Visit to Salcon and Jiaxing Investment Forum in Malaysia

19/06/2006 and 20/06/2006

In conjunction with Jiaxing Investment Forum in Kuala Lumpur, Mr. Lai Yung Shang, Vice Secretary General of the Jiaxing Municipal Government, China and delegates visited Salcon. An office tour, presentation of Salcon's business and business discussions were carried out.

Salcon Family Day

01/07/2006 to 02/07/2006

The family outing held at the Amber Stone Eco Resort in Ulu Yam, Selangor was a truly back to nature experience. Parents and children enjoyed themselves tremendously camping out in the jungle with the tinkling sound of fresh water from a beautiful waterfall in the background.

Salcon Company Trip – 6 Days & 4 nights Korea

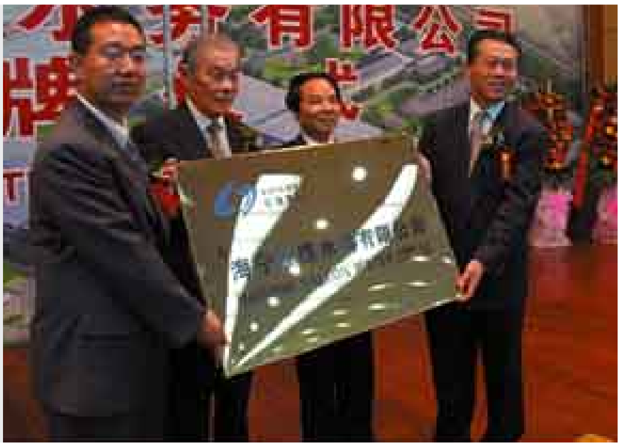
30/08/2006 to 04/09/2006

Employees looked forward to the company trip to Korea. Amongst the places of interests covered were the Sculpture Park, Wolmido Sea Gull Cruise, Chamsori Gramophone Edison Museum and many other places.

Haining Salcon Water Ltd (HSW) Opening Ceremony

09/10/2006

Haining Salcon Water Ltd (HSW). secured a 30-year BOT contract to supply treated water in bulk to Haining City, Zhejiang Province. Salcon marked its presence in Haining, Zhejiang Province, China with the signing of the Concession Agreement and Bulk Purchase Agreement during the opening ceremony of HSW.



Visit to Salcon by Deputy Mayor Chen Yue Hua and delegates from People's Government of Haining City

19/07/2006 to 27/07/2006

Salcon welcomed Deputy Mayor Chen YueHua and his delegation to Salcon's office where briefings and discussions were carried out. Besides this, the Deputy Mayor and his delegation also visited the Sg. Terip water treatment plant and Sandakan Non Revenue Water project site.

Salcon Signs MOU with Dong Nai Province to Conduct Water and Wastewater Feasibility Studies

09/11/2006

A Memorandum of Understanding ("MOU") was signed with Dong Nai People's Committee of Vietnam to conduct a feasibility study on the overall water and wastewater system of Bien Hoa City and Nhon Trach District, located in Dong Nai Province, Vietnam.

Statement of Corporate Governance

The Board of Directors of Salcon Berhad (Salcon) is committed to ensuring that the highest possible standards of corporate governance is practised in managing the affairs of the Company and Group as a cornerstone of its stewardship and responsibilities towards business prosperity and corporate accountability. Compliance with the Malaysian Code on Corporate Governance (the "Code") is accorded priority as a basic tenet to protect the interests of and enhance shareholders' value.

Towards this end, the Company is pleased to report that it has complied with the Best Practices as set out in Part 2 of the Code and the ensuing paragraphs clarify how the Company has applied the Principles as set out in Part 1 of the Code.

A. BOARD OF DIRECTORS

1. The Board and Board Balance

The Board comprises one (1) Executive Director and five (5) Non-Executive Directors of whom four (4) are independent which is in compliance with paragraph 15.02 of Bursa Securities Listing Requirements in respect of the Board composition. The profiles of the Directors are set out in Pages 12 to 15 of this Annual Report.

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 Independent Non-Executive Chairman and the Executive Management to ensure a balance of power and authority. Generally, the Executive Director and 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.

2. 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.

During the financial year under review, the Board met five (5) times and the attendance of each Director is as follows :-

Directors	No. of meetings attended
Tan Sri Razali Ismail	5/5
Dato' Seri Goh Eng Toon	5/5
Dato' Lim See Teok (resigned on 9.6.2006)	3/3
Jaggit Singh a/l Tara Singh	4/5
Dato' Dr Freezailah Bin Che Yeom	4/5
Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas	4/5
Ho Tet Shin	4/5

All the directors have complied with the minimum 50% attendance requirement in respect of Board meetings as stipulated by the Listing Requirements of the Bursa Securities.

3. Access to Advice and Information

All Directors have full access to all information pertaining to the Group's business and affairs to enable them to discharge their duties and responsibilities. Board meetings are structured with a pre-set agenda and Board papers which provide updates on operational, financial and corporate developments are circulated in advance of Board Meetings to enable them to consider and deliberate knowledgeably on issues and to facilitate informed decision-making.

All the Directors have access to the advice and services of the Company Secretary and senior management and may seek independent professional advice, at the Company's expense, if required, in the exercise of their duties and responsibilities.

4. Appointment and Re-election to the Board

Appointments to the Board are made based on the recommendation of the Nomination Committee. In accordance to the Articles of Association of the Company, all Directors shall retire from office once at least in each three (3) years but shall be eligible for re-election.

Directors over seventy years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965.

5. Directors' Training

All directors have attended the Mandatory Accreditation Programme and the Continuing Education Programme (CEP) prescribed by the Bursa Securities. During the financial year ended 31 December 2006, the Directors have participated in programs related to corporate governance and detection and prevention of fraud. The Directors will continue to attend relevant training programs to keep abreast with new developments for the furtherance of their skills.

6. Board Committees

The Board has delegated certain responsibilities to the Board Committees which operate within defined terms of reference. The Board Committees include the Audit Committee, Executive Committee, Nomination Committee, Remuneration Committee, Option Committee and Risk Management Committee. The respective Committees report to the Board on matters considered and their recommendation thereon. The ultimate responsibility for the final decision lies with the full Board.

B. DIRECTORS' REMUNERATION

Objective

The objective of the Remuneration Committee is to ensure the remuneration policies of the Company are competitive, thereby enable the company to attract and attain high calibre executives and at the same time protect the interest of the shareholders. In the case of Executive Director, the component parts of remuneration are structured so as to link rewards to corporate and individual performance. In the case of Non-Executive Director, the level of remuneration reflects the experience and level of expertise and responsibilities undertaken by the particular Non-Executive Director concerned.

Remuneration Procedures

The Remuneration Committee recommends to the Board the remuneration package of all Directors. The Executive Directors do not participate in decisions relating to their remuneration. The determination of the remuneration of the Non-Executive Directors is a matter by the Board as a whole.

Details of the remuneration of Directors of the Company for the financial year ended 31 December 2006 are as follows:

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

	Salary (RM)	Bonus (RM)	Fee (RM)	Meeting Allowance (RM)	Benefits in Kind (RM)	Statutory Contribution (RM)	Others (RM)	Total (RM)
Executive Directors	539,700	61,425	-	-	31,558	78,912	56,222	767,817
Non-Executive Directors	-	-	160,000	19,500	-	-	-	179,500

2. Aggregate remuneration of each Director :-

Executive Directors	RM'000
Jaggit Singh a/l Tara Singh	366
Dato' Lim See Teok (resigned on 9.6.06)	401
Non-Executive Directors	
Tan Sri Razali Ismail	65
Dato' Seri Goh Eng Toon	27
Dato' Dr Freezailah Bin Che Yeom	29
Dato' Seri Megat Najmuddin Bin Datuk Dr Hj Megat Khas	29
Ho Tet Shin	29

C. RELATIONSHIP WITH SHAREHOLDERS

Shareholders Communication and Investors Relationship 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 convening of Annual General Meetings (AGM) and Extraordinary General Meetings is viewed as an ideal forum to communicate with private and institutional investors alike. 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 Bursa Securities.

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. 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.

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 approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair 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 Bursa Securities. The Audit Committee assists the Board in reviewing the information disclosed to ensure accuracy and adequacy.

Internal Control

The Statement on Internal Control furnished on Pages 39 to 40 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's auditors, both internal and external.

D. ACCOUNTABILITY AND AUDIT *(Continued)*

Directors' responsibility statement

The Directors are legally required to prepare financial statements which present a true and fair view of the state of affairs of the Group and the Company and is pleased to announce that in preparing the financial statements for the financial year ended 31 December 2006, the Group has:

- ensure compliance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board.;
- 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.

OTHER INFORMATION

The following information is provided in compliance with Appendix 9C of the Bursa Securities Listing Requirements

1. Utilisation of Proceeds

Further to note 30 of the notes to the financial statements, the proceeds to be raised from the Rights Issue with Warrants shall be utilised in the manner as disclosed in the Company's Abridged Prospectus dated 27 April 2007.

2. Share buybacks

The Company did not enter into any share buyback transactions during the financial year ended 31 December 2006.

3. Options, Warrants or Convertible Securities

The Company has not issued any Share Options, Warrants or Convertible Securities during the financial year ended 31 December 2006.

4. 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 2006.

5. 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.

6. 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 2006.

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

7. Variation in relation in results for the financial year

The audited financial statements for the financial year ended 31 December 2006, contained in this Annual Report does not deviate by more than 10% from the unaudited results of the Group announced on 27 February 2007.

8. Profit Guarantee

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

9. Material Contracts

There were no material contracts entered into by the Company or it's subsidiaries involving Directors and major shareholders for the financial year ended 31 December 2006.

10. Revaluation Policy on Landed Properties

On 31 January 2007, the Group has revalued its office premises situated at 15th and 16th floor of Menara Summit, USJ. It is the policy of the Group to revalue 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.

Report of Audit Committee

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
Dato' Seri Megat Najmuddin Bin Datuk Seri Dr Hj Megat Khas	Independent Non-Executive Director

MEETINGS

During the 12 months financial period ended 31 December 2006, five (5) meetings were convened, with details on the attendance of the Directors listed below:

Members	No. of meetings attended
Ho Tet Shin (Chairman)	4/5
Dato' Dr Freezailah Bin Che Yeom	4/5
Dato' Seri Megat Najmuddin Bin Datuk Seri Dr Hj Megat Khas	4/5

Representatives of the external auditors, Messrs. KPMG, Head of Internal Audit and Head of Finance and Accounts also attended 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 of the Committee include, inter alia, the following:

- Reviewed the external auditors' scope of work and audit plans for the year. Prior to the audit, representatives from the external auditors presented their audit strategy and plan.
- 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 20 to the financial statements.
- Reviewed the internal audit department's resource requirements, programs and plans for the financial year under review and the annual assessment of the internal audit department's performance.
- Reviewed the internal audit reports, which highlighted the audit issues, recommendations and management's response. Members of the Audit Committee were briefed on pertinent audit issues through the circulation of the Summary of Pertinent Issues, which forms an integral part of the agenda papers. The Audit Committee also discussed management actions taken to improve the system of internal control based on improvement opportunities identified in the audit reports.
- 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 Bursa Malaysia, 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 Malaysian Code on Corporate Governance for the purpose of preparing the Corporate Governance Statement and Statement of Internal Control pursuant to Bursa Malaysia Listing Requirements.
- Reviewed related party transactions entered into by the Group.

Internal Audit Function

The internal audit 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. 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. a majority of the audit committee shall be 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.

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 auditors and person(s) carrying out the internal audit function or activity (if any);

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

f. be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Committee, whenever deemed necessary.

Report of Audit Committee

TERMS OF REFERENCE (Continued)

Functions

The functions of the Committee shall include the following:

a. to review the following and report the same to the Board

  (i) with the external auditors, the audit plan;

  (ii) with the external auditor, its evaluation of the system of internal controls;

  (iii) with the external auditor, its audit report;

  (iv) the assistance given by the employees of the Company and Group to the external auditor;

  (v) the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;

  (vi) the internal audit program, processes, the results of the internal audit program, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;

  (vii) the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:
    (aa) changes in or implementation of major accounting policy changes;
    (bb) significant and unusual events; and
    (cc) compliance with accounting standards and other legal requirements;

  (viii) 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.

  (ix) Any letter of resignation from the external auditors of the Company and Group, and;

b. to consider the nomination of a person or persons as auditors together with such other functions as may be agreed to by the Audit Committee and the Board of Directors.

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.

Statement on Internal Control

The Malaysian Code on Corporate Governance stipulates that listed companies should maintain a sound system of internal control to safeguard shareholder's investments and the Group's assets. On behalf of the Board of Directors, we are pleased to report to the shareholders the state of internal control that affected the Group during the period under review.

BOARD RESPONSIBILITIES

The Board acknowledges their responsibility for maintaining a sound system of internal control over both the financial and non-financial aspects of the Group's activities and to review its adequacy and integrity so as to safeguard shareholder's investments and the Group's assets. The systems of internal controls are designed to ensure that the risks facing the Group's businesses in pursuit of its objectives are identified and managed at known and acceptable levels.

Due to the inherent limitations in any system of internal control, 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, the system 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 identification, evaluation and reporting of the major business risks faced by the Group, excluding associated companies, during the 12 month financial period ended 31 December 2006 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. The overall process is facilitated by the Audit & Systems Improvement Department who are dedicated to the role.

INTERNAL AUDIT FUNCTION

The Board complies with the Code, Part 2 – Best Practices in Corporate Governance Provision BB VII & VIII, through the setting up of an internal audit function. 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 system of internal control 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 findings to the Board on a quarterly basis or as appropriate.

OTHER RISKS AND CONTROL PROCESSES

Salcon Engineering Berhad (Water & Environment Division) 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 / Safety, Health & Environment Department to ensure compliance with the ISO standards and to encourage continual improvements in environmental performance as well as work processes undertaken at the project sites.

OTHER RISKS AND CONTROL PROCESSES *(Continued)*

Notwithstanding the above, The Group also conforms to the Occupational Safety & Health OSHAS18001 (1994) requirements, with the development of a Corporate Safety & Health Manual 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 Safety & Health Committee to continually improve the effectiveness of the Safety, Health and Management System (SHMS) 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.

These 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 system of internal control.

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 Operating 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 period under review, no control deficiencies were observed 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.

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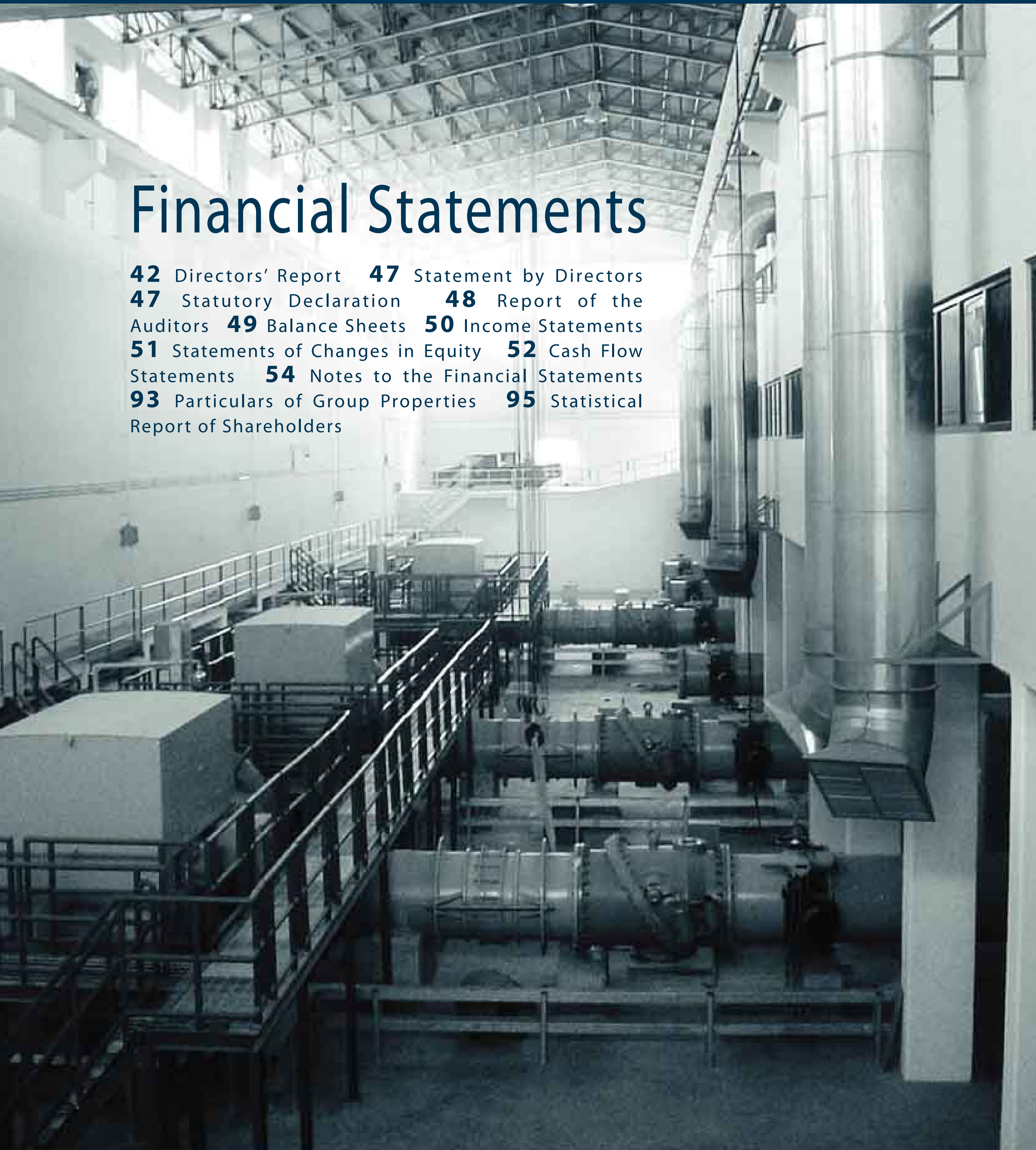

Min Buri Distribution Water Pumping Station, Bangkok, THAILAND

Directors' Report

for the year ended 31 December 2006

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 2006.

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/(Loss) for the year	5,018	(4,834)

Reserves and provisions

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

Dividends

No dividend was paid during the year and the Directors do not recommend any dividend to be paid for the year under review.

Directors of the Company

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

Tan Sri Razali Ismail
Dato' Seri Goh Eng Toon
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
Dato' Lim See Teok (resigned on 9.6.2006)

Directors' interests

The holdings and deemed holdings in the ordinary shares and options of the Company and of its related corporations of those who were Directors at 31 December 2006 as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.50 each			
	At 1 January 2006	Bought	Sold	At 31 December 2006
The Company				
Direct Interest				
Tan Sri Razali Ismail	1,165,000	-	393,000	772,000
Dato' Dr Freezailah bin Che Yeom	25,000	-	-	25,000
Jaggit Singh A/L Tara Singh	2,045,000	-	200,000	1,845,000
Deemed interest				
Dato' Seri Goh Eng Toon	33,300,000	-	-	33,300,000
Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas	45,000	-	-	45,000

		Number of options over ordinary shares of RM0.50 each			
	Option Price (RM)	At 1 January 2006	Granted	Exercised	At 31 December 2006
The Company					
Jaggit Singh A/L Tara Singh	1.87	600,000	-	-	600,000

Other than Integrated Water Services (M) Sdn. Bhd., Jaggit Singh A/L Tara Singh does not have any interest in shares in all the related corporations.

None of the other Directors holding office at 31 December 2006 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial period, 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.

Issue of shares

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

Options granted over unissued shares

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

An Employees' Share Option Scheme ("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 options over unissued shares of the Company granted under the ESOS during the financial year are as follows:

		Number of options over ordinary shares of RM0.50 each				
Date of offer	**Exercise Price**	**At 1 January 2006**	**Granted**	**Exercised**	**Lapsed**	**At 31 December 2006**
07.01.2004	RM1.87	3,911,000	-	-	(1,403,500)	2,507,500

The salient features of the ESOS scheme are 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 a 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.

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.

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

i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, except for the allowance for doubtful debts as disclosed in Note 20, the results of the operations of the Group and of the Company for the financial year ended 31 December 2006 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.

Directors' Report

for the year ended 31 December 2006

Subsequent events

On 15 January 2007, MIMB Investment Bank Berhad ("MIMB"), on behalf of the Board, announced that the Company proposed to undertake a Proposed Rights Issue with Warrants. In addition, MIMB had on 15 February 2007 announced on behalf of the Board that the Company proposed to revise the utilisation of proceeds.

On 5 March 2007, MIMB, on behalf of the Board, announced that the Company has received the approval from the Securities Commission ("SC") vide its letter dated 2 March 2007 for the following, subject to the condition that MIMB and the Company fully comply with the relevant requirements of the SC Guidelines pertaining to the implementation of the Proposed Rights Issue with Warrants:-

(a) proposed Rights Issue with Warrants;

(b) issuance of new ordinary shares in the Company upon exercise of Warrants; and

(c) listing of and quotation for the Rights Shares, Warrants and new ordinary shares in the Company upon exercise of such Warrants on the Main Board of Bursa Malaysia Securities Berhad.

On 9 March 2007, the issue price per Rights Share and the exercise price of the Warrants were announced and had been fixed at RM0.57 and RM0.75 respectively.

On 30 March 2007, the shareholders of the Company had approved the ordinary resolution tabled at the Extraordinary General Meeting in relation to the Proposed Rights Issue with Warrants.

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:

Ho Tet Shin

Jaggit Singh A/L Tara Singh

Subang Jaya,
Date: 30 March 2007

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 49 to 92 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2006 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

Ho Tet Shin

Jaggit Singh A/L Tara Singh

Subang Jaya,
Date: 30 March 2007

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 49 to 92 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 Subang Jaya on 30 March 2007.

Law Woo Hock

Before me:
Choy Yee Cheong (P.P.N)
(No.B083)
(Commissioner for Oaths)
Subang Jaya, Selangor.

PESURUHJAYA SUMPAH
No.B 083
CHOY YEE CHEONG
P.P.N.
MALAYSIA

No.49A, 1st Floor,
Jalan USJ 10/1F,
47620 UEP Subang Jaya,
Selangor Darul Ehsan.

Report of the auditors

to the members of Salcon Berhad *(Company No. 593796-T) (Incorporated in Malaysia)*

We have audited the financial statements set out on pages 49 to 92. The preparation of the financial statements is the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion,

(a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:

  i) the state of affairs of the Group and of the Company at 31 December 2006 and the results of their operations and cash flows for the year ended on that date; and

  ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and

(b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

The subsidiaries in respect of which we have not acted as auditors are identified in Note 7 to the financial statements and we have considered their financial statements and the auditors' reports thereon.

We are satisfied that the financial statements 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 consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

KPMG
Firm Number: AF 0758
Chartered Accountants

Hew Lee Lam Sang
Partner
Approval Number: 1862/10/07(J)

Kuala Lumpur,

Date: 30 March 2007

Balance Sheets

at 31 December 2006

	Note	Group 2006 RM'000	Group 2005 RM'000 restated	Company 2006 RM'000	Company 2005 RM'000 restated
Assets					
Property, plant and equipment	3	120,492	31,138	-	-
Goodwill	4	11,239	7,142	-	-
Prepaid lease payments	5	15,423	973	-	-
Investment property	6	2,318	2,318	-	-
Investments in subsidiaries	7	-	-	70,675	70,210
Investments in associates	8	55,440	62,056	-	-
Other investments	10	11,079	11,079	4,500	4,500
Deferred tax assets	11	6,421	77	-	-
Total non-current assets		222,412	114,783	75,175	74,710
Prepaid lease payments	5	527	450	-	-
Receivables, deposits and prepayments	12	87,208	106,264	69,011	47,143
Inventories	13	1,457	756	-	-
Current tax assets		2,089	6,200	21	13
Cash and cash equivalents	14	22,196	29,861	6	19
Total current assets		113,477	143,531	69,038	47,175
Total assets		335,889	258,314	144,213	121,885
Equity					
Share capital		106,023	106,023	106,023	106,023
Reserves		19,005	19,125	19,011	19,011
Accumulated losses		(12,281)	(16,608)	(53,420)	(48,586)
Total equity attributable to shareholders of the Company	15	112,747	108,540	71,614	76,448
Minority interest		37,735	21,051	-	-
Total equity		150,482	129,591	71,614	76,448
Liabilities					
Loans and borrowings	16	79,625	47,359	55,000	45,000
Total non-current liabilities		79,625	47,359	55,000	45,000
Payables and accruals	18	78,311	67,763	599	437
Loans and borrowings	16	26,806	13,362	17,000	-
Taxation		461	37	-	-
Dividend payable		204	202	-	-
Total current liabilities		105,782	81,364	17,599	437
Total liabilities		185,407	128,723	72,599	45,437
Total equity and liabilities		335,889	258,314	144,213	121,885

The notes on pages 54 to 92 are an integral part of these financial statements.

Income Statements

for the year ended 31 December 2006

	Note	Group Year ended 31.12.2006 RM'000	Group 1.8.2004 to 31.12.2005 RM'000 restated	Company Year ended 31.12.2006 RM'000	Company 1.8.2004 to 31.12.2005 RM'000 restated
Revenue	19	121,290	162,379	719	1,173
Cost of sales		(92,294)	(144,822)	-	-
Gross profit		28,996	17,557	719	1,173
Other income		1,419	645	-	-
Distribution expenses		(2,902)	(2,924)	(2)	(6)
Administrative expenses		(24,635)	(28,070)	(2,552)	(1,685)
Other expenses		(4,477)	(14,898)	-	(16,857)
Results from operating activities		(1,599)	(27,690)	(1,835)	(17,375)
Interest income		498	544	674	1,760
Finance costs		(4,679)	(5,062)	(3,669)	(4,707)
Operating loss	20	(5,780)	(32,208)	(4,830)	(20,322)
Share of profit after tax of equity accounted associates		5,129	8,019	-	-
Share of profit of jointly controlled entities		1,200	95	-	-
Profit/(Loss) before tax		549	(24,094)	(4,830)	(20,322)
Tax expense	22	4,469	(2,281)	(4)	(1)
Profit/(Loss) for the year/period		5,018	(26,375)	(4,834)	(20,323)
Attributable to:					
Shareholders of the Company		4,327	(27,774)	(4,834)	(20,323)
Minority interest		691	1,399	-	-
Profit/(Loss) for the year/period		5,018	(26,375)	(4,834)	(20,323)
Basic earnings/(loss) per ordinary share (sen)	23	2.04	(14.15)		

The notes on pages 54 to 92 are an integral part of these financial statements.

Statements of Changes in Equity

for the year ended 31 December 2006

Group	Share capital RM'000	Share premium RM'000	Translation reserve RM'000	Revaluation reserve RM'000	Retained profits/ (Accumulated losses) RM'000	Total RM'000	Minority interest RM'000	Total equity RM'000
	Attributable to Shareholders of the Company							
		Non-distributable			*Distributable*			
At 1 August 2004	96,384	18,891	97	-	15,497	130,869	7,482	138,351
Issue of shares	9,639	193	-	-	-	9,832	-	9,832
Private placement expenses	-	(73)	-	-	-	(73)	-	(73)
Dividend	-	-	-	-	(5,012)	(5,012)	-	(5,012)
Foreign exchange translation differences	-	-	17	-	-	17	-	17
Net gain recognised directly in equity	-	-	17	-	-	17	-	17
(Loss)/Profit for the period	-	-	-	-	(27,774)	(27,774)	1,399	(26,375)
Total recognised income and expense for the period	-	-	17	-	(27,774)	(27,757)	1,399	(26,358)
Acquisition of subsidiaries	-	-	-	-	-	-	13,650	13,650
Dividends to minority interest	-	-	-	-	-	-	(1,480)	(1,480)
At 31 December 2005	106,023	19,011	114	-	(17,289)	107,859	21,051	128,910
At 31 December 2005								
- as previously reported	106,023	19,011	114	-	(17,289)	107,859	21,051	128,910
- effect of adopting FRS 3	-	-	-	-	681	681	-	681
At 1 January 2006 (restated)	106,023	19,011	114	-	(16,608)	108,540	21,051	129,591
Foreign exchange translation differences	-	-	(138)	-	-	(138)	221	83
Revaluation of property, plant and equipment	-	-	-	18	-	18	-	18
Net gains recognised directly in equity	-	-	(138)	18	-	(120)	221	101
Profit for the year	-	-	-	-	4,327	4,327	691	5,018
Total recognised income and expense for the year	-	-	(138)	18	4,327	4,207	912	5,119
Acquisition of subsidiaries	-	-	-	-	-	-	16,668	16,668
Dividends to minority interest	-	-	-	-	-	-	(896)	(896)
At 31 December 2006	106,023	19,011	(24)	18	(12,281)	112,747	37,735	150,482

Company	Share capital RM'000	Share premium RM'000	Accumulated losses RM'000	Total equity RM'000
	Non-distributable			
At 1 August 2004	96,384	18,891	(23,251)	92,024
Issue of shares	9,639	193	-	9,832
Private placement expenses	-	(73)	-	(73)
Dividend	-	-	(5,012)	(5,012)
Loss for the period	-	-	(20,323)	(20,323)
At 31 December 2005	106,023	19,011	(48,586)	76,448
Loss for the year	-	-	(4,834)	(4,834)
At 31 December 2006	106,023	19,011	(53,420)	71,614
	Note 15			

The notes on pages 54 to 92 are an integral part of these financial statements.

Cash Flow Statements

for the year ended 31 December 2006

	Group		Company	
	Year ended 31.12.2006 RM'000	**1.8.2004 to 31.12.2005 RM'000**	**Year ended 31.12.2006 RM'000**	**1.8.2004 to 31.12.2005 RM'000**
Cash flows from operating activities				
Profit / (Loss) before tax	549	(24,094)	(4,830)	(20,322)
Adjustments for:				
Allowance for diminution in other investments	-	14	-	-
Unrealised (gain) / loss on foreign exchange	(404)	-	2,006	-
Amortisation of goodwill	-	1,931	-	-
Amortisation of prepaid lease payments	450	37	-	-
Depreciation of property, plant and equipment	5,311	3,189	-	-
Dividend income	-	-	(719)	(1,173)
Finance costs	4,679	5,062	3,669	4,707
Gain on disposal of an associate company	-	(8)	-	-
Gain on disposal of property, plant and equipment	(42)	(160)	-	-
Interest income	(498)	(544)	(674)	(1,760)
Impairment loss on investment in subsidiary	-	-	-	16,857
Gain on revaluation of property, plant and equipment	(19)	-	-	-
Share of profit of equity accounted associates	(5,129)	(8,019)	-	-
Share of profit of jointly controlled entities	(1,200)	(95)	-	-
Property, plant and equipment written off	34	158	-	-
Operating profit/(loss) before changes in working capital	3,731	(22,529)	(548)	(1,691)
Change in receivables, deposits and prepayments	8,734	55,037	(23,874)	(1,761)
Change in inventories	(294)	703	-	-
Change in payables and accruals	(9,189)	(26,745)	162	(485)
Cash generate from/(used in) operations	2,982	6,466	(24,260)	(3,937)
Interest paid	(4,679)	(5,062)	(3,669)	(4,707)
Income taxes refunded/(paid)	2,660	(5,185)	(12)	(15)
Net cash generate from/(used in) operating activities	963	(3,781)	(27,941)	(8,659)

(Continued)

	Group		Company	
	Year ended 31.12.2006 RM'000	1.8.2004 to 31.12.2005 RM'000	Year ended 31.12.2006 RM'000	1.8.2004 to 31.12.2005 RM'000
Cash flows from investing activities				
Acquisition of property, plant and equipment	(37,185)	(6,281)	-	-
Acquisition of remaining equity shares in a subsidiary from minority shareholder	-	(1,909)	-	-
Acquisition of subsidiaries, net of cash acquired	(122)	(3,388)	-	(19)
Acquisition of preference shares in a subsidiary	-	-	(465)	-
Prepayment of lease term	(89)	-	-	-
Dividends received	-	-	719	1,173
Interest received	498	544	674	1,760
Proceeds from disposal of associate	-	292	-	-
Proceeds from disposal of property, plant and equipment	260	467	-	-
Net cash (used in)/from investing activities	(36,638)	(10,275)	928	2,914
Cash flows from financing activities				
Dividends paid to minority shareholders	(893)	(1,278)	-	-
Dividends paid to shareholders of the Company	-	(5,012)	-	(5,012)
Proceeds from issue of share capital	-	9,759	-	9,759
Proceeds from borrowings	56,229	21,958	27,000	-
Proceeds from redemption of preference shares	-	6,600	-	-
Repayment of borrowings	(30,003)	(24,586)	-	-
Payment of hire purchase liabilities	(237)	(780)	-	-
Net cash from financing activities	25,096	6,661	27,000	4,747
Exchange differences on translation of the financial statements of foreign entities	79	16	-	-
Net decrease in cash and cash equivalents	(10,500)	(7,379)	(13)	(998)
Cash and cash equivalents at 1 January /1 August	29,818	37,197	19	1,017
Cash and cash equivalents at 31 December	19,318	29,818	6	19

Cash and cash equivalents

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

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Deposits placed with licensed banks	14,849	12,512	-	-
Cash and bank balances	7,347	17,349	6	19
Bank overdrafts	(2,878)	(43)	-	-
	19,318	29,818	6	19

Acquisition of property, plant and equipment

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM37,327,000 (2005 - RM6,502,000), of which RM142,000 (2005 - RM221,000) were acquired by means of hire purchases.

The notes on pages 54 to 92 are an integral part of these financial statements.

Notes to the financial statements

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

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

The consolidated financial statements as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates, jointly controlled entities and unincorporated joint ventures. The financial statements of the Company as at and for the year ended 31 December 2006 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.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board (MASB), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The MASB has issued the following Financial Reporting Standards (FRSs) and Interpretation that are effective for annual periods beginning after 1 January 2006, and that have not been applied in preparing these financial statements:

Standard / Interpretation	**Effective date**
FRS124, *Related Party Disclosures*	1 October 2006
FRS139, *Financial Instruments : Recognition and Measurement*	To be announced
Amendment to FRS119$_{2004}$, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*	1 January 2007
FRS6, *Exploration for and Evaluation of Mineral Resources*	1 January 2007
Amendment to FRS121, *The Effects of Changes in Foreign Exchange Rates - Net Investment in Foreign Operation*	1 July 2007
IC Interpretation 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	1 July 2007
IC Interpretation 2, *Members' Shares in Co-operative Entities and Similar Instruments*	1 July 2007
IC Interpretation 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	1 July 2007
IC Interpretation 6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*	1 July 2007
IC Interpretation 7, Applying the Restatement Approach under FRS129$_{2004}$ *Financial Reporting in Hyperinflationary Economies*	1 July 2007
IC Interpretation 8, *Scope of FRS2 Share-based Payments*	1 July 2007

In this set of financial statements, the Group has chosen to early adopt FRS117, Leases which is effective for annual periods beginning on or after 1 October 2006.

The Group and the Company plan to apply FRS124 and the Amendment to FRS119$_{2004}$ initially for the annual period beginning 1 January 2007 and to apply the rest of the above-mentioned FRSs (except for FRS 6 as explained below and FRS139 which its effective date has yet to be announced) and Interpretations for the annual period beginning 1 January 2008.

The impact of applying FRS124 and FRS139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS108, *Accounting Policies, Changes in Accounting Estimates and Errors* is not disclosed by virtue of the exemptions given in the respective standards.

FRS6 is not applicable to the Group and the Company. Hence, no further disclosure is warranted.

The initial application of the other standards and interpretations are not expected to have any material impact on the financial statements of the Group and the Company.

The financial statements were approved by the Board of Directors on 30 March 2007.

(b) Basis of measurement

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

- 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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 11 - recognition of unutilised tax losses
- Note 2(r) - contract revenue

2. Significant accounting policies

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

Certain comparative amounts have been reclassified to conform to the current year's presentation (see Note 32).

(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.

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 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 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 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 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.

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 Group and of the Company in unincorporated joint ventures and jointly-controlled assets are brought to account by recognising in its 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.

(v) Minority interest

Minority interest at the balance sheet date, being the portion of the net identifiable assets 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 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 Group entities at exchange rates at the dates of the transaction.

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 that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

(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.

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

(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 only when the loan is denominated in either the functional currency of the Company or the foreign operation. Deferred exchange differences are released to the 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.

2. Significant accounting policies
(c) Property, plant and equipment
(i) Recognition and measurement *(Continued)*

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.

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 statement.

(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 those parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement 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. Freehold land is not depreciated. Capital work-in-progress 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:

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

The depreciable amount is determined after deducting the residual value.

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

(d) Leased assets

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.

Other leases are operating leases and, except for leasehold land classified as investment property, the leased assets are not recognised on the Group's balance sheet. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

Accounting policy note on Leasehold land / Prepaid lease payments

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 that are amortised over the lease term in accordance with the pattern of benefits provided except for leasehold land classified as investment property.

The Group had previously classified a lease of land as finance lease and had recognised the amount of prepaid lease payments as property within its property, plant and equipment. On early adoption of FRS 117, Leases, the Group treats such a lease as an operating lease, with the unamortised carrying amount classified as prepaid lease payments in accordance with the transitional provisions in FRS 117.67A.

Revalued leasehold land

The Group had previously revalued its leasehold land and has retained the unamortised revalued amount as the surrogate carrying amount of prepaid lease payments in accordance with the transitional provisions in FRS 117.67A. Such prepaid lease payments is amortised over the lease term.

(e) Intangible assets

(i) Goodwill

Goodwill / (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

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.

With the adoption of FRS 3 beginning 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.

Goodwill is allocated to cash-generating units and is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is tested for impairment when there is objective evidence of impairment.

Amortised goodwill and negative goodwill

Before adoption of FRS 3, goodwill was measured at cost less accumulated amortisation and impairment losses. Goodwill was amortised from the date of initial recognition over its estimated useful life of not more than 20 years. Impairment tests on goodwill were performed when there were indications of impairment. Negative goodwill, not exceeding the fair values of the non-monetary assets acquired, was recognised in the income statement over the weighted average useful life of those assets that were depreciable / amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired was recognised immediately in the income statement. To the extent that negative goodwill related to expectation of future losses and expenses that were identified in the plan of acquisition and could be measured reliably, but which were not identifiable liabilities at the date of acquisition, that portion of negative goodwill was recognised in the income statement when the future losses and expenses were recognised.

Following the adoption of FRS 3, goodwill is measured at cost and is no longer amortised but tested for impairment at least annually or more frequently when there is objective evidence of impairment. When the excess is negative (negative goodwill), it is recognised immediately in the income statement. The carrying amount of negative goodwill at 1 January 2006 is derecognised with a corresponding adjustment to the opening balance of retained earnings.

(ii) Amortisation

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

(iii) Acquisition of minority interest

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

(f) Investments in equity securities

Investments in 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,
- 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 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 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.

(g) Investments property

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.

In the previous years, all investment property were stated at cost. Following the adoption of FRS 140, *Investment Property*, all investment property are measured initially at cost and subsequently at fair value with any change therein recognised in the income statement.

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 statement. 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 statement.

When an item of inventory or property development 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 the transfer and its fair value is recognised in the income statement.

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 Group 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 serves validly and within the appropriate time.

First adoption of FRS 140, Investment Property

The adoption of FRS 140, Investment Property, resulted in a change in accounting policy for investment properties. Until 31 December 2005, the Group recognised investment properties using cost method. In accordance with FRS 140, Investment property can be valued either using cost or fair value method. The Group has adopted the fair value method in measuring investment properties with effect from 1 January 2006.

(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 selling expenses.

(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) Amount due from/(to) contract customers

Amount due from contract customers 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.

Amount due from contract customers 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 in payables and accruals as amount due to contract customers.

(k) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

(l) Impairment of assets

The carrying amounts of assets except for financial assets, inventories, assets arising from construction contracts, deferred tax assets and investment property 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, recoverable amount is estimated at each reporting date.

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. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. 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.

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.

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 statement 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 statement, a reversal of that impairment loss is also recognised in the income statement.

(m) Share capital

Shares issue expenses

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

(n) Loans and borrowings

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

(o) 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 the Employees Provident Fund 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 share option programme allows Group employees to acquire shares of the Company. In the previous year, share options granted to employees is not recognised as an employee cost. Following the adoption of FRS 2, *Share-based Payment*, the grant date fair value of share options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The change in accounting policy 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 FRS 2.

(p) 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 occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

(q) 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.

(r) Revenue

(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 statement in proportion to the stage of completion of the contact. 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. 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 statement.

(iii) Dividend income

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

(s) Lease payment

Payments made under operating leases are recognised in the income statement 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.

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.

(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 statement 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.

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(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 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 & machinery RM'000	Motor vehicles RM'000	Office equipment, furniture & fittings RM'000	Capital work-in-progress RM'000	Total RM'000
At 1 August 2004	821	12,343	3,136	6,233	5,778	3,079	140	31,530
Additions	-	2	810	1,788	986	837	2,079	6,502
Disposals	-	-	(60)	(230)	(1,085)	(93)	-	(1,468)
Transfer to investment properties	(330)	(307)	-	-	-	-	-	(637)
Acquisition of subsidiary	-	-	-	4,119	58	17	-	4,194
At 31 December 2005 / 1 January 2006	491	12,038	3,886	11,910	5,737	3,840	2,219	40,121
Additions	-	-	3,326	5,670	898	489	26,944	37,327
Disposals/write-off	-	-	(45)	(83)	(952)	(189)	-	(1,269)
Acquisition of subsidiary	-	-	31,479	25,779	220	1	71	57,550
Elimination of accumulated depreciation on revaluation	-	(1,629)	-	-	-	-	-	(1,629)
Reclassification	-	-	-	2,704	(54)	(154)	(2,496)	-
Effect of movements in exchange rates	-	-	-	-	12	6	-	18
At 31 December 2006	491	10,409	38,646	45,980	5,861	3,993	26,738	132,118
Depreciation								
At 1 August 2004	-	1,142	104	785	3,045	1,720	-	6,796
Depreciation for the period	-	328	211	885	1,214	551	-	3,189
Disposals	-	-	(4)	(145)	(781)	(72)	-	(1,002)
At 31 December 2005 / 1 January 2006	-	1,470	311	1,525	3,478	2,199	-	8,983
Depreciation for the year	-	232	1,165	2,605	826	483	-	5,311
Disposals/write-off	-	-	(45)	(31)	(821)	(119)	-	(1,016)
Elimination of accumulated depreciation on revaluation	-	(1,667)	-	-	-	-	-	(1,667)
Effect of movements in exchange rates	-	-	-	-	5	10	-	15
At 31 December 2006	-	35	1,431	4,099	3,488	2,573	-	11,626
Carrying amounts								
At 1 August 2004	821	11,201	3,032	5,448	2,733	1,359	140	24,734
At 31 December 2005 / 1 January 2006	491	10,568	3,575	10,385	2,259	1,641	2,219	31,138
At 31 December 2006	491	10,374	37,215	41,881	2,373	1,420	26,738	120,492

3. Property, plant and equipment *(Continued)*

Assets under hire purchase

Included in property, plant and equipment of the Group are motor vehicles acquired under hire purchase agreements with net book value of RM402,000 (2005 - RM604,000).

Property, plant and equipment under the revaluation model

Freehold building of a subsidiary was revalued on 31 January 2007 by independent professional qualified valuers using an open market value method.

Freehold land and building of a subsidiary were revalued on 5 March 2002 by independent professional qualified valuers using an open market value method.

Had the freehold land and buildings 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/period would be as follows:

	Group	
	2006	**2005**
	RM'000	**RM'000**
Freehold land and buildings	10,423	10,658

The strata title of certain buildings has not been issued to the Group as the master title has not been sub-divided.

4. Goodwill

Group	**Note**	**Total RM'000**
Cost		
At 1 August 2004		3,937
Acquisitions through business combinations		3,437
At 31 December 2005		7,374
Effect of adopting FRS 3:		
- Reversal of accumulated amortisation		(913)
- Negative goodwill		681
At 1 January 2006, restated		7,142
Acquisitions through business combinations	29	4,097
At 31 December 2006		11,239
Amortisation		
At 1 August 2004:		
Accumulated amortisation		628
Amortisation for the period		285
At 31 December 2005 / 1 January 2006		913
Effect of adopting FRS 3		
- Reversal of accumulated amortisation		(913)
At 1 January 2006, restated / At 31 December 2006		-
Carrying amounts		
At 1 August 2004		3,309
At 31 December 2005 / 1 January 2006		7,142
At 31 December 2006		11,239

5. Prepaid lease payments

Group	Note	Unexpired period less than 50 years RM'000	Unexpired period more than 50 years RM'000	Total RM'000
Cost / Valuation				
At 1 August 2004		-	-	-
Effect of adopting FRS117		1,086	411	1,497
At 1 August 2004, restated		1,086	411	1,497
Additions		-	-	-
At 31 December 2005 / 1 January 2006		1,086	411	1,497
Acquisition through business combinations	29	14,888	-	14,888
Additions		89	-	89
At 31 December 2006		16,063	411	16,474
Amortisation				
At 1 August 2004		-	-	-
Effect of adopting FRS 117		-	37	37
At 1 August 2004, restated		-	37	37
Amortisation for the period		33	4	37
At 31 December 2005 / 1 January 2006		33	41	74
Amortisation for the year		446	4	450
At 31 December 2006		479	45	524
Carrying amounts				
At 1 August 2004, restated		373	1,087	1,460
Current		446	4	450
Non-current		607	366	973
At 31 December 2005 / 1 January 2006		1,053	370	1,423
Current		523	4	527
Non-current		15,061	362	15,423
At 31 December 2006		15,584	366	15,950

Leasehold land of a subsidiary was revalued on 31 July 2001 by independent professional qualified valuers using an open market value method.

The titles to long term leasehold land are in the process of being transferred to the subsidiary companies.

6. Investment properties

	Group	
	2006 RM'000	2005 RM'000 restated
At 1 January / 1 August	2,318	-
Acquisition	-	1,681
Transfer from property, plant and equipment	-	637
At 31 December	2,318	2,318

Included in the above are:

	2006 RM'000	2005 RM'000 restated
Freehold land	330	330
Freehold land and buildings	1,681	1,681
Leasehold land and building with unexpired lease period of more than 50 years	307	307
	2,318	2,318

Each of the leases contain an initial non-cancellable periods of 99 years.

The titles to freehold and long term leasehold land and buildings with cost of RM1,988,000 are in the process of being transferred to the subsidiary company.

The Directors estimate the fair value of investment properties, based on comparable market value of similar properties, at RM2.3 million.

7. Investments in subsidiaries

	Company	
	2006 RM'000	2005 RM'000 restated
Unquoted shares, at cost	80,265	80,265
Unquoted preference shares, at cost	7,267	6,802
Less: Impairment losses	(16,857)	(16,857)
	70,675	70,210

During the financial year, the Company subscribed for 130 preference shares of USD1 each at premium of USD999 per share in Salcon Water (HK) Limited, a subsidiary of the Company.

7. Investments in subsidiaries *(Continued)*

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2006	Effective ownership interest 2005
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 involve 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 involve 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 involve 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 involve in water supply projects in the People's Republic of China via its subsidiary.	100%	-
Salcon Water International Limited ^	Hong Kong	Dormant	100%	-
Salcon Water (Asia) Limited ^	Hong Kong	Dormant	100%	-
Salcon Technology Sdn. Bhd. (formerly known as Telcalibre Sdn. Bhd.)	Malaysia	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 Agro 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%

7. Investments in subsidiaries *(Continued)*

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2006	Effective ownership interest 2005
Salcon Corporation Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Perak Sdn. Bhd. (formerly known as Mantap Realiti Sdn. Bhd.)	Malaysia	Dormant	60%	-
Salcon Infrastructure Sdn. Bhd.	Malaysia	Dormant	100%	-
Subsidiaries of Bumi Tiga Enterprise Sdn. Bhd.				
Skeel Engineering Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Building Services Sdn. Bhd.	Malaysia	Dormant	100%	100%
Eagle Metalizing & Coatings Company Sdn. Bhd.	Malaysia	Dormant	60%	60%
Subsidiary of Salcon Water (HK) Limited				
Shandong Changle Salcon Water Company Limited ^	People's Republic China	Management and operation of 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 China	Management and operation of of water production and distribution of water in Chenggong County, Kunming City, Yunnan Province.	60%	60%
Subsidiary of Salcon Linyi (HK) Limited				
Linyi Salcon Water Company Limited ^	People's Republic China	Management and operation of of water production and distribution of water in Linyi City.	60%	60%
Subsidiary of Salcon Zhejiang (HK) Limited				
Haining Salcon Water Company Limited ^	People's Republic China	Management and operation of of water production and sale of water in Haining City, ZheJiang Province.	60%	-
Subsidiary of Linyi Salcon Water Company Limited				
Linyi Water Supply Equipment Installation Company ^	People's Republic China	Repair and maintenance of of municipal water supply pipeline, equipment, water supply equipment.	60%	-

^ Audited by other firm of accountants.

8. Investment in associates

	Group 2006 RM'000	2005 RM'000 restated
Unquoted shares, at cost	28,795	28,795
Unquoted preference shares, at cost	10,000	10,000
Share of post-acquisition profits	16,645	23,261
	55,440	62,056

Summary financial information on associates:

2006	Country of incorporation	Effective ownership interest	Revenues (100%) RM'000	Profit (100%) RM'000	Total assets (100%) RM'000	Total liabilities (100%) RM'000
CCI*	Republic of Mauritius	49%	21,971	2,970	37,739	18,772
EUC**	Malaysia	40%	26,060	9,313	97,452	15,418
			48,031	12,283	135,191	34,190
2005						
CCI*	Republic of Mauritius	49%	30,846	5,240	32,244	10,430
EUC**	Malaysia	40%	39,175	13,415	123,109	23,943
			70,021	18,655	155,353	34,373

* Cross Continental Investments. CCI holds 96.47% in Palm Tech India Ltd, a company incorporated in India.
** Emas Utilities Corporation Sdn. Bhd. EUC holds 90% in Binh An Water Corporation Ltd , a company incorporated in Vietnam.

9. Investment in jointly controlled entities

The Group's interest in the assets and liabilities, revenue and expenses of jointly controlled entities are as follows:

	Group 2006 RM'000	2005 RM'000 restated
Long term assets	-	13
Current assets	1,200	4,488
Current liabilities	(1,200)	(4,501)
	-	-
Income	1,200	907
Expenses	-	(812)
	1,200	95

9. Investment in jointly controlled entities (Continued)

Details of jointly controlled entities are as follows:

	Principal activities	Proportion of ownership interest 2006	2005
Hydrotek - Salcon Joint Venture	Construction of Min Buri Water distribution pumping station	49%	49%
Salcon - EGI Joint Venture	Johor Bahru Water supply privatisation project - stage 3 works - Contract No. 45	50%	50%
Salcon - WHS Joint Venture	Undertaking projects in water development in the State of Sabah	60%	60%

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.

The Group entered into a joint venture with EGI Asia Sdn. Bhd. on 7 March 2002. There was no share of results accrued during the financial year.

The Group entered into a joint venture with Warisan Harta Sabah Sdn. Bhd., a company incorporated in Malaysia, on 31 January 2003. The share of results is based on unaudited financial statements of the joint ventures for the financial year ended 31 December 2006.

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

10. Other investments

	Group		Company	
	2006 RM'000	2005 RM'000 restated	2006 RM'000	2005 RM'000 restated
At cost				
Quoted shares in Malaysia	175	175	-	-
Unquoted shares	6,475	6,475	-	-
Other investment	4,640	4,640	4,500	4,500
	11,290	11,290	4,500	4,500
Allowance for diminution in value				
- Quoted shares in Malaysia	(157)	(157)	-	-
- Other investments	(54)	(54)	-	-
	11,079	11,079	4,500	4,500
Market value:				
Quoted shares in Malaysia	18	18	-	-

11. Deferred tax assets and liabilities

Recognised deferred tax assets/(liabilities)

Deferred tax assets are attributable to the following:

	Assets		Liabilities		Net	
	2006 RM'000	2005 RM'000 restated	2006 RM'000	2005 RM'000 restated	2006 RM'000	2005 RM'000 restated
Property, plant and equipment	223	-	(363)	(261)	(140)	(261)
Provisions	338	338	-	-	338	338
Other items	216	-	-	-	216	-
Tax loss carry-forwards	6,007	-	-	-	6,007	-
Tax assets/(liabilities)	6,784	338	(363)	(261)	6,421	77
Set off of tax	(363)	(261)	363	261	-	-
Net tax assets/(liabilities)	6,421	77	-	-	6,421	77

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 RM22 million will not be available to the Group, resulting in a decrease in net deferred tax assets of RM6 million.

Unrecognised deferred tax assets

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

	Group		Company	
	2006 RM'000	2005 RM'000 restated	2006 RM'000	2005 RM'000 restated
Other deductible temporary differences	13,412	13,412	-	-
Unabsorbed capital allowance	1,902	1,902	-	-
Unutilised tax losses	2,665	8,672	-	-
	17,979	23,986	-	-

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.

In 2006, RM22 million of previously unrecognised tax losses were recognised as management considered it probable that future taxable profits will be available against which they can be utilised, following a change in estimates of a subsidiary's future results from operating activities.

11. Deferred tax assets and liabilities (Continued)

Movement in temporary differences during the year

Group	At 1.8.2004 RM'000	Recognised in income statement (note 22) RM'000	At 31.12.2005 RM'000 restated	Recognised in income statement (note 22) RM'000	At 31.12.2006 RM'000
Property, plant and equipment	(264)	3	(261)	121	(140)
Provisions	55	283	338	-	338
Other items	-	-	-	216	216
Tax loss carry-forwards	-	-	-	6,007	6,007
	(209)	286	77	6,344	6,421

12. Receivables, deposits and prepayments

	Group		Company	
	2006 RM'000	2005 RM'000 restated	2006 RM'000	2005 RM'000 restated
Trade				
Trade receivables	59,915	61,210	-	-
Less: Allowance for doubtful debts	(20,353)	(15,913)	-	-
	39,562	45,297	-	-
Amount due from contract customers	11,536	28,037	-	-
	51,098	73,334	-	-
Non-trade				
Amount due from associates	4,011	3,991	-	-
Amount due from subsidiaries	-	-	68,447	46,362
Other receivables	18,459	22,626	-	-
Deposits	1,148	519	-	-
Prepayments	12,492	5,794	564	781
	36,110	32,930	69,011	47,143
	87,208	106,264	69,011	47,143

Trade receivables denominated in currencies other than the functional currency comprise RM465,000 (2005 - RM1,356,000) of trade receivables denominated in U.S. Dollar, RM3,385,000 (2005 - RM750,000) of trade receivables denominated in Renminbi, RM1,622,000 (2005 - RM1,411,000) of trade receivables denominated in Thai Baht and Nil (2005 - RM15,000) of trade receivables in Euro.

Amount due from contract customers

	Group 2006 RM'000	Group 2005 RM'000 restated
Aggregate costs incurred to date	590,756	618,055
Add: Attributable profit	104,774	101,406
	695,530	719,461
Less: Progress billings	(686,612)	(691,977)
	8,918	27,484
Amount due to contract customers reclassified (Note 18)	2,618	553
Amount due from contract customers	11,536	28,037

Included in aggregate costs incurred during the year/period is hiring of equipment amounting to RM446,000 (2005 - RM410,000).

Included in trade receivables of the Group are retention sums amounting to RM6,846,000 (2005 - RM8,355,000).

The amount due from associates is unsecured, interest free and has no fixed terms of repayment.

The amount due from subsidiaries are unsecured, interest free and has no fixed terms of repayment except for an amount due from a subsidiary amounting to RM22 million (2005 - RM22 million) which bear interest at rate of 3% (2005 - 3%) per annum.

Included in other receivables of the Group in 2006 is an amount of RM10.7 million being amount due from a corporate shareholder of a subsidiary company in the People's Republic of China which bear interest at rate of 4.2% per annum. This amount was repaid subsequent to the year end.

Included in other receivables of the Group in 2005 is an amount of RM11.2 million pending the finalisation of assets injection into a subsidiary company in the People's Republic of China. The assets injection have been finalised during the year.

13. Inventories

	Group 2006 RM'000	Group 2005 RM'000 restated
At cost:		
Raw materials and consumables	1,101	431
Spares	356	325
	1,457	756

In 2006, inventories recognised as cost of sales amounted to RM4,513,000 (2005 - RM5,673,000).

14. Cash and cash equivalents

	Group 2006 RM'000	Group 2005 RM'000 restated	Company 2006 RM'000	Company 2005 RM'000 restated
Deposits placed with licensed banks	14,849	12,512	-	-
Cash and bank balances	7,347	17,349	6	19
	22,196	29,861	6	19

15. Capital and reserves

Share capital

	Group and Company Amount 2006 RM'000	Number of shares 2006 '000	Amount 2005 RM'000 restated	Number of shares 2005 '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 / 1 August	106,023	212,046	96,384	192,768
Issued for cash	-	-	9,639	19,278
On issue at 31 December	106,023	212,046	106,023	212,046

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.

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.

16. Borrowings

	Group 2006 RM'000	Group 2005 RM'000 restated	Company 2006 RM'000	Company 2005 RM'000 restated
Non-current				
Hire purchase creditors	148	182	-	-
Term loans (unsecured)	79,477	47,177	55,000	45,000
	79,625	47,359	55,000	45,000
Current				
Bank overdrafts (unsecured)	2,878	43	-	-
Bankers' acceptances (unsecured)	2,625	5,279	-	-
Revolving credits (unsecured)	250	7,880	-	-
Term loans (unsecured)	20,953	-	17,000	-
Hire purchase creditors	100	160	-	-
	26,806	13,362	17,000	-

Term and debt repayment schedule

The unsecured overdrafts, bankers' acceptances and revolving credits are subject to interest at 7.75% to 9.25% (2005 - 7.25% to 8.75%), 4.30% to 5.30% (2005 - 3.70% to 4.30%) and 5.46% to 5.85% (2005 - 4.75% to 5.05%) per annum respectively.

The hire purchase creditors and unsecured term loans are subject to interest at 2.65% to 4.73% (2005 - 2.50% to 4.00%) and 4.20% to 6.83% (2005 - 6.83%) 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.

The above facilities are guaranteed by the Company.

Hire purchase creditors

Hire purchase creditors are payable as follows:

Group	Gross 2006 RM'000	Interest 2006 RM'000	Principal 2006 RM'000	Gross 2005 RM'000	Interest 2005 RM'000	Principal 2005 RM'000
Less than one year	110	(10)	100	175	(15)	160
Between one and five years	155	(7)	148	192	(10)	182
	265	(17)	248	367	(25)	342

16. Borrowings (Continued)

Terms and debt repayment schedule

Group	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
2006						
Bank overdraft		2,878	2,878	-	-	-
Bankers' acceptances	2007	2,625	2,625	-	-	-
Revolving credits	2007	250	250	-	-	-
Term loans						
- RM	2007 - 2009	72,000	17,000	10,000	45,000	-
- RMB	2007 - 2010	28,430	3,953	20,338	4,139	-
Hire purchase creditors	2007 - 2010	248	100	138	10	-
		106,431	26,806	30,476	49,149	-
2005						
Bank overdraft		43	43	-	-	-
Bankers' acceptances	2006	5,279	5,279	-	-	-
Revolving credits	2006	7,880	7,880	-	-	-
Term loans						
- RM	2009	45,000	-	-	45,000	-
- RMB	2009	2,177	-	-	2,177	-
Hire purchase creditors	2007 - 2010	342	160	141	41	-
		60,721	13,362	141	47,218	-
Company						
2006						
Term loans						
- RM	2007-2009	72,000	17,000	10,000	45,000	-
2005						
Term loan						
- RM	2009	45,000	-	-	45,000	-

17. 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*	2,507	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	2,507		

* 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 2006 ‘000	2005 ‘000
Outstanding at 1 January / 1 August	3,911	5,175
Forfeited during the year/period	(1,404)	(1,264)
Outstanding at 31 December	2,507	3,911

Terms of the options outstanding at 31 December 2006:

Expiry date	Exercise price	Number
30 October 2008	RM1.87	2,507,500

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

	Group and Company 2006 ‘000	2005 ‘000
Number of ordinary shares		
Held at 1 January / 1 August	3,911	5,175
Held at 31 December	2,507	3,911

	Group and Company 2006 RM’000	2005 RM’000
Fair value		
At 1 January / 1 August	1,604	7,090
Outstanding at 31 December	3,410	1,604

18. Payables and accruals

	Group		Company	
	2006 RM'000	2005 RM'000 restated	2006 RM'000	2005 RM'000 restated
Trade				
Trade payables	27,536	47,587	-	-
Amount due to contract customers (Note 12)	2,618	553	-	-
	30,154	48,140	-	-
Non-trade				
Amount due to associates	-	8,083	-	-
Other payables	45,190	8,860	-	8
Accrued expenses	2,967	2,680	599	429
	48,157	19,623	599	437
	78,311	67,763	599	437

Included in other payables of the Group in 2006 is an amount of RM30.3 million being amount payable to the Linyi Municipal Government for the acquisition of water related assets as mentioned in Note 29.

Payables denominated in currencies other than the functional currency comprise RM513,000 (2005 - RM809,000) of trade payables denominated in U.S. Dollar, RM4,024,000 (2005 - RM497,000) of trade payables denominated in Renminbi and RM667,000 (2005 - RM2,174,000) of trade payables denominated in Thai Baht.

Included in other payables of the Group is advances received from contract customers amounting to RM1,769,000 (2005 - RM3,716,000).

The amount due to associates is unsecured, interest free and has no fixed terms of repayment.

19. Revenue

	Group		Company	
	Year ended 31.12.2006 RM'000	1.8.2004 to 31.12.2005 RM'000 restated	Year ended 31.12.2006 RM'000	1.8.2004 to 31.12.2005 RM'000 restated
Contract revenue	117,623	158,080	-	-
Invoiced sales	3,667	4,299	-	-
Dividends	-	-	719	1,173
	121,290	162,379	719	1,173

20. Operating loss

	Group		Company	
	Year ended 31.12.2006 RM'000	1.8.2004 to 31.12.2005 RM'000 restated	Year ended 31.12.2006 RM'000	1.8.2004 to 31.12.2005 RM'000 restated
Operating loss is arrived at after charging:				
Allowance for diminution in value of investments	-	14	-	-
Allowance for doubtful debts	4,477	12,810	-	-
Amortisation of goodwill	-	1,931	-	-
Amortisation of prepaid lease payments	450	37	-	-
Auditors' remuneration				
- Holding company auditors	125	103	30	15
- Other auditors	71	106	-	-
Depreciation of property, plant and equipment	5,311	3,189	-	-
Impairment loss on investment in subsidiary	-	-	-	16,857
Interest expense on:				
- Bank overdraft	59	27	-	-
- Loans	4,230	4,800	3,669	4,707
- Other borrowings	390	235	-	-
Personnel expenses (including key management personnel):				
- Contributions to Employees Provident Fund	1,335	2,067	-	-
- Wages, salaries and others	18,556	20,015	160	142
Unrealised loss on foreign exchange	-	-	2,006	-
Property, plant and equipment written off	34	158	-	-
Rental of premises	91	145	-	-
Realised loss on foreign exchange	55	14	-	-
and after crediting:				
Dividend income from subsidiaries (unquoted)	-	-	719	1,173
Interest income:				
- Subsidiary	-	-	674	1,712
- Others	498	544	-	48
Gain on disposal of property, plant and equipment	42	160	-	-
Unrealised gain on foreign exchange	404	-	-	-
Gain on revaluation of property, plant and equipment	19	-	-	-
Realised gain on foreign exchange	21	58	-	-

21. Key management personnel compensation

The key management personnel compensation is as follows:

	Group		Company	
	Year ended 31.12.2006 RM'000	1.8.2004 to 31.12.2005 RM'000 restated	Year ended 31.12.2006 RM'000	1.8.2004 to 31.12.2005 RM'000 restated
Directors:				
- Fees	250	314	160	142
- Remuneration	1,541	2,928	-	-
- Other short term employee benefits (including estimated monetary value of benefit-in-kind)	100	204	-	-
	1,891	3,446	160	142

22. Tax expense

Recognised in the income statement

	Group		Company	
	Year ended 31.12.2006 RM'000	1.8.2004 to 31.12.2005 RM'000 restated	Year ended 31.12.2006 RM'000	1.8.2004 to 31.12.2005 RM'000 restated
Tax expense	(4,469)	2,281	4	1
Share of tax of equity accounted associates	902	944	-	-
Total tax expense	(3,567)	3,225	4	1
Major components of tax expense include:				
Current tax expense				
Malaysian - current year	1,883	2,109	-	-
- prior year	(33)	424	4	1
Overseas - current year	25	34	-	-
Total current tax recognised in the income statement	1,875	2,567	4	1
Deferred tax expense				
Origination and reversal of temporary differences	(6,344)	(286)	-	-
Total deferred tax recognised in the income statement	(6,344)	(286)	-	-
Share of tax of equity accounted associates	902	944	-	-
	902	944	-	-
Total tax expense	(3,567)	3,225	4	1
Profit/(Loss) for the year / period	5,018	(26,375)	(4,834)	(20,323)
Total tax expense	(3,567)	3,225	4	1
Profit/(Loss) excluding tax	1,451	(23,150)	(4,830)	(20,322)

	Group		Company	
	Year ended 31.12.2006 RM'000	**1.8.2004 to 31.12.2005 RM'000 restated**	**Year ended 31.12.2006 RM'000**	**1.8.2004 to 31.12.2005 RM'000 restated**
Tax calculated using Malaysian tax rate of:				
- income taxable at 20%	96	217	-	-
- income taxable at 28%	273	(6,799)	(1,352)	(5,690)
Effect of tax rates in foreign jurisdiction	2	(142)	-	-
Non-deductible expenses	2,303	5,373	1,553	6,018
Tax exempt income	(201)	(1,177)	(201)	(328)
Recognition of previously unrecognised tax losses	(6,007)	-	-	-
Effect of deferred tax assets not recognised	-	4,848	-	-
Other items	-	481	-	-
	(3,534)	2,801	-	-
Under provided in prior years	(33)	424	4	1
	(3,567)	3,225	4	1

23. Earnings per ordinary share - Group

Basic earnings per share

The calculation of basic earnings per share at 31 December 2006 was based on the profit attributable to ordinary shareholders of RM4,327,000 (2005 - loss attributable to ordinary shareholders of RM27,774,000) and a weighted average number of ordinary shares outstanding calculated as follows:

Weighted average number of ordinary shares

	2006 '000	**2005 '000**
Issued ordinary shares at 1 January / 1 August	212,045	192,769
Effect of shares issued	-	3,461
Weighted average number of ordinary shares at 31 December	212,045	196,230

	2006 sen	**2005 sen**
Basic earnings/(loss) per share	2.04	(14.15)

Diluted earnings per share

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

24. Dividends

Dividends recognised by the Company are:

2005	**Sen per share (net of tax)**	**Total amount RM'000**	**Date of payment**
Final 2004	2.60	5,012	28 February 2005

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.
Agro Industry Division ("AID")	-	Design, construction and commission of oil palm mills, oil palm plantation development and manufacture and sale of crude palm oil and related products.
Building Services Division ("BSD")	-	Provision of mechanical and electrical engineering services for general industries.
Trading and Service Division ("TSD")	-	Trading and servicing of equipment for water and palm oil industries.

Geographical segments

WD segment is mainly operated in Malaysia, Vietnam, Thailand and People's Republic of China.
WWD segment is mainly operated in Malaysia.
AID segment is mainly operated in Malaysia, India and Indonesia.
BSD segment is mainly operated in Malaysia.
TSD segment is mainly operated in Malaysia, Papua New Guinea and Indonesia.

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.

2006 Business segments	WD RM'000	WWD RM'000	AID RM'000	BSD RM'000	TSD RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
Total external revenue	73,799	38,877	-	-	8,614	-	-	121,290
Inter segment revenue	-	-	-	-	4	530	(534)	-
Total segment revenue	73,799	38,877	-	-	8,618	530	(534)	121,290
Segment result	(4,449)	2,186	-	-	782	(118)	-	(1,599)
Results from operating activities								(1,599)
Interest income								498
Finance costs								(4,679)
Share of profit of equity accounted associates								5,129
Share of profit of joint venture								1,200
Tax expense								4,469
Profit for the year								5,018
Segment assets	238,836	26,344	3	1,954	3,002	10,310	-	280,449
Investment in associates	35,197	-	20,243	-	-	-	-	55,440
Total assets	274,033	26,344	20,246	1,954	3,002	10,310	-	335,889
Segment liabilities	171,140	10,545	49	2,186	1,486	1	-	185,407
Capital expenditure	37,045	256	-	-	2	24	-	37,327
Depreciation	4,613	397	-	-	25	276	-	5,311
Amortisation of prepaid lease payments	450	-	-	-	-	-	-	450
Non-cash expense other than depreciation and amortisation	(360)	(57)	-	-	5	(19)	-	(431)

2005 Business segments	WD RM'000	WWD RM'000	AID RM'000	BSD RM'000	TSD RM'000	Others RM'000	Eliminations RM'000 restated	Consolidated RM'000
Total external revenue	109,211	42,394	-	-	10,774	-	-	162,379
Inter segment revenue	-	-	-	-	643	750	(1,393)	-
Total revenue	109,211	42,394	-	-	11,417	750	(1,393)	162,379
Segment result	(29,790)	1,656	-	-	508	(64)	-	(27,690)
Results from operating activities								(27,690)
Interest income								544
Finance costs								(5,062)
Share of profit of equity accounted associates								8,019
Share of profit of joint venture								95
Tax expense								(2,281)
Loss for the period								(26,375)
Segment assets	148,304	28,617	2	4,381	4,390	10,564	-	196,258
Investment in associates	43,217	-	18,839	-	-	-	-	62,056
Total assets	191,521	28,617	18,841	4,381	4,390	10,564	-	258,314
Segment liabilities	103,699	14,222	51	6,187	4,540	24	-	128,723
Capital expenditure	6,095	183	-	-	49	175	-	6,502
Depreciation	2,193	562	-	-	57	377	-	3,189
Amortisation of goodwill	741	-	1,190	-	-	-	-	1,931
Amortisation of prepaid lease payments	37	-	-	-	-	-	-	37
Non-cash expense other than depreciation and amortisation	(11)	15	-	-	-	-	-	4

	Malaysia RM'000	Vietnam RM'000	Indonesia RM'000	Thailand RM'000	India RM'000	China RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
2006 ***Geographical segments***									
Revenue from external customers	88,577	2,325	4,880	823	-	23,341	1,344	-	121,290
Segment assets	102,383	214	207	4,557	10,376	162,686	26	-	280,449
Investment in associates	-	35,197	-	-	20,243	-	-	-	55,440
Total assets	102,383	35,411	207	4,557	30,619	162,686	26	-	335,889
Capital expenditure	439	-	-	-	-	36,888	-	-	37,327
2005 ***Geographical segments***									
Revenue from external customers	135,422	1,962	3,340	15,166	-	5,809	680	-	162,379
Segment assets	120,804	482	618	10,884	10,376	53,013	81	-	196,258
Investment in associates	-	43,217	-	-	18,839	-	-	-	62,056
Total assets	120,804	43,699	618	10,884	29,215	53,013	81	-	258,314
Capital expenditure	1,495	-	-	58	-	4,949	-	-	6,502

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. 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.

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 hire purchase agreements to finance capital expenditure.

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 **2006**	**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	3.0%	203	203	-	-	-	-	-
- RMB	2.1%	14,646	14,646	-	-	-	-	-
		14,849	14,849	-	-	-	-	-
Term loan (unsecured)								
- RM	6.9%	(45,000)	-	-	(45,000)	-	-	-
Hire purchase creditors (secured)	4.7% - 5.0%	(248)	(100)	(138)	(10)	-	-	-
		(45,248)	(100)	(138)	(45,010)	-	-	-
Floating rate instruments								
Bank overdraft (unsecured)	8.3%	(2,878)	(2,878)	-	-	-	-	-
Bankers' acceptance (unsecured)	4.7%	(2,625)	(2,625)	-	-	-	-	-
Revolving credits (unsecured)	5.5%	(250)	(250)	-	-	-	-	-
Term loans (unsecured)								
- RM	5.4%	(27,000)	(17,000)	(10,000)	-	-	-	-
- RMB	4.2%	(28,430)	(3,953)	(20,338)	(4,139)	-	-	-
		(61,183)	(26,706)	(30,338)	(4,139)	-	-	-

Group 2005	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	3.0%	3,675	3,675	-	-	-	-	-
- RMB	3.0%	8,837	8,837	-	-	-	-	-
		12,512	12,512	-	-	-	-	-
Term loan (unsecured)								
- RM	6.9%	(45,000)	-	-	-	(45,000)	-	-
Hire purchase creditors (secured)	4.4% - 6.5%	(342)	(160)	(141)	(41)	-	-	-
		(45,342)	(160)	(141)	(41)	(45,000)	-	-
Floating rate instruments								
Bank overdraft (unsecured)	7.6%	(43)	(43)	-	-	-	-	-
Bankers' acceptance (unsecured)	4.0%	(5,279)	(5,279)	-	-	-	-	-
Revolving credits (unsecured)	5.0%	(7,880)	(7,880)	-	-	-	-	-
Term loan (unsecured)								
- RMB	6.0%	(2,177)	-	-	-	(2,177)	-	-
		(15,379)	(13,202)	-	-	(2,177)	-	-
Company								
2006								
Fixed rate instruments								
Term loan (unsecured)								
- RM	6.9%	(45,000)	-	-	(45,000)	-	-	-
Floating rate instruments								
Term loan (unsecured)								
- RM	5.4%	(27,000)	(17,000)	(10,000)	-	-	-	-
2005								
Fixed rate instruments								
Term loan (unsecured)								
- RM	6.9%	(45,000)	-	-	-	(45,000)	-	-

26. Financial instruments *(Continued)*

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.

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.

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

	2006		2005	
Group	**Carrying amount RM'000**	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**
Quoted shares - long term	18	18	18	18
Unquoted shares	6,475	6,475	6,475	6,475
Other investment	4,586	4,586	4,586	4,586

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.

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	
	2006	**2005**
	RM'000	**RM'000**
Bank guarantee given to third parties relating to performance, tender and advance payment bonds - unsecured	**44,686**	**41,459**

A supplier had on 20 September 2005 commenced legal action in the Shah Alam High Court ("SAHC") against Salcon Engineering Berhad ("SEB") seeking for an injunction against SEB from enforcing a bank guarantee given by the supplier to SEB in connection with the supply of pumps and motors ("the Goods") by the supplier to SEB, declaration that SEB has breached the warranty of the Goods and therefore the said bank guarantee should be cancelled and claim for the sum of RM178,398 for loss and damages suffered by the supplier by providing labour services towards the Goods. SEB denied and defended the claim and further counterclaimed against the supplier that there existed defects in the Goods rendering the Goods unfit for the purposes the Goods were designed for and/or the life span of the same is much less than its original life span and the defects were caused by the supplier in breach of the terms in the Purchase Order and also being negligent themselves. The supplier's action in this matter has allegedly caused SEB to suffer monetary loss, reputation and goodwill. SEB also counterclaimed for a sum of RM1,200 against the supplier taking into account of the realisation of the bank guarantee and for a replacement of the Goods of which the full costs and expenses are to be borne by the supplier.

Exchange of pleadings has been ongoing and SAHC has on 3 May 2006 set 27 March 2007 as the hearing date for Pre-Trial Case Management and subsequently has been postponed to 8 October 2007.

In the Directors' opinion, the success of the claim is remote and no provision is required to be made in the financial statements.

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 21.

Other related party transactions

	Transaction value Year/Period ended 31 December	
	2006	**2005**
Company	**RM'000**	**RM'000**
Interest income		
- subsidiary	674	1,712

29. Acquisition of subsidiaries

Business combination

(i) The Company had on 20 April 2006, incorporated two wholly-owned subsidiaries, Salcon Water International Limited and Salcon Water (Asia) Limited, both companies were incorporated in Hong Kong with a paid-up capital of HK$1 divided into 1 share of HK$1 each. These changes had no material impact on the earnings and net assets of the Group during the financial year.

(ii) The Company had on 12 June 2006, incorporated a wholly-owned subsidiary, Salcon Zhejiang (HK) Limited, a company incorporated in Hong Kong with a paid-up capital of HK$1 divided into 1 share of HK$1 each. This change had no material impact on the earnings and net assets of the Group during the financial year.

(iii) Salcon Engineering Berhad ("SEB"), a wholly-owned subsidiary of the Company had on 26 September 2006 acquired 100% of the issued and paid-up share capital of Salcon (Perak) Sdn. Bhd. (formerly known as Mantap Realiti Sdn. Bhd.) comprising 2 ordinary shares of RM1 each for a nominal consideration of RM2. The acquisition had no material impact on the earnings and net assets of the Group during the financial year. On 31 October 2006, SEB acquired additional 4 ordinary shares of RM1 each for a nominal consideration of RM4 from the creation of an additional 8 ordinary shares of RM1. Upon the additional acquisitions of 4 ordinary shares, the effective interest in Salcon (Perak) Sdn. Bhd is 60%.

(iv) SEB had on 20 November 2006 acquired 100% of the issued and paid-up share capital of Salcon Infrastructure Sdn. Bhd. comprising 2 ordinary shares of RM1 each for a nominal consideration of RM2. The acquisition had no material impact on the earnings and net assets of the Group during the financial year.

(v) The Company had on 28 November 2006 acquired 100% of the issued and paid-up share capital of Salcon Technology Sdn. Bhd. (formerly known as Telcalibre Sdn. Bhd.) comprising 2 ordinary shares of RM1 each for a nominal consideration of RM2. The acquisition had no material impact on the earnings and net assets of the Group during the financial year.

(vi) Salcon Zhejiang (HK) Limited ("Salcon Zhejiang"), a wholly-owned subsidiary of the Company had on 31 August 2006 entered into a Joint Venture Agreement ("JV") with Haining City Water Investment Ltd. Group to set up the joint venture company, Haining Salcon Water Company Limited ("Haining Salcon") on a 60:40 basis. Pursuant to the JV, Salcon Zhejiang had subscribed for 60% of the initial registered capital in Haining Salcon for a cash consideration of USD6.75 million, equivalent to RM25 million. Accordingly, Haining Salcon became a subsidiary company of the Group.

The acquisition of Haining Salcon and finalisation of assets injection in Linyi Salcon 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	3	57,550
Prepaid lease payments	5	14,888
Inventories		407
Receivables, deposits and prepayments		(10,727)
Cash and cash equivalents		29,080
Payables and accruals		(32,680)
Borrowings		(16,745)
Minority interest		(16,668)
Net identifiable assets and liabilities		25,105
Goodwill on acquisition	4	4,097
		29,202
Cash acquired		(29,080)
Net cash outflow		122

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. Subsequent events

On 15 January 2007, MIMB Investment Bank Berhad ("MIMB"), on behalf of the Board, announced that the Company proposed to undertake a Proposed Rights Issue with Warrants. In addition, MIMB had on 15 February 2007 announced on behalf of the Board that the Company proposed to revise the utilisation of proceeds.

On 5 March 2007, MIMB, on behalf of the Board, announced that the Company has received the approval from the Securities Commission ("SC") vide its letter dated 2 March 2007 for the following, subject to the condition that MIMB and the Company fully comply with the relevant requirements of the SC Guidelines pertaining to the implementation of the Proposed Rights Issue with Warrants:-

(a) proposed Rights Issue with Warrants;

(b) issuance of new ordinary shares in the Company upon exercise of Warrants; and

(c) listing of and quotation for the Rights Shares, Warrants and new ordinary shares in the Company upon exercise of such Warrants on the Main Board of Bursa Malaysia Securities Berhad.

On 9 March 2007, the issue price per Rights Share and the exercise price of the Warrants were announced and had been fixed at RM0.57 and RM0.75 respectively.

On 30 March 2007, the shareholders of the Company had approved the ordinary resolution tabled at the Extraordinary General Meeting in relation to the Proposed Rights Issue with Warrants.

31. Changes in accounting policies

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2006.

The changes in accounting policies arising from the adoption of FRS 3, *Business Combinations*, FRS 136, *Impairment of Assets* and FRS 138, *Intangible Assets*.

FRS 3, *Business Combinations,* FRS 136, *Impairment of Assets* and FRS 138, *Intangible Assets*

The adoption of FRS 3, FRS 136 and FRS 138 has resulted in a change in the accounting policy for goodwill. The change in accounting policy is made in accordance with their transitional provisions.

Goodwill is stated at cost less accumulated impairment losses and is no longer amortised. Instead, goodwill impairment is tested annually, or when circumstances change, indicating that goodwill might be impaired. Negative goodwill is recognised immediately in the income statement. This has resulted in the derecognition of negative goodwill and an increase of retained earnings for the Group as at 1 January 2006 by RM681,000.

Had there not been a change in accounting policy, the net profit attributable to shareholders for the financial year ended 31 December 2006 would decrease by RM1,536,000 as follows:

	Group 2006 RM'000
Income statement for the year ended 31 December	
Goodwill amortisation which would be charged to the income statement	1,536

In sen	Group 2006
Earnings per share	
Decrease in basic earnings per share	(0.72)

32. Comparative figures

Certain comparative figures have been reclassified as a result of changes in accounting policies as stated in Note 31 and to conform with the presentation requirements of FRS 101.

	Group	
	As restated	As previously stated
Income statement		
Share of profit of associates	8,019	8,963
Loss before tax	24,094	23,150
Tax expense	2,281	3,225
Balance sheet		
Property, plant and equipment	31,138	32,561
Prepaid lease payments	1,423	-

Following the adoption of FRS 3, *Business Combinations*, minority interests was reclassified into equity, likewise in arriving at profit for the year minority interests was not deducted.

Leasehold land amounting to RM1,423,000 in 2005 was reclassified from property, plant and equipment to prepaid lease payments to comply with the requirements of FRS 117, *Leases*.

Particulars of Group Properties

The properties of the Group at 31 December 2006 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
Salcon Resources Sdn Bhd	Geran 39929, PT No. 42695, Mukim Damansara, Daerah Petaling/15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan.	1,300.5 sq. metres of office space	7 years	31.01.2007	5,000
Salcon Resources Sdn Bhd	Geran 39930, PT No. 42696 Mukim Damansara, Daerah Petaling/16th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan.	1,300.5 sq. metres of office space	7 years	31.01.2007	5,000
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 1 1/2 storey terraced factory	10 years	14.03.2002	192
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	27 years	15.03.2002	673
					10,865

Particulars of Group Properties

LONG-TERM LEASEHOLD PROPERTIES

Company	Location/Address	Description/ Existing Use	Approximate age of building	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	2,832
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	581
Shandong Changle Salcon 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	2,857
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	22,994
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	7,951
					37,215

Statistical Report of Shareholders

as at 23 April 2007

Class of Securities	:	Ordinary shares of RM0.50 each
Authorised Share Capital	:	1,000,000,000
Issued and Fully Paid-up Share Capital	:	212,045,402
Votings rights	:	One vote per shareholder on a show of hands
		One vote per ordinary share on a poll
No. of shareholders	:	5,005

Analysis of Shareholdings

Size of holdings	No. of holders	No. of Shares	% of Shares held
1 - 99	1,657	86,632	0.04
100 - 1,000	1,201	754,467	0.36
1,001 - 10,000	1,572	7,310,170	3.45
10,001 - 100,000	454	15,719,137	7.41
100,001 - 10,602,269	120	154,874,996	73.04
10,602,270 and above	1	33,300,000	15.70
Total	5,005	212,045,402	100.00

List of Thirty Largest Registered Shareholdings

	Name	No. of Shares	%
1	Naga Muhibah Sdn Bhd	33,300,000	15.70
2	HSBC Nominees (Asing) Sdn Bhd Coutts BK Von Ernst SG for Beadle Group Limited	10,545,740	4.97
3	Chai Seong Min	9,991,100	4.71
4	Cartaban Nominees (Asing) Sdn Bhd State Street Australia Fund UAJB for Unifund (HTSG as Trustee)	9,000,000	4.24
5	Wong Swee Yee	8,481,700	4.00
6	Alliancegroup Nominees (Tempatan) Sdn Bhd Pheim Asset Management Sdn Bhd For Employees Provident Fund	8,098,000	3.82
7	Leong Lai Shen	8,096,600	3.82
8	Chai Moy Fong	7,669,370	3.62
9	Employees Provident Fund Board	7,629,600	3.60
10	HSBC Nominees (Asing) Sdn Bhd Exempt An for The HongKong and Shanghai Banking Corporation Ltd	5,148,000	2.43

Statistical Report of Shareholders

as at 23 April 2007

List of Thirty Largest Registered Shareholdings *(Continued)*

	Name	No. of Shares	%
11	Pembinaan Punca Cergas Sdn Bhd	5,000,000	2.36
12	Warisan Harta Sabah Sdn Bhd	4,956,300	2.34
13	Loh Kee Kiat	4,819,200	2.27
14	Ong Aun Kung	3,212,800	1.52
15	Raja Zainal Abidin Bin Raja Hussin	3,033,600	1.43
16	Citigroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Beh Hang Kong	2,600,000	1.23
17	Citigroup Nominees (Tempatan) Sdn Bhd Exempt An for Prudential Assurance Malaysia Berhad	2,528,300	1.19
18	Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Public Industry Fund	2,220,000	1.05
19	Hari Narayanan A/L Govindasamy	2,200,000	1.04
20	UBB (Malaysia) Trustee Berhad Common Fund	2,110,000	1.00
21	Choong Moh Kheng	2,000,000	0.94
22	Leong Fee Foon	2,000,000	0.94
23	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Raja Zainal Abidin Bin Raja Hussin	2,000,000	0.94
24	Tan Kok Sing	2,000,000	0.94
25	UOBM Nominees (Asing) Sdn Bhd UOB-IOD For United Overseas Bank Limited (ACU)	2,000,000	0.94
26	Universal Trustee (Malaysia) Berhad Mayban Balanced Trust Fund	1,828,100	0.86
26	Jaggit Singh A/L Tara Singh	1,745,000	0.82
28	HSBC Nominees (Asing) Sdn Bhd TCSB For Diam China Open Mother Fund	1,550,000	0.73
29	HSBC Nominees (Asing) Sdn Bhd HSBC-FS For Asean Emerging Companies Growth Fund Ltd	1,020,000	0.48
30	Cartaban Nominees (Asing) Sdn Bhd State Street Australia Fund UBLV For United Asian Growth Opportunities Fund	1,000,000	0.47
		157,783,410	74.41

SUBSTANTIAL SHAREHODLERS

According to the register required to be kept under Section 69L of the Companies Act, 1965, the following are the substantial shareholders of the Company :

Name of Substantial Shareholders	Direct	%	Indirect	%
Naga Muhibah Sdn Bhd	33,300,000	15.70	0	0
Employees Provident Fund Board	7,629,600	3.59	7,650,000	3.61
United Overseas Bank Limited	12,000,000	5.66	0	0
Dato' Seri Goh Eng Toon	0	0	33,300,000*	15.70
Datin Seri Kee Seok Ai	0	0	33,300,000*	15.70

STATEMENT ON DIRECTORS' INTERESTS IN THE COMPANY AND RELATED CORPORATIONS

Name of Directors	Direct	%	Indirect	%
Tan Sri Razali Ismail	572,000	0.27	0	0
Dato' Seri Goh Eng Toon	0	0	33,300,000*	15.70
Jaggit Singh a/l Tara Singh	1,745,000	0.82	0	0
Dato' Dr Freezailah Bin Che Yeom	25,000	0.01	0	0
Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas	0	0	45,000#	0.02
Ho Tet Shin	0	0	0	0

Notes to indirect interest in shares:

* Indirect interest held through Naga Muhibah Sdn Bhd
# Indirect Interest held through his wife.

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

Other than disclosed above, none of the other Directors hold shares in the Company's 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 ....

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Fourth Annual General Meeting of the Company to be held at Caymans 1, 2, & 3, Level 10, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 46150 Petaling Jaya, Selangor on Tuesday, 26 June 2007 at 2.30 p.m. or at any adjournment thereof.

Resolutions	***For**	***Against**
1. Adoption of Directors' Reports and Audited Financial Statements		
2. To approve payment of Directors' fee.		
3. Re-appointment of Director : Jaggit Singh a/l Tara Singh		
4. Re-appointment of Director : Dato' Dr Freezailah Bin Che Yeom		
5. Re-appointment of Auditors		
6. Re-appointment of Director : Dato' Seri Goh Eng Toon		
7. Authority to allot and issue shares in general pursuant to Section 132D of the Companies Act, 1965		
8. Authority to allot and issue shares pursuant to the Employees' Share Option Scheme ("ESOS")		
9. Proposed Amendments to the Articles		

* Please indicate with (X) how you wish your vote to be cast. If no specific direction as to voting is given the proxy will vote or abstain at his discretion.

Number of shares held

Dated this .... day of 2007

....
Signature of Shareholder(s) or Common Seal

Notes :-

1. A Member of the Company entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. A proxy need not be a member of the Company and the provisions of Section 149 (1) of the 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 proportions of his/her holdings to be represented by each proxy.
3. In the case of a corporate body, the proxy appointed must be in accordance with the Memorandum and Articles of Association, and the instrument appointing a proxy shall be given under the Common Seal of the Company or under the hand of an officer or attorney duly authorized.
4. The Form of 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

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ISO 9001 : 2000

QUALITY POLICY

To meet and exceed requirements in producing potable water and treating effluents to acceptable standards while encouraging continual improvements and ensuring promptness and efficiency in responding to clients feedback / complaints

ISO 14001:2004

ENVIRONMENTAL POLICY

We are committed to prevention of pollution and continual improvement of environmental performance throughout our business operations via the implementation of an Environmental Management System that conforms to ISO 14001: 2004

Lime Silos, Johor Bahru Water Supply Privatisation Project - Stage 3 Johor, MALAYSIA

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

POSTAL ADDRESS :
P.O. Box 3015,
47509 UEP Subang Jaya,
Selangor Darul Ehsan,
MALAYSIA.

GENERAL : 603-8024 8822
FAX : 603-8024 8811