



annual report 2005

VISION

To be a leader and foremost specialised engineering company in Asia.

MISSION

To develop a progressive manpower, to provide quality services with optimum resources towards customer satisfaction.

CORE VALUES

COMMITMENT

We are committed to delivering consistent products and services of the highest quality through the 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 of excellence.

PROFESSIONALISM

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



COVER RATIONALE

Focused on Purity

This cover design depicts our clean and clear focus on contributing to a pristine living environment, through keen insights into the water purification industry. The waterfall reflects the ideal natural pure state of water. By capturing not just clean water but water in its natural state, a message of environmentalism is also imparted. The use of hands show Salcon's determination to take charge and lead with personal involvement. It's also a sign of commitment and strength of our human assets.

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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT
 the Third Annual General Meeting
 of the Company will be held
 for the following purposes:

Venue:

Ballroom 1, Level 5
 The Summit Hotel, Subang USJ
 Persiaran Kewajipan, USJ 1
 47600 UEP Subang Jaya
 Selangor Darul Ehsan

Date:

Tuesday, 9 May 2006

Time:

10.30 a.m.

AGENDA:

1. To receive and adopt the Audited Financial Statements for the financial period ended 31 December 2005 together with the Reports of the Directors and Auditors thereon. Resolution 1
2. To approve payment of Directors' fee. Resolution 2
3. To re-elect the following persons as Directors of the Company pursuant to Article 96 of the Articles of Association of the Company:
 - i) Tan Sri Razali Ismail Resolution 3
 - ii) Dato' Lim See Teok Resolution 4
4. To re-elect Mr. Ho Tet Shin as Director of the Company pursuant to Article 103 of the Articles of Association of the Company. Resolution 5
5. To consider and, if thought fit, pass the following resolution 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. To re-appoint Messrs. KPMG as Auditors of the Company and authorise the Directors to fix their remuneration. Resolution 7

AS SPECIAL BUSINESS

To consider and, if thought fit, pass the following Resolutions:

ORDINARY RESOLUTIONS

8. AUTHORITY TO ALLOT AND ISSUE SHARES PURSUANT TO THE EMPLOYEES' SHARE OPTION SCHEME ("ESOS") (SEE NOTE 2.1)

"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

ORDINARY RESOLUTIONS (cont'd)**9. AUTHORITY TO ALLOT AND ISSUE SHARES IN GENERAL PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965 (SEE NOTE 2.2)**

"THAT, subject always to the Companies Act, 1965, the Articles of Association of the Company and the approval of any relevant governmental and/or regulatory authorities, where such approval is required, the Directors be and hereby authorised and empowered pursuant to Section 132D of the Companies Act, 1965 to 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 9**10. To transact any other business of which due notice have been given.****BY ORDER OF THE BOARD**

NG YEN HOONG
LIM POH YEN
Company Secretaries
Subang Jaya, Selangor
17 April 2006

Notes:-**1. Appointment Of Proxy**

- 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.
- 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.
- 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.
- 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.
- Any alteration in the form of proxy must be initialed.

2. Explanatory Notes To Special Business:**2.1 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.

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

The proposed Resolution 9, if passed, will give the Directors authority to allot and issue new ordinary shares up to an amount not exceeding 10% of the issued share capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority will commence from the date of this Annual General Meeting and unless revoked or varied by the Company at a General Meeting, will expire at the next Annual General Meeting.

Statement Accompanying Notice of 3rd Annual General Meeting

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

1. Names of Directors who are standing for re-election

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

- Tan Sri Razali Ismail
- Dato' Lim See Teok

The profiles of the above Directors are set out in the Section entitled "Profile of Directors" on page 8. Their shareholdings in the Company and subsidiary companies are set out in the Section entitled "Statement on Directors' Interest in the Company and Related Corporations" on page 78.

2. Details of the attendance of Directors at Board Meetings

There were nine (9) Board Meetings held during the financial period ended 31 December 2005. Details of attendance of Directors are set out on page 20 in the Statement of Corporate Governance in the Annual Report.

3. Date, Time and Venue of the 3rd Annual General Meeting of Salcon Berhad

Place : Ballroom 1, Level 5, The Summit Hotel, Subang USJ, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan.

Date : Tuesday, 9 May 2006

Time : 10.30 a.m.

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' Lim See Teok

Chief Executive Officer, 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/I Tara Singh

Executive Director

Ho Tet Shin

Independent Non-Executive Director

AUDIT COMMITTEE

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

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
E-mail : salconen@tm.net.my
Website : <http://www.salcon.com.my>

AUDITOR

KPMG
Chartered Accountants
Wisma KPMG, Jalan Dungan
Damansara Heights
50490 Kuala Lumpur

PRINCIPAL BANKERS

- Bumiputra-Commerce Bank Berhad
- Malayan Banking Berhad
- OCBC Bank (Malaysia) Berhad
- Standard Chartered Bank Malaysia Berhad
- United Overseas Bank (Malaysia) Berhad

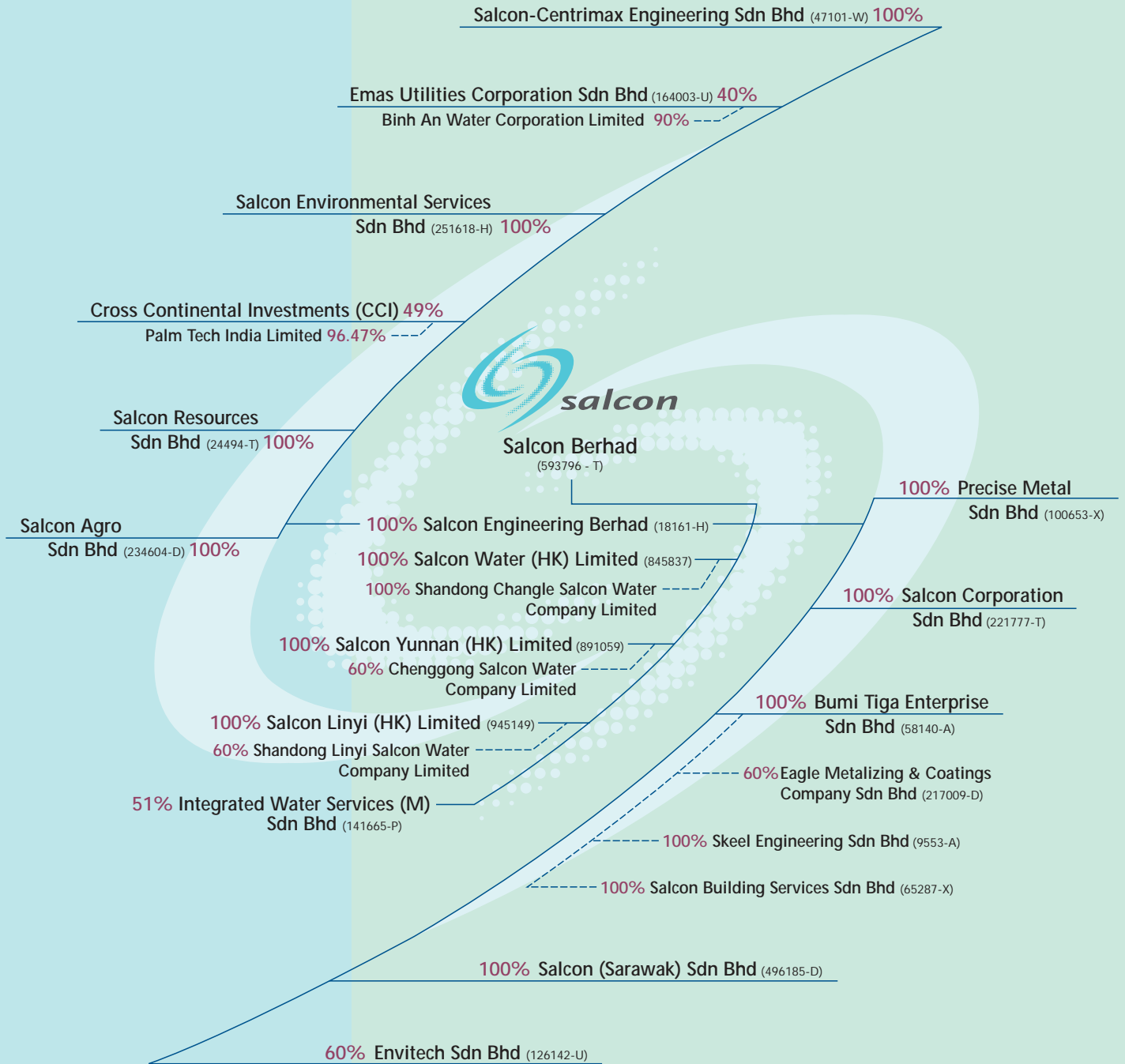
REGISTRAR

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



Board of Directors

FROM LEFT TO RIGHT

Standing

Mr Ho Tet Shin

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

Mr Jaggit Singh a/l Tara Singh

Dato' Dr Freezailah bin Che Yeom

Sitting

Tan Sri Razali Bin Ismail

Dato' Lim See Teok

Dato' Seri Goh Eng Toon





Profile of Directors

TAN SRI RAZALI ISMAIL

Chairman, Independent Non-Executive Director, Malaysian

Tan Sri Razali Ismail, aged 66, 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 a member of the Remuneration Committee. His shareholding in the Company was disclosed under page 33 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.

Tan Sri attended all nine (9) Board Meetings during the financial period ended 31 December 2005.



DATO' LIM SEE TEOK

Chief Executive Officer, Non-Independent Executive Director, Malaysian

Dato' Lim See Teok, aged 48, was appointed to the Board of Salcon on 21 July 2003. He joined Salcon Engineering Sdn Bhd in March 1997 as General Manager - Commercial and was promoted to the post of Deputy Managing Director in 1998. On 1 June 2002, he was appointed the Chief Executive Officer of Salcon Engineering Berhad and has assumed the position of the Group Chief Executive Officer when Salcon Berhad listed on the Bursa Exchange on 3 September 2003.

Dato' Lim holds a Master in Business Administration (General Management) from the University of Bath, United Kingdom and is a member of the Malaysian Institute of Accountants.

Dato' Lim was instrumental in charting Salcon's course over the years in transforming the company from a specialist M&E contractor in water treatment into a regional, service driven organization with a steady inflow of income and revenues through the securing of various water and wastewater concessions in Asia. Under Dato's stewardship, Salcon has also expanded its services and revenue streams to include the provision of Operation & Maintenance of water treatment plants and reduction of Non Revenue Water.

Dato' Lim is the Chairman of Tender Committee and also a member of the Executive, Risk Management and ESOS Committees of the Company. His shareholding in the Company was disclosed under page 33 of the Directors Report. He has no family relationship with any other Director and / or major shareholders 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' Lim attended six (6) out of seven (7) of the Audit Committee Meetings and eight (8) out of nine (9) Board meetings held during the financial period ended 31 December 2005.



DATO' SERI GOH ENG TOON**Vice Chairman, Non-Independent Non-Executive Director, Malaysian**

Dato' Seri Goh Eng Toon, aged 72, was appointed to the Board of Salcon Berhad 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 held various senior positions with Malayan Banking Berhad from 1960 to 1973. In 1973, he was appointed the Chief Executive Officer of Ban Hin Lee Bank Berhad, its Director in 1978, its Acting Chairman in 1986 and became its Executive Chairman in 1990 until the merger of Ban Hin Lee Bank Berhad and Southern Bank Berhad in July 2000.

Dato' Seri Goh presently serves on the Board of Aviva Insurance Berhad and Pulau Pinang Clinic Sdn Bhd (Gleneagles Medical Centre, Penang) as Chairman, and Heng Lee & Co. Sdn Bhd and its Group of Companies. He was a Directors of Southern Bank Bhd and was Chairman of the Board of Southern Finance Bhd, SBB Mutual Bhd, BHLB Trustee Bhd, BHLB Asset Management Sdn Bhd and BHLB Venture Bhd.

Dato' Seri Goh is a member of the Executive, Nomination and Remuneration Committee in 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 Directors and/or major shareholder of the Company. He sits on the Board of Trustee of many charitable organizations, clubs and associations. 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 three (3) out four (4) Board meetings held during his tenure as a Director of the Company for the financial period ended 31 December 2005.

**MR JAGGIT SINGH A/L TARA SINGH****Non-Independent Executive Director, Malaysian**

Mr. Jagjit Singh, aged 58, was appointed to the Board on 21 July 2003. He is a Mechanical Engineer by profession.

Mr. Jagjit started his career as a lecturer and subsequently proceeded to be a project engineer. He has more than 26 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. Jagjit 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. Jagjit is a member of the Risk Management, ESOS and Tender Committees of the Company. His shareholding in the Company was disclosed under page 33 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. Jagjit Singh attended eight (8) out of nine (9) Board meetings held during the financial period ended 31 December 2005.

Profile of Directors (cont'd)

DATO' DR. FREEZAILAH BIN CHE YEOM

Independent Non-Executive Director, Malaysian

Dato' Dr. Freezailah Bin Che Yeom, aged 66, 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 33 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 six(6) out of seven (7) of the Audit Committee Meetings and seven (7) out of nine (9) Board meetings held during the financial period ended 31 December 2005.



MR 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 two (2) out of two (2) of the Audit Committee Meetings during his tenure as an Audit Committee member and two (2) out of two (2) Board meetings held during the financial period ended 31 December 2005.



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, My-Infotech (M) Berhad and Century Bond 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 the 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 33 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 three (3) out of three (3) of the Audit Committee Meetings during his tenure as an Audit Committee member and five (5) out of nine (9) Board meetings held during the financial period ended 31 December 2005.



Chairman's Statement



Dear Shareholders

On behalf of the Board of Directors, I am pleased to present the Annual Report and audited financial statements of Salcon Berhad for the seventeen months financial period ended 31st December 2005

The period under review was indeed a challenging one on the domestic front where there were lower activities in the construction sector. However, future outlook is being buoyed by encouraging prospects in overseas developments, especially in the China market.

FINANCIAL PERFORMANCE

In June 2005, the Board approved the change in the financial year end from 31 July to 31 December for administrative and financial reporting purposes. As a result, the financial statements for this year are for a seventeen months period starting from 1 August 2004 to 31 December 2005.

In a challenging business environment, the Group reported a loss after tax of RM26.4 million on turnover of RM162.4 million. The loss arose principally from the lower revenue, higher cost for the completion of some projects as a result of the increase in material prices, and an increase of RM12.8 million in the provision for doubtful debts. Notwithstanding the provision, the Group will continue to monitor and endeavour to recover the debts.

Pending the finalization of the National Water Services Commission Bills and Water Services Bill, Federal and State Governments' expenditure on water projects have been deferred. This deferment has negatively impacted the performance of the Group since more than three quarters of the Group's construction activities relate directly to this source, which is the main driver for the development of the Malaysian water industry.

FINANCIAL PERFORMANCE (cont'd)

Nevertheless, the Group's balance sheet at end December 2005 remains strong with a shareholders' fund of RM108 million, and a manageable gearing level of 0.56 times. The Net Asset per share was RM0.61.

CORPORATE DEVELOPMENT AND PROSPECTS

To counter the slow growth in the local construction industry, the Group expanded into the China market securing two new water and one wastewater concession in Shandong and Yunnan provinces through its investment holding companies in Hong Kong. Although not contributing much to the bottom line at the moment, market forecasts show that these concessions will provide a steady source of income in the near future. The growth potential and consequent demand for water and wastewater services in these areas where the Group has a foothold is tremendous. As a company providing end to end water services, the Group stands to participate and grow in tandem with the development in these concession areas.

In addition to China, the Group has also participated in international tenders for water projects in India, Sri Lanka and Vietnam. We are also currently exploring the Middle East market for wastewater opportunities where sewage related services are in demand as more emphasis is put on environmental conservation and sustainability. We see excellent opportunities in these new markets where our expertise and technological know-how can be applied.

In June 2005, Naga Muhibbah Sdn Bhd emerged as the major shareholder of Salcon following the divestment of Kumpulan Emas Berhad's stake in Salcon.

To strengthen its balance sheet, the company raised RM9.6 million through the private placement of ordinary shares in August 2005. The net proceeds of this exercise were utilized for working capital purposes and repayment of loans.

INDUSTRY OUTLOOK

There have been many developments in the water services industry in Malaysia in the recent year. Most significant was the transfer of matters related to water supply services from the State List to the Concurrent List. The objective of this Constitutional Amendment in January 2005 was to enable the Federal Government to share responsibility with the State Governments to legislate and implement new laws relating to water supply and services. To this effect, the National Water Services Industry Bill and National Water Services Commission Bill are being drawn up to spell out the new regulatory framework for the water sector.



Signing Ceremony of Changle Wastewater Treatment Plant TOT Project in Shandong Province, China



On the spot breakdown maintenance by our trained personnel to minimize downtime.

Chairman's Statement (cont'd)



Aerial view of Sg. Terip Water Treatment Plant, Negeri Sembilan where Salcon is providing on-going operation and maintenance services.

INDUSTRY OUTLOOK (cont'd)

The Group views this development in the Malaysian water industry as positive and a window of opportunity for established water players such as ourselves. Establishment of a National Water Services Commission to regulate all water service providers in the industry would improve efficiencies and strengthen the current structure. This would enable Salcon to capitalize on opportunities available upon implementation based on our years of experience and technical expertise.

Under the Ninth Malaysia Plan (9MP), which covers year 2006 to 2010, we are happy to note that the allocation for water and sewerage has doubled compared to the Eighth Malaysia Plan (8MP). We see key potential areas in the development and upgrading of water distribution network, consisting of laying of new pipes of various sizes and replacement of existing asbestos cement pipeline to reduce non-revenue water (NRW). Based on our successful track record in Malaysia and overseas, we are confident that these Government initiatives and policies will provide opportunities for Salcon.

CORPORATE GOVERNANCE

Our statement on Corporate Governance is set out on page 20 to 25. There were no sanctions, reprimands and/or penalties imposed on the Company or the Group, Directors or Management by the relevant authorities during the financial year.

“ Under the Ninth Malaysia Plan (9MP), which covers year 2006 to 2010, we are happy to note that the allocation for water and sewerage has doubled compared to the Eighth Malaysia Plan (8MP). We see key potential areas in the development and upgrading of water distribution network ”



Pipe head jack works for PIT 711 project at Bangkok, Thailand.



Aerial view of Intake site for Lancang Treatment Plant, Melaka.



Unveiling of plaque during the Opening Ceremony of Linyi Salcon Water Co. Ltd.

BOARD CHANGES AND ACKNOWLEDGEMENTS

On 16 June 2005, Dato' Seri Goh Eng Toon joined the Board as the Vice Chairman while Mr. Lim Kim Hai joined as a Non-Executive Director. Dato' Seri Goh has extensive business experience and currently sits on the boards of other public companies, and I am sure the Group will benefit from his guidance and insight.

On the same day, Dato' (Dr) Teoh Seng Foo, Mr. Teoh Seng Kian and Mr. Foo San Kan retired from the board as Vice Chairman, Executive Director and Non-Executive Director respectively.

On August 2005, Mr. Lim Kim Hai retired from the Board and Mr. Ho Tet Shin was appointed as a Non-Executive Director as well as Chairman of the Audit Committee.

On behalf of the Board, I wish to express our gratitude for the services each of them has rendered to the Group.

I would also like to take this opportunity to record our gratitude to all customers, government authorities and agencies, bankers and business partners for their cooperation, assistance, support and advice.

I wish to thank the management and staff for their commitment and hard work throughout the year.

Last but not least, I would like to thank our shareholders for their ongoing support and confidence in the Group.

TAN SRI RAZALI ISMAIL
Chairman



Message to Shareholders

Our strengths lie in our core water treatment engineering capabilities coupled with financial knowledge to package winning proposals. We will continue to build our resources, expertise and capabilities to ensure that we remain competitive.

The seventeen months financial period under review was exceptionally quiet, especially for wholly-owned subsidiary Salcon Engineering Berhad (SEB). The expected tabling of the National Water Services Bill and National Water Services Commission Bill in the Malaysian Parliament did not materialize, putting most new contracting projects on hold.

The Group reported a loss after tax of RM26.4 million, mainly due to SEB's results which was severely affected by the lack of new contracts coupled with provisions for doubtful debts and higher material costs on completion of projects. Other than SEB, all other operating subsidiaries and associate companies both locally and overseas contributed positively to the Group's results.

MALAYSIAN MARKET

During the year, the Group successfully completed RM118 million worth of projects which include the Lancang Treatment Works and Bulk Transfer (Package B) project in Melaka, New River Gate project at Sungai Sungkai, Perak and the Min Buri Water Distribution Pumping Station in Bangkok.

The NRW contract in Sandakan was successfully completed in October 2005 where savings of 16 MLD (Total treated water production is 80 MLD) of treated water was achieved at the end of the contract period. Reflecting confidence in Salcon's holistic approach towards the reduction of NRW, Salcon received a Letter of Award to continue with Phase 2 of the NRW reduction programme in February 2006.

With the delays facing the water and wastewater industry in Malaysia, the Group has channeled its resources to focus on other geographical areas with good growth potential such as China, India, Sri Lanka and Vietnam.

CHINA - STRATEGIC GROWTH MARKET

Salcon has made significant strides in the China market during this financial period. Since commencing operations of its first water concession in Changle, Shandong Province, Salcon has since driven ahead to achieve financial closures for 3 other water and wastewater concessions in the Shandong and Yunnan Provinces.

Salcon through its investment holding company, Salcon Water (HK) Limited acquired the Changle sewage treatment plant ("STP") and related facilities within the plant in April 2005. The acquisition of the STP marked a significant milestone for the company in Salcon's expansion plans in China as this meant that Salcon has become the sole water and wastewater company in Changle County.

In June 2005, Salcon signed a 30 year water concession for the management, operation and maintenance, billing and collection of potable water in Chenggong, Kunming City. Located within 20 minutes from Kunming city, Chenggong has been selected to house the new Kunming Municipal Government administrative buildings, at least 11 universities and logistics centre for flowers and vegetable exports. The concession in Chenggong includes the construction of a new 20 Mld (expandable to 60 Mld) water treatment plant. Construction commenced in February 2006 and is scheduled to complete by end 2006.



Aerial view of Linyi Water Treatment Plant.



Aerial view of Dam at Sg. Terip.

The Linyi project where we took over operations in January 2006, is Salcon's biggest investment so far in China. Linyi city is a first level city with a population of over a million persons. Immediately upon takeover of the existing water treatment plant, Salcon supplied 80Mld of potable water to the city centre as well as other sub urban areas. We are currently exploring new raw water sources and other options to increase water supply to the city where the current demand far exceeds supply by more than 100%.

All these concessions are in the early stage of implementation, and market forecasts indicate that they will contribute significantly to the company's profits in providing a steady stream of income within the next 2-3 years.

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

ASIAN MARKET

During the period under review, the Group has participated actively in international tenders for projects in India, Sri Lanka and Vietnam. These tenders are funded by various multilateral agencies such as the Japan Bank of International Cooperation (JBIC) and Asian Development Bank. We expect the results for the tenders to materialize in 2006.

There is also good potential in the Middle East market where there is a lack of wastewater treatment facilities.

CEO's Message (cont'd)



Dato' Lim See Teok, Chief Executive Officer of Salcon Berhad meeting with Dato' Seri Dr. Lim Keng Yaik, Minister of Energy, Water and Communications at the Asiwater 2006 Exhibition in the MINES, Kuala Lumpur

CORPORATE RESPONSIBILITY

The Group is committed to ensuring good corporate governance practices to instill confidence in the Company. Following stringent ISO 9001 quality management systems, the company has in place various quality checks and balances in ensuring fair and open practices which are in the company's best interest; thus, protecting the interests of the various stakeholders.

Conservation of resources and environmental concerns are the key to sustainable development. Acknowledging its importance, the Company is also in the process of upgrading the ISO 14001 environment policy from the 1996 version to the 2004 version to comply with the increasingly stringent environmental regulations.

The Company is committed to the compliance of the Occupational Safety and Health regulations to ensure the safety and health of its staff especially at the various project sites. Safety and health training was conducted by experts from time to time to raise the level of awareness among staff to ensure a safe and healthy environment.

“ Reflecting confidence in Salcon's holistic approach towards the reduction of NRW, Salcon received a Letter of Award to continue with Phase 2 of the NRW reduction programme in February 2006. ”



Pipe repairs and maintenance works for Sandakan NRW, Phase 1 Project.



Dato' Lim See Teok, Chief Executive Officer of Salcon Berhad meeting with His Excellency Wen Jia Bao, Premier of China during ASEAN Summit in Malaysia.



Groundbreaking ceremony for the construction of a 20 MLD (upgradable to 60 MLD) Water Treatment Plant in Chengong, Kunming City, China.

LOOKING AHEAD

Our strengths lie in our core water treatment engineering capabilities coupled with financial knowledge to package winning proposals. We will continue to build our resources, expertise and capabilities to ensure that we remain competitive.

We expect the operating performance of the Group's businesses to improve once the Malaysian Government introduces the National Water Services Industry Bill and the National Water Services Commission Bill. We also expect deferred water projects to flow into the market during the roll out of the 9th Malaysian Plan in 2006.

The water and wastewater sectors will remain our principal business and we will leverage on this core capability to provide customized solutions to our clients.

ACKNOWLEDGEMENTS

Last but not least, I would like to take this opportunity to thank our customers, shareholders and bankers for their continued support and confidence in our Group. I would also like to express my appreciation to the management and staff members for their commitment and hard work, and to my fellow directors for their contributions to the Board.

DATO' LIM SEE TEOK
Chief Executive Officer

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.

PRINCIPLE A - BOARD OF DIRECTORS

Constitution of the Board and Board Balance

The Board, led by a Non-Executive Chairman is made up of seven (7) members, comprising two (2) Executive Directors and five (5) Non-Executive Directors. The number of independent directors is in compliance with the Listing Requirements of the Bursa Malaysia Securities Berhad (BMSB), which requires one third of the Board to comprise of independent directors. The profiles of the Directors are set out in Pages 8 to 11 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 Non-Executive Chairman and the Chief Executive Officer to ensure a balance of power and authority. Generally, the Executive Directors 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.

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

For the 17month financial period ended 31 December 2005, the number of Board meetings held and the attendance of the Directors are listed below:

Directors	No. of meetings attended
Tan Sri Razali Ismail	9/9
Dato' Seri Goh Eng Toon (appointed on 15.6.2005)	3/4
Dato' (Dr.) Teoh Seng Foo (resigned on 15.6.2005)	6/6
Dato' Lim See Teok	8/9
Jaggit Singh a/I Tara Singh	8/9
Teoh Seng Kian (resigned on 15.6.2005)	6/6
Foo San Kan (resigned on 15.6.2005)	6/6
Dato' Dr Freezailah Bin Che Yeom	7/9
Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas	5/9
Ho Tet Shin (appointed on 5.8.2005)	2/2
Lim Kim Hai (appointed on 15.6.2005 and resigned on 3.8.2005)	2/2

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

PRINCIPLE A - BOARD OF DIRECTORS (cont'd)

Constitution of the Board and Board Balance (cont'd)

In addition, the Directors have and shall continue to attend relevant training courses organized under the Continuous Education Program (CEP) or other appropriate programmes to further enhance their skills and knowledge and also to keep them updated with the latest developments and requirements on corporate governance and guidelines.

Access to Advice and Information

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

Directors have access to all information within the Group and direct access to the advice and services of the Company Secretary, whether as a full Board or in their individual capacity. In addition, Directors are also empowered to seek external and independent professional advice at the Company's expense, in the exercise of their duties and responsibilities, should such advisory services be considered necessary.

Board Committees

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

a) Nominations Committee

The role of the Committee is to recommend candidates with an optimal mix of qualifications, skills and experience to the Board. The Committee also carries out annual evaluation on the effectiveness of the whole Board, the various Committees and each individual Director's contribution to the effectiveness of the Board's decision-making process.

The members are as follows:

Dato' Seri Goh Eng Toon

Dato' Dr Freezailah Bin Che Yeom

b) Remuneration Committee

The Remuneration Committee is responsible for drawing up the policy framework and to make recommendations to the Board on the remuneration packages of the Executive Directors. The Executive Directors do not participate in decisions relating to their remuneration. The Board as a whole determines the remuneration of Non-Executive Directors with the Director concerned abstaining from participating in decisions in respect of his individual remuneration.

The members are as follows:

Tan Sri Razali Ismail

Dato' Seri Goh Eng Toon

c) Audit Committee

The primary objective of the Audit Committee is to assist the Board in fulfilling its responsibilities relating to the accounting and reporting practices of the Group. The terms of reference as well as the members of the Audit Committee are set out in Pages 26 to 28 of the Annual Report.

d) Risk Management Committee

The Risk Management Committee is to oversee the implementation of risk management in the Group. The Committee reports directly to the Board and assists the Board in overseeing the management of risk factors. In addition, it also reviews the efficacy of internal controls within the Company.

The members are as follows:

Mr. Ho Tet Shin

Dato' Lim See Teok

Jaggit Singh a/l Tara Singh

Statement of Corporate Governance (cont'd)

PRINCIPLE A - BOARD OF DIRECTORS (cont'd)

Board Committees (cont'd)

e) ESOS Committee

The ESOS Committee is responsible for administering the Employees' Share Option Scheme (ESOS) in accordance with By-Laws. The members are as follows:

Dato' Lim See Teok
Jaggit Singh a/l Tara Singh

f) Executive Committee

The Executive Committee is responsible for implementing the decisions and policies approved by the Board. The members are as follows:

Dato' Seri Goh Eng Toon
Dato' Tee Tiam Lee
Dato' Leong Kok Wah
Dato' Lim See Teok

Re-election

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

PRINCIPLE B - DIRECTORS' REMUNERATION

Details of the remuneration of Directors of the Company for the 17 month financial period ended 31 December 2005 are as follows:

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

	Salary (RM)	Bonus (RM)	Fees (RM)	Meeting Allowances (RM)	Benefits in Kind (RM)	Statutory Contribution (RM)	Others (RM)	Total (RM)
Executive Directors	1,312,500	127,500	-	-	103,334	184,170	-	1,727,504
Non-Executive Directors	-	-	141,986	28,000	-	-	-	169,986

2. The number of directors whose total remuneration fall within the following bands:

Range of Remuneration	Number of Directors	
	Executive	Non-Executive
Below RM50,000	-	7
RM50,001 to RM100,000	-	1
RM100,001 to RM150,000	-	-
RM150,001 to RM200,000	-	-
RM201,001 to RM250,000	-	-
RM250,001 to RM300,000	-	-
RM300,001 to RM350,000	-	-
RM350,001 to RM400,000	-	-
RM400,001 to RM450,000	-	-
RM450,001 to RM500,000	1	-
Above RM500,000	2	-

PRINCIPLE 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 BMSB.

To further enhance transparency and communication with shareholders and all concerned, the Company has 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.

PRINCIPLE D - ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

Internal Control

The Statement on Internal Control furnished on Pages 29 to 30 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.

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

Material Contracts

Save as disclosed in Note 24 of the Financial Statements, there were no material contracts entered into by the Company or its subsidiaries involving Directors and major shareholders for the financial year ended 31 December 2005.

Utilization of Proceeds

The Private Placement of 19,276,860 new ordinary shares of RM0.50 each of the Company was issued on 29th September 2005 and granted listing and quotation on the Main Board of the Bursa Malaysia with effect from 10th October 2005.

The status of utilisation of the proceeds raised from the Private Placement exercise is as follows:

	RM'000
Gross proceeds	9,831
Payment of operating and general administrative expenses	(6,033)
Repayment of short term loans	(2,209)
Repayment of interest on Collateralised Loan Obligation	(1,510)
Payment of expenses relating to the Proposed Private Placement	(79)
Balance	<u>Nil</u>

Non-audit Fee

Non-audit fees totalling RM30,000 were paid to the external auditors for professional services rendered pertaining to the proposed Group tax structure for the financial period ended 31 December 2005.

VARIATION IN RESULTS FOR THE FINANCIAL YEAR

The audited financial statements for the financial year ended 31 December 2005, contained in this Annual Report does not deviate by more than 10% from the unaudited results of the Group announced on 24 February 2006.

Share buybacks

The Company did not enter into any share buyback transactions during the financial period ended 31 December 2005.

Options, Warrants or Convertible Securities

The Company has not issued any Share Options, Warrants or Convertible Securities during the financial period ended 31 December 2005.

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

The Company did not sponsor any ADR or GDR programmes during the financial period ended 31 December 2005.

Impositions of Sanctions / Penalties

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

Profit Guarantee

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

VARIATION IN RESULTS FOR THE FINANCIAL YEAR (cont'd)

Revaluation Policy on Landed Properties

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.

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

The Directors are legally required to prepare financial statements which present a true and fair view of the state of affairs of the Group and the Company and is pleased to announce that in preparing the financial statements for the 17 month financial period ended 31 December 2005, the Group has:

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

The Directors are responsible for ensuring that proper accounting records are maintained, which disclose with reasonable accuracy, the financial position of the Group and also to ensure that the financial statements comply with the Companies Act, 1965. In addition, the Board is responsible for the proper safeguarding of the assets of the Group and to take reasonable steps for the prevention and detection of fraud and other irregularities.

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 17 months financial period ended 31 December 2005, seven (7) meetings were convened, with details on the attendance of the Directors listed below:

Directors	No. of meetings attended
Ho Tet Shin (Chairman) (appointed on 5.8.2005)	2/2
Dato' Dr Freezailah Bin Che Yeom	6/7
Dato' Seri Megat Najmuddin Bin Datuk Seri Dr Hj Megat Khas (appointed on 21.6.2005)	3/3
Foo San Kan (resigned on 15.6.2005)	4/4
Dato' Lim See Teok (resigned on 9.1.2006)	6/7
Lim Kim Hai (appointed on 15.6.2005 and resigned on 3.8.2005)	1/1

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 xx 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.

MEETINGS (cont'd)

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 (cont'd)

TERMS OF REFERENCE (cont'd)

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, his evaluation of the system of internal controls;
 - (iii) with the external auditor, his 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 Company 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.

The Board confirms that there is a process for identifying, evaluating and managing significant risks faced by the Group, excluding associated companies, during the 17 month financial period ended 31 December 2005 up to the date of the annual report and financial statements.

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. 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 risk profiles 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 as required by the Board is achieved. The Audit Committee then presents its findings to the Board on a quarterly basis or as appropriate.

OTHER RISKS AND CONTROL PROCESSES

Salcon Engineering Berhad (Water Division) continues to be certified under the ISO9001: 2000 and ISO14001: 1996 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.

Notwithstanding the above, The Group also conforms to the Occupational Safety & Health OSHA18001 (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 continual 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.

Statement on Internal Control (cont'd)

OTHER RISKS AND CONTROL PROCESSES (cont'd)

Quarterly updates of the financial results of the Group are reported to the Audit Committee and the Board. Regular management meetings, which involve the Chief Executive Officer and selected personnel, are held to promptly identify and address any issues encountered by the Group. Management, through the Audit Committee, is tasked to follow up and monitor the status of actions on recommendations made by the internal auditors. In addition, it can direct investigations in respect of any specific instances or events, which are deemed to have violated internal policies pertaining to confidentiality or financial impropriety, which has material impact on the Group.

WEAKNESSES IN INTERNAL CONTROLS THAT RESULT IN MATERIAL LOSSES

During the 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 Groups internal control processes.



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Directors' Report

for the seventeen months period ended 31 December 2005

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the period ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is principally an investment holding company. The principal activities of the subsidiaries are described in Note 24. There have been no significant changes in the nature of these activities during the financial period.

CHANGE IN ACCOUNTING PERIOD END

During the financial period, the Company changed its accounting year end from 31 July to 31 December.

RESULTS

	Group RM'000	Company RM'000
Net loss for the year	(27,774)	(20,323)

RESERVES AND PROVISIONS

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

DIVIDENDS

Since the end of the previous financial year, the Company paid a first and final dividend of 2.60 sen tax exempt totaling to RM5,011,969 in respect of the year ended 31 July 2004 on 28 February 2005.

The Directors do not recommend any final dividend to be paid for the financial period under review.

DIRECTORS OF THE COMPANY

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

Tan Sri Razali Ismail	
Dato' Lim See Teok	
Jaggit Singh A/L Tara Singh	
Dato' Dr Freezailah bin Che Yeom	
Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas	
Dato' Seri Goh Eng Toon	(appointed on 15.6.2005)
Ho Tet Shin	(appointed on 5.8.2005)
Dato' (Dr.) Teoh Seng Foo	(resigned on 15.6.2005)
Foo San Kan	(resigned on 15.6.2005)
Teoh Seng Kian	(resigned on 15.6.2005)
Lim Kim Hai	(appointed on 15.6.2005 and resigned on 3.8.2005)

DIRECTORS OF THE COMPANY (cont'd)

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 2005 as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.50 each			
	At 31.7.2004	Bought	Sold	At 31.12.2005
The Company				
Direct Interest				
Tan Sri Razali Ismail	45,000	1,120,000	–	1,165,000
Dato' Lim See Teok	55,000	2,000,000	–	2,055,000
Jaggit Singh A/L Tara Singh	45,000	2,000,000	–	2,045,000
Dato' Dr Freezailah bin Che Yeom	25,000	–	–	25,000
Deemed interest				
Tan Sri Razali Ismail	24,098,600	–	(24,098,600)	–
Dato' Lim See Teok	23,555,240	945,240	(23,555,240)	945,240
Jaggit Singh A/L Tara Singh	23,555,240	–	(23,555,240)	–
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 31.7.2004	Granted	Exercised	At 31.12.2005
The Company					
Dato' Lim See Teok	1.87	800,000	–	–	800,000
Jaggit Singh A/L Tara Singh	1.87	600,000	–	–	600,000

Other than Integrated Water Services (M) Sdn. Bhd., Dato' Lim See Teok and 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 holding office at 31 December 2005 has any interest in shares in all the related corporations.

DIRECTORS' BENEFITS

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

There were no arrangements during and at the end of the financial period 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.

Directors' Report (cont'd)

for the seventeen months period ended 31 December 2005

ISSUE OF SHARES

During the financial period, the issued and paid-up capital of the Company was increased from 192,768,602 ordinary shares of RM0.50 each in the Company to 212,045,402 ordinary shares of RM0.50 each by the issuance of 19,276,800 ordinary shares of RM0.50 each pursuant to the Private Placement at an issue price of RM0.51 per share.

All the new ordinary shares that were issued, rank pari passu in all respects with the existing ordinary shares of the Company.

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

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares or debentures of the Company during the period apart from the issue of options pursuant to the Employees' Shares 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 period are as follows:

Date of offer	Option Price	Number of options over ordinary shares of RM0.50 each				Balance at 31.12.2005
		Balance at 1.8.2004	Granted	Exercised	Lapsed	
07.01.2004	RM1.87	5,174,900	–	–	(1,263,900)	3,911,000

The salient features of the ESOS 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 period 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 periods 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 financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) all current assets have been stated at the lower of cost and net realisable value.

OTHER STATUTORY INFORMATION (cont'd)

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 period 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 period.

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 period 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 17, the results of the operations of the Group and of the Company for the financial period ended 31 December 2005 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 period and the date of this report.

AUDITORS

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

Signed in accordance with a resolution of the Directors:

Dato' Lim See Teok

Jaggit Singh A/L Tara Singh

Subang Jaya,
Date: 20 March 2006

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 39 to 73 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2005 and of the results of their operations and cash flows for the period ended on that date.

Signed in accordance with a resolution of the Directors:

Dato' Lim See Teok

Jaggit Singh A/L Tara Singh

Subang Jaya,
Date: 20 March 2006

Statutory declaration

pursuant to Section 169(16) of the Companies Act, 1965

I, Dato' Lim See Teok, the Director primarily responsible for the financial management of Salcon Berhad, do solemnly and sincerely declare that the financial statements set out on pages 39 to 73 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 abovenamed in Subang Jaya on 20 March 2006.

Dato' Lim See Teok

Before me: Choy Yee Cheong (P.P.N)
(No. B 083)
(Commissioner for Oaths)
Subang Jaya, Selangor

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 39 to 73. 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. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. 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 in Malaysia 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 2005 and the results of their operations and cash flows for the period 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 24 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 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: 20 March 2006

Balance Sheets

at 31 December 2005

	Note	Group		Company	
		31.12.2005 RM'000	31.7.2004 RM'000	31.12.2005 RM'000	31.7.2004 RM'000
Property, plant and equipment	2	32,561	26,194	-	-
Investments in subsidiaries	3	-	-	70,210	87,048
Investments in associates	4	62,056	62,567	-	-
Investment properties	5	2,318	-	-	-
Other investments	7	11,079	11,093	4,500	4,500
Goodwill	8	6,461	3,309	-	-
Deferred tax assets	15	77	-	-	-
		<u>114,552</u>	<u>103,163</u>	<u>74,710</u>	<u>91,548</u>
Current assets					
Inventories		756	1,337	-	-
Trade and other receivables	9	106,264	151,788	47,143	45,382
Tax recoverable		6,200	3,605	13	-
Cash and cash equivalents	10	29,861	37,625	19	1,017
		<u>143,081</u>	<u>194,355</u>	<u>47,175</u>	<u>46,399</u>
Current liabilities					
Trade and other payables	11	67,763	94,603	437	922
Borrowings	12	13,362	16,587	-	-
Taxation		37	59	-	1
Dividend payable		202	-	-	-
		<u>81,364</u>	<u>111,249</u>	<u>437</u>	<u>923</u>
Net current assets		<u>61,717</u>	<u>83,106</u>	<u>46,738</u>	<u>45,476</u>
		<u>176,269</u>	<u>186,269</u>	<u>121,448</u>	<u>137,024</u>
Financed by:					
Capital and reserves					
Share capital	13	106,023	96,384	106,023	96,384
Reserves		1,836	34,485	(29,575)	(4,360)
		<u>107,859</u>	<u>130,869</u>	<u>76,448</u>	<u>92,024</u>
Minority shareholders' interests	14	21,051	7,482	-	-
Long term and deferred liabilities					
Borrowings	12	47,359	47,709	45,000	45,000
Deferred tax liabilities	15	-	209	-	-
		<u>47,359</u>	<u>47,918</u>	<u>45,000</u>	<u>45,000</u>
		<u>176,269</u>	<u>186,269</u>	<u>121,448</u>	<u>137,024</u>

The financial statements were approved and authorised for issue by the Board of Directors on 20 March 2006.

The notes set out on pages 45 to 73 form an integral part of, and should be read in conjunction with, these financial statements.

Income Statements

for the seventeen months period ended 31 December 2005

	Note	Group		Company	
		Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'000	Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'000
Revenue	17	162,379	146,766	1,173	5,861
Operating (loss)/profit	17	(27,690)	10,961	(17,375)	5,544
Interest expense		(5,062)	(2,409)	(4,707)	–
Interest income		544	745	1,760	61
Share of profit of associates		8,963	5,547	–	–
Share of profit/(loss) of jointly controlled entities		95	(497)	–	–
(Loss)/profit before taxation		(23,150)	14,347	(20,322)	5,605
Tax expense	19	(3,225)	(3,273)	(1)	(18)
(Loss)/profit after taxation		(26,375)	11,074	(20,323)	5,587
Less: Minority interests		(1,399)	(1,808)	–	–
Net (loss)/profit for the period/year		(27,774)	9,266	(20,323)	5,587
Basic (loss)/earnings per ordinary share (sen)	20	(14.15)	4.86		
Diluted (loss)/earnings per ordinary share (sen)	20	–	–		

The notes set out on pages 45 to 73 form an integral part of, and should be read in conjunction with, these financial statements.

Statements of Changes in Equity

for the seventeen months period ended 31 December 2005

Group	Share capital RM'000	Non-distributable Share premium RM'000	Translation reserve RM'000	Distributable Retained profits/ (Accumulated losses) RM'000	Total RM'000
At 1 August 2003	81,031	–	–	6,231	87,262
Issue of shares	15,353	18,891	–	–	34,244
Net profit for the year	–	–	–	9,266	9,266
Exchange differences on translations of the financial statements of foreign entities	–	–	97	–	97
At 31 July 2004	96,384	18,891	97	15,497	130,869
Issue of shares	9,639	193	–	–	9,832
Private placement expenses	–	(73)	–	–	(73)
Dividend	–	–	–	(5,012)	(5,012)
Net loss for the period	–	–	–	(27,774)	(27,774)
Exchange differences on translations of the financial statements of foreign entities	–	–	17	–	17
At 31 December 2005	106,023	19,011	114	(17,289)	107,859

Note 13

Company	Share capital RM'000	Non Distributable Share premium RM'000	Accumulated losses RM'000	Total RM'000
At 1 August 2003	81,031	–	(28,838)	52,193
Issue of shares	15,353	18,891	–	34,244
Net profit for the year	–	–	5,587	5,587
At 31 July 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)
Net loss for the period	–	–	(20,323)	(20,323)
At 31 December 2005	106,023	19,011	(48,586)	76,448

Note 13

The notes set out on pages 45 to 73 form an integral part of, and should be read in conjunction with, these financial statements.

Cash Flow Statements

for the seventeen months period ended 31 December 2005

	Group		Company	
	Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'000	Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'000
Cash flows from operating activities				
(Loss)/Profit before taxation	(23,150)	14,347	(20,322)	5,605
Adjustments for:				
Allowance for diminution in value of investments	14	197	-	-
Impairment loss on investment in subsidiary	-	-	16,857	-
Amortisation of goodwill	1,931	1,382	-	-
Depreciation	3,226	1,947	-	-
Dividend income	-	-	(1,173)	(5,861)
Gain on disposal of property, plant and equipment	(160)	(192)	-	-
Gain on disposal of an associate company	(8)	-	-	-
Interest expense	5,062	2,409	4,707	-
Interest income	(544)	(745)	(1,760)	(61)
Share of profit of associates	(8,963)	(5,547)	-	-
Share of (profit)/loss of jointly controlled entities	(95)	497	-	-
Property, plant and equipment written off	158	8	-	-
Operating (loss)/profit before working capital changes	(22,529)	14,303	(1,691)	(317)
Changes in working capital:				
Inventories	703	(944)	-	-
Trade and other receivables	55,037	70,629	(1,761)	(38,491)
Trade and other payables	(26,745)	(52,052)	(485)	(28,322)
Cash generated from/(used in) operations	6,466	31,936	(3,937)	(67,130)
Interest paid	(5,062)	(2,409)	(4,707)	-
Income taxes paid	(5,185)	(10,075)	(15)	(17)
Net cash (used in)/generated from operating activities	(3,781)	19,452	(8,659)	(67,147)

	Group		Company	
	Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'000	Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'000
Cash flows from operating activities				
Acquisition of associate	-	(206)	-	-
Acquisition of subsidiaries, net of cash acquired (Note 25)	(3,388)	-	(19)	(6,082)
Purchase of remaining equity shares in a subsidiary from minority shareholder	(1,909)	-	-	-
Decrease in pledge deposits	-	597	-	-
Debt settlement to creditors pursuant to the restructuring exercise of Seng Hup Corporation Berhad	-	(28,000)	-	-
Dividend received	-	-	1,173	561
Interest received	544	745	1,760	61
Proceeds from disposal of associate	292	-	-	-
Proceeds from disposal of property, plant and equipment	467	278	-	-
Purchase of property, plant and equipment	(6,281)	(2,233)	-	-
Net cash generated from/(used in) investing activities	(10,275)	(28,819)	2,914	(5,460)
Cash flows from financing activities				
Net proceeds from issue of shares	9,759	6,816	9,759	6,816
Proceeds from exercise of option	-	2,816	-	2,816
Dividends paid to minority shareholders	(1,278)	(539)	-	-
Dividends paid to shareholders	(5,012)	(1,500)	(5,012)	-
Proceeds from borrowings	21,958	122,828	-	39,375
Proceeds from redemption of preference shares	6,600	3,400	-	-
Payment of hire purchase liabilities	(780)	(423)	-	-
Repayment of borrowings	(24,586)	(120,010)	-	-
Net cash generated from financing activities	6,661	13,388	4,747	49,007
Exchange differences on translation of the financial statements of foreign entities	16	43	-	-
Net (decrease)/increase in cash and cash equivalents	(7,379)	4,064	(998)	(23,600)
Cash and cash equivalents at beginning of period/year	37,197	33,133	1,017	24,617
Cash and cash equivalents at end of period/year	29,818	37,197	19	1,017

Cash Flow Statements (cont'd)

for the seventeen months period ended 31 December 2005

i) Cash and cash equivalents

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

	Group		Company	
	Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'000	Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'000
Cash and bank balances	17,349	8,563	19	1,017
Deposits placed with licensed banks	12,512	29,062	-	-
Bank overdrafts	(43)	(428)	-	-
	<u>29,818</u>	<u>37,197</u>	<u>19</u>	<u>1,017</u>

ii) Associates

During the current financial period, 6,600 preference shares of RM1 each held by the Company were redeemed by Emas Utilities Corporation Sdn. Bhd. at a premium of RM999 per share via a contra with the amount due to the associate company.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies are adopted by the Group and by the Company and are consistent with those adopted in previous years.

(a) Basis of accounting

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

(b) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

A subsidiary is excluded from consolidation when either control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the period are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group's financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

Intra group transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intra group transactions are also eliminated unless cost cannot be recovered.

(c) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the total recognised gains and losses of associates on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealised profits arising on transactions between the Group and its associates which are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially unless cost cannot be recovered.

Goodwill on acquisition is calculated based on the fair value of net assets acquired.

(d) Joint venture

A joint venture is a contractual agreement whereby the Group and other parties have joint control over an economic activity.

In respect of its interest in jointly controlled entities, the Group uses the equity method to account for its interest.

Unrealised profits or losses arising from transactions between the Group and its joint venturers are recognised only to the extent of that portion of the gain or loss which is attributable to the interests of the other venturers. Unrealised losses are recognised in full when the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Property, plant and equipment

i) Owned assets

Freehold land and capital work-in-progress are stated at cost. All other property, plant and equipment are stated at cost/valuation less accumulated depreciation.

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 property 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.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses if any.

ii) Assets under hire purchase

Property, plant and equipment financed by hire purchase agreements are capitalised at cost. The interest element is charged to income statement over the period of the agreement and accounted for on a sum-of-digits method.

Depreciation

Freehold land and capital work-in-progress are not amortised. Leasehold properties are amortised in equal instalments over the period of the respective leases which range from ten to ninety-nine years, while freehold buildings are depreciated on a straight line basis over 50 years. The straight line method is used to write off the cost of other assets over the term of their estimated useful lives at the following principal annual rates:

Plant and machinery	20%
Motor vehicles	20%
Furniture and fittings	10%
Office equipment	20%

(f) Investment properties

Investment properties represent freehold and long leasehold land and buildings that are held for investment potential and are stated at cost less impairment losses, if any.

(g) Investments

Long term investments other than in subsidiaries and associates, are stated at cost. An allowance is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

Long term investments in subsidiaries and associates are stated at cost in the Group and in the Company, less impairment loss where applicable.

(h) Intangible asset

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated amortisation and accumulated impairment losses (refer to Note 1(m)).

Goodwill is amortised from the date of initial recognition over its estimated useful life of not more than 20 years.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Inventories

Inventories consist of spares and supplies, are stated at the lower of cost and net realisable value with weighted average cost being the main basis for cost. Cost is the aggregate cost of purchase and other costs incurred in bringing the inventories to their present location and condition.

(j) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

(k) Amount due from/(to) contract customers

Amount due from contract customers on construction contracts is stated at cost plus attributable profits less foreseeable losses and less progress billings. Cost includes all direct construction costs and other related costs. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is shown in trade and other payables as amount due to contract customers.

(l) 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.

(m) Impairment

The carrying amount of assets, other than inventories, assets arising from construction contracts and financial assets (other than investments in subsidiaries and associates), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, 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. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(n) Liabilities**

Borrowings and trade and other payables are stated at cost.

(o) Employee benefits**(i) Short term employee benefits**

Wages, salaries and bonuses are recognised as expenses in the period in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

(ii) Defined contribution plan

Obligations for contributions to defined contribution plan are recognised as an expense in the income statement as incurred.

(iii) Equity compensation benefits

The share option programme allows Group employees to acquire shares at the Company. When the options are exercised, equity is increased by the amount of the proceeds received.

(p) Income tax

Tax on the profit or loss for the period comprises current and deferred tax. Income tax 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 expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(q) Foreign currency transactions**(i) Foreign currency transactions**

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Ringgit Malaysia at the foreign exchange rates ruling at the date of the transactions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) Foreign currency transactions (cont'd)

(ii) Financial statements of foreign operations

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the period. Foreign exchange differences arising on translation are recognised directly in equity.

The closing rates used in the translation of foreign currency monetary assets and liabilities are as follows:

1USD	RM3.78	(2004 : 1USD	RM3.80)
1SGD	RM2.27	(2004 : 1SGD	RM2.24)
100IDR	RM0.04	(2004 : 100IDR	RM0.04)
1Rs	RM0.09	(2004 : 1Rs	RM0.08)
1THB	RM0.09	(2004 : 1THB	RM0.09)
1RMB	RM0.47	(2004 : 1RMB	RM0.47)

(r) Revenue

i) Goods sold

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

ii) Construction contracts

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to surveys of work performed.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

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.

iv) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the assets.

(s) Financing costs

Financing costs comprise interest payable on borrowings.

All interest and other costs incurred in connection with borrowings are expensed as incurred.

(t) Affiliated company

An affiliated company is a company which has interest of not less than 20% but not more than 50% in the equity of the Company.

Notes to the Financial Statements (cont'd)

2. PROPERTY, PLANT AND EQUIPMENT

Group <i>Cost/Valuation</i>	Freehold land RM'000	Freehold buildings RM'000	Long term leasehold property RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Capital work-in- progress RM'000	Total RM'000
Opening balance	821	12,343	4,633	6,233	5,778	3,079	140	33,027
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
Closing balance	491	12,038	5,383	11,910	5,737	3,840	2,219	41,618
Representing items at:								
Cost	-	629	4,972	11,910	5,737	3,840	2,219	29,307
Directors' valuation	491	11,409	411	-	-	-	-	12,311
Closing balance	491	12,038	5,383	11,910	5,737	3,840	2,219	41,618
Accumulated depreciation								
Opening balance	-	1,142	141	785	3,045	1,720	-	6,833
Depreciation charge for the period	-	328	248	885	1,214	551	-	3,226
Disposals	-	-	(4)	(145)	(781)	(72)	-	(1,002)
Closing balance	-	1,470	385	1,525	3,478	2,199	-	9,057
Net book value								
At 31 December 2005	491	10,568	4,998	10,385	2,259	1,641	2,219	32,561
At 31 July 2004	821	11,201	4,492	5,448	2,733	1,359	140	26,194
Depreciation charge for the year ended 31 July 2004	-	231	122	384	817	393	-	1,947

Revaluation

Freehold buildings of a subsidiary are stated at Directors' valuation based on professional valuation made by Mr. Long Tian Chek, a registered valuer in Henry Butcher, Lim & Long (Malacca) Sdn. Bhd., on the open market basis conducted on 30 July 2001.

Freehold land and building of a subsidiary are stated at Directors' valuation based on professional valuation made by Mr. Tew Kok Huat, a registered valuer in Henry Butcher, Lim & Long (Selangor) Sdn. Bhd., on the open market basis conducted on 5 March 2002.

Long term leasehold property of a subsidiary is stated at Directors' valuation based on professional valuation made by Mr. Lim Chow Wah, a registered valuer in Henry Butcher, Lim & Long (Malacca) Sdn. Bhd., on the open market basis conducted on 31 July 2001.

2. PROPERTY, PLANT AND EQUIPMENT (cont'd)

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

	Group	
	31.12.2005 RM'000	31.7.2004 RM'000
Freehold land and buildings	10,658	10,992
Long term leasehold property	669	679
	<u>11,327</u>	<u>11,671</u>

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

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 RM604,000 (2004 -RM1,328,000).

3. INVESTMENTS IN SUBSIDIARIES

	Company	
	31.12.2005 RM'000	31.7.2004 RM'000
Unquoted shares, at cost	80,265	80,246
Unquoted preference shares, at cost	6,802	6,802
Less: Impairment losses	(16,857)	-
	<u>70,210</u>	<u>87,048</u>

Details of the subsidiaries are shown in Note 24.

4. INVESTMENT IN ASSOCIATES

	Group	
	31.12.2005 RM'000	31.7.2004 RM'000
Unquoted shares - at cost	16,995	17,201
- at valuation	11,800	11,800
Unquoted preference shares, at cost	10,000	16,600
Share of post-acquisition profits	23,261	16,966
	62,056	62,567
Represented by:		
Group's share of net assets other than goodwill	39,372	38,137
Group's share of goodwill in associates' own consolidated financial statements less amortisation	889	982
Goodwill on acquisition, less amortisation of RM5,436,000 (2004 - RM3,793,000)	21,795	23,448
	62,056	62,567

Details of the associates are shown in Note 24.

The Group had pledged 800,000 ordinary shares of RM1 each and 12,000 Redeemable Non-Cumulative Preference Shares of RM1 each in an associate for banking facilities granted to a subsidiary of the associate. On 30 August 2004, the pledge of these shares was fully discharged as the settlement for the banking facilities granted was fully made by that subsidiary during the previous financial year.

Investment in an associate was revalued in 1998 by the Directors based on the net present value of future cash flows of the associate. The valuation was not intended to effect a change in the accounting policy to one of revaluation of unquoted investment.

During the financial period, 6,600 preference shares of RM1 each held by the Group were redeemed by Emas Utilities Corporation Sdn. Bhd. at a premium of RM999 per share via a contra with the amount due to the associate.

5. INVESTMENT PROPERTIES

	Group	
	31.12.2005 RM'000	31.7.2004 RM'000
Freehold land, at cost	330	-
Freehold land and buildings, at cost	1,681	-
Long term leasehold land and building, at cost	307	-
	2,318	-

The freehold land and buildings and long term leasehold land and buildings are held for investment purposes and not for resale in the ordinary course of business.

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.

6. 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	
	31.12.2005 RM'000	31.7.2004 RM'000
Long term assets	13	432
Current assets	4,488	5,196
Current liabilities	(4,501)	(5,628)
	<u>-</u>	<u>-</u>
Income	907	14,807
Expenses	(812)	(15,304)
	<u>95</u>	<u>(497)</u>

Details of jointly controlled entities are as follows:

	Principal activities	Proportion of ownership interest	
		31.12.2005	31.7.2004
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. The share of results is based on the unaudited financial statements of the joint venture for the financial period ended 31 December 2005.

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 period.

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 period ended 31 December 2005.

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

7. OTHER INVESTMENTS

	Group		Company	
	31.12.2005 RM'000	31.7.2004 RM'000	31.12.2005 RM'000	31.7.2004 RM'000
<i>At cost</i>				
Quoted shares in Malaysia	175	175	-	-
Unquoted shares	6,475	6,475	-	-
Other investment	4,640	4,640	4,500	4,500
	<u>11,290</u>	<u>11,290</u>	<u>4,500</u>	<u>4,500</u>
Allowance for diminution in value				
- Quoted shares in Malaysia	(157)	(143)	-	-
- Other investments	(54)	(54)	-	-
	<u>11,079</u>	<u>11,093</u>	<u>4,500</u>	<u>4,500</u>

The market value of the quoted investments is shown in Note 26.

During the previous financial year, the Company subscribed for RM4,500,000 of Subordinated Bond from Alliance Merchant Bank as a requirement to obtain the Collateralised Loan Obligation (CLO) of RM45,000,000, which was secured during the previous financial year.

8. GOODWILL

	Group	
	31.12.2005 RM'000	31.7.2004 RM'000
<i>Cost</i>		
Opening balance	3,937	3,937
Acquisition of subsidiaries	3,437	-
Closing balance	<u>7,374</u>	<u>3,937</u>
<i>Accumulated amortisation</i>		
Opening balance	628	431
Amortisation charge for the period/year	285	197
Closing balance	<u>913</u>	<u>628</u>
Net book value	<u>6,461</u>	<u>3,309</u>

9. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31.12.2005 RM'000	31.7.2004 RM'000	31.12.2005 RM'000	31.7.2004 RM'000
Trade receivables	61,210	107,905	-	-
Less: Allowance for doubtful debts	(15,913)	(3,107)	-	-
	45,297	104,798	-	-
Amount due from contract customers	28,037	34,937	-	-
Affiliated company	-	126	-	-
Associates	3,991	4,067	-	-
Subsidiary	-	-	46,362	44,280
Other receivables, deposits and prepayments	28,939	7,860	781	1,102
	106,264	151,788	47,143	45,382

	Group	
	31.12.2005 RM'000	31.7.2004 RM'000
<i>Amount due from contract customers</i>		
Aggregate costs incurred to date	618,055	490,970
Add: Attributable profit	101,406	98,587
	719,461	589,557
Less: Progress billings	(691,977)	(555,214)
	27,484	34,343
Amount due to contract customers reclassified (Note 11)	553	594
	28,037	34,937

Included in trade receivables of the Group are retentions and amounts receivable from related parties amounting to approximately RM8,354,665 (2004 - RM10,226,000) and Nil (2004 - RM2,111), respectively.

Included in trade receivables of the Group are amounts receivable from the subsidiaries of affiliated company amounting to Nil (2004 - RM500,000).

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

Included in the amount due from subsidiary is an advance given to a subsidiary amounting to RM39,370,000 in the previous financial year. The amount is part of the Collateralised Loan Obligation (CLO) obtained during the previous financial year.

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 (2004 - Nil) which bear interest at rate of 3% (2004 - Nil) per annum.

Included in other receivables, deposits and prepayments of the Group is an amount of RM11.2 million pending the finalisation of assets injection into a subsidiary company in the People's Republic of China.

Notes to the Financial Statements (cont'd)

10. CASH AND CASH EQUIVALENTS

	Group		Company	
	31.12.2005 RM'000	31.7.2004 RM'000	31.12.2005 RM'000	31.7.2004 RM'000
Deposits placed with licensed banks	12,512	29,062	-	-
Cash and bank balances	17,349	8,563	19	1,017
	<u>29,861</u>	<u>37,625</u>	<u>19</u>	<u>1,017</u>

11. TRADE AND OTHER PAYABLES

	Group		Company	
	31.12.2005 RM'000	31.7.2004 RM'000	31.12.2005 RM'000	31.7.2004 RM'000
Trade payables	47,587	64,359	-	-
Amount due to contract customers (Note 9)	553	594	-	-
Other payables and accrued expenses	11,540	23,058	437	164
Associates	8,083	6,534	-	-
Subsidiary	-	-	-	758
Affiliated company	-	58	-	-
	<u>67,763</u>	<u>94,603</u>	<u>437</u>	<u>922</u>

Included in trade and other payables of the Group are amounts payable to related parties amounting to Nil (2004 - RM51,000).

Included in other payables of the Group are amounts payable to the subsidiaries of affiliated company amounting to Nil (2004 - RM404,000).

Included in other payables and accrued expenses of the Group is advances received from contract customers amounting to RM3,716,000 (2004 - RM12,417,000).

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

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

12. BORROWINGS

	Group		Company	
	31.12.2005 RM'000	31.7.2004 RM'000	31.12.2005 RM'000	31.7.2004 RM'000
Current				
Bank overdrafts (unsecured)	43	428	-	-
Bankers' acceptances (unsecured)	5,279	15,734	-	-
Revolving credits (unsecured)	7,880	-	-	-
Hire purchase creditors	160	425	-	-
	<u>13,362</u>	<u>16,587</u>	<u>-</u>	<u>-</u>
Non-current				
Hire purchase creditors	182	476	-	-
Term loan (unsecured)	47,177	47,233	45,000	45,000
	<u>47,359</u>	<u>47,709</u>	<u>45,000</u>	<u>45,000</u>

Term and debt repayment schedule

The unsecured overdrafts, bankers' acceptances and revolving credits are subject to interest at 7.25% to 8.75% (2004 - 7.00% to 8.50%), 3.70% to 4.30% (2004 - 3.70% to 4.13%) and 4.75% to 5.05% (2004 - Nil), respectively.

The hire purchase creditors and unsecured long term loan are subject to a fixed interest rate at 2.50% to 4.00% (2004 - 3.87%) and 6.83% (2004 - 6.83%) respectively, and the unsecured long term loan is payable bi-annually.

The unsecured long term loan comprises 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	Interest	Principal	Gross	Interest	Principal
	31.12.2005 RM'000	31.12.2005 RM'000	31.12.2005 RM'000	31.7.2004 RM'000	31.7.2004 RM'000	31.7.2004 RM'000
Less than one year	175	(15)	160	474	(49)	425
Between one and five years	192	(10)	182	508	(32)	476
	<u>367</u>	<u>(25)</u>	<u>342</u>	<u>982</u>	<u>(81)</u>	<u>901</u>

Notes to the Financial Statements (cont'd)

13. SHARE CAPITAL

	Group and Company	
	31.12.2005 RM'000	31.7.2004 RM'000
Authorised:		
Ordinary shares of RM0.50 each	500,000	500,000
Issued and fully paid		
Ordinary shares of RM0.50 each		
Opening balance	96,384	81,031
Issued during the financial period/year	9,639	15,353
Closing balance	106,023	96,384

During the financial period, the Company issued 19,276,800 ordinary shares of RM0.50 each pursuant to the private placement at an issued price of RM0.51 per share.

14. MINORITY SHAREHOLDERS' INTERESTS

This consists of minority shareholders' proportion of share capital and reserves of subsidiaries, net of their share of subsidiaries' goodwill on consolidation and amortisation of goodwill charged to the minority shareholders.

15. DEFERRED TAX

The recognised deferred tax (assets)/liabilities are as follows:

	Group	
	31.12.2005 RM'000	31.7.2004 RM'000
Property, plant and equipment	261	264
Provisions	(338)	(55)
	(77)	209

No deferred tax has been recognised for the following items:

	Group		Company	
	31.12.2005 RM'000	31.7.2004 RM'000	31.12.2005 RM'000	31.7.2004 RM'000
Deductible temporary differences	(13,412)	(713)	-	-
Unabsorbed capital allowance	(1,902)	(822)	-	-
Unutilised tax losses	(6,196)	(2,665)	-	-
	(21,510)	(4,200)	-	-

The deductible temporary differences, unabsorbed capital allowance and unutilised tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

16. EMPLOYEE BENEFITS

Equity compensation benefits

Share option plan

The Group offers vested share options over ordinary shares to Executive Directors and eligible employees. Movements in the number of share options held by employees are as follows:

	Group and Company	
	31.12.2005	31.7.2004
Outstanding at 1 August ('000)	5,175	–
Issued ('000)	–	6,793
Exercised ('000)	–	(1,506)
Lapsed ('000)	(1,264)	(112)
Outstanding at 31 December/31 July ('000)	<u>3,911</u>	<u>5,175</u>

Details of share options granted during the period/year:

Expiry date	–	30/10/08
Exercise price per ordinary share (RM)	–	1.87
Aggregate proceeds if shares are issued (RM'000)	–	12,703

Details of share options exercised during the period/year:

Expiry date	–	30/10/08
Exercise price per ordinary share (RM)	–	1.87
Aggregate issue proceeds (RM'000)	–	2,816
Fair value at date of issue (RM'000)	–	3,702

Terms of the options outstanding at 31 December 2005:

Expiry date	Exercise price	Number
30 Oct 2008	RM1.87	<u>3,911,000</u>

The Group received proceeds of RM2,816,407 in respect of the 1,506,100 options exercised during the pervious financial year. RM753,050 was credited to share capital and RM2,063,357 was credited to share premium.

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

	Group and Company	
	31.12.2005	31.7.2004
Number of ordinary shares		
Held at 1 August ('000)	5,175	–
Issued to the plan ('000)	–	6,793
Held at 31 December/31 July ('000)	3,911	5,175
Distributed by equity compensation plan to employees ('000)	–	(1,506)

	Group and Company	
	31.12.2005 RM'000	31.7.2004 RM'000
Fair value		
At 1 August	7,090	–
Issued to the plan	–	9,306
Outstanding at 31 December/31 July	1,604	7,090

Notes to the Financial Statements (cont'd)

17. OPERATING (LOSS)/PROFIT

	Group		Company	
	Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'000	Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'000
Revenue				
- Contract revenue	158,080	142,763	-	-
- Invoiced sales	4,299	4,003	-	-
- Dividends	-	-	1,173	5,861
	<u>162,379</u>	<u>146,766</u>	<u>1,173</u>	<u>5,861</u>
Contract cost recognised as an expense	(141,046)	(109,083)	-	-
Cost of sales	(3,776)	(3,311)	-	-
	<u>(144,822)</u>	<u>(112,394)</u>	<u>-</u>	<u>-</u>
Gross profit	17,557	34,372	1,173	5,861
Administrative expenses	(28,070)	(19,534)	(1,685)	(317)
Distribution costs	(2,924)	(2,558)	(6)	-
Other operating expenses	(14,898)	(1,578)	(16,857)	-
Other operating income	645	259	-	-
	<u>(27,690)</u>	<u>10,961</u>	<u>(17,375)</u>	<u>5,544</u>
Operating (loss)/profit is arrived at after crediting:				
Dividend income from unquoted shares of subsidiaries	-	-	1,173	5,861
Gain on disposal of property, plant and equipment	160	192	-	-
Realised gain on foreign exchange	58	5	-	-
	<u>218</u>	<u>297</u>	<u>1,173</u>	<u>5,861</u>
and after charging:				
Allowance for doubtful debts	12,810	5	-	-
Allowance for diminution in value of investments	14	197	-	-
Amortisation of goodwill	1,931	1,382	-	-
Auditors' remuneration				
- Holding company auditors	103	85	15	10
- Other auditors	106	35	-	-
Company's Directors				
- Remuneration	2,928	1,733	-	-
- Fees	314	280	142	146
Depreciation	3,226	1,947	-	-
Impairment loss on investment in subsidiary	-	-	16,857	-
Property, plant and equipment written off	158	8	-	-
Rental of premises	145	147	-	-
Realised loss on foreign exchange	14	4	-	-
	<u>24,635</u>	<u>5,544</u>	<u>16,857</u>	<u>-</u>

The estimated monetary value of Directors' benefits-in-kind is RM150,397 (2004 - RM78,750).

18. EMPLOYEE INFORMATION

	Group	
	Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'000
Staff costs	22,082	14,919

Staff costs include contributions to the Employee's Provident Fund of RM2,067,000 (2004 - RM1,518,000) and other defined contribution plans.

The number of employees of the Group (including Directors) at the end of the period/year was 382 (2004 - 349).

19. TAX EXPENSE

	Group		Company	
	Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'000	Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'000
Current tax expense				
Malaysian - current	2,109	2,978	-	16
- prior years	424	215	1	2
Overseas - current	34	21	-	-
	<u>2,567</u>	<u>3,214</u>	<u>1</u>	<u>18</u>
Deferred tax expense				
Origination and reversal of temporary differences	(286)	87	-	-
Tax expense on share of profit of an associates				
Income tax expense	944	(28)	-	-
	<u>944</u>	<u>(28)</u>	<u>-</u>	<u>-</u>
Total	<u>3,225</u>	<u>3,273</u>	<u>1</u>	<u>18</u>
Reconciliation of effective tax expense				
(Loss)/profit before taxation	<u>(23,150)</u>	<u>14,347</u>	<u>(20,322)</u>	<u>5,605</u>
Income tax using Malaysian tax rates				
- income taxable at 20%	217	219	-	-
- income taxable at 28%	(6,799)	3,713	(5,690)	1,569
Effect of different tax rates in foreign jurisdiction	(142)	(254)	-	-
Non-deductible expenses	5,373	1,513	6,018	88
Tax exempt income	(1,177)	(1,365)	(328)	(1,641)
Losses not available for set-off	-	39	-	-
Effect of deferred tax assets recognised	-	(680)	-	-
Effect of deferred tax assets not recognised	4,848	-	-	-
Other items	481	(127)	-	-
	<u>2,801</u>	<u>3,058</u>	<u>-</u>	<u>16</u>
Under provision in prior years	424	215	1	2
	<u>3,225</u>	<u>3,273</u>	<u>1</u>	<u>18</u>

20. EARNINGS PER ORDINARY SHARE - GROUP

Basic earnings per share

The calculation of basic earnings per share is based on the net (loss)/profit attributable to ordinary shareholders of RM27,632,000 (2004 - RM9,266,000) and the weighted average number of ordinary shares outstanding during the financial period/year of 196,230,000 (2004 - 190,479,000).

Weighted average number of ordinary shares

	31.12.2005 '000	31.7.2004 '000
Issued ordinary shares at beginning of the period/year	192,769	162,062
Effect of shares issued	3,461	28,417
	<hr/>	<hr/>
Weighted average number of ordinary shares	<u>196,230</u>	<u>190,479</u>

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

21. SEGMENTAL INFORMATION

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. Inter-segment pricing is determined based on negotiated terms.

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 period to acquire segment assets that are expected to be used for more than one period.

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.

21. SEGMENTAL INFORMATION (cont'd)

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.

31.12.2005	WD	WWD	AID	BSD	TSD	Others	Eliminations	Consolidated
Business segments	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue from external customers	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)
Operating loss								(27,690)
Interest expense								(5,062)
Interest income								544
Share of profit of associates and joint venture								9,058
Loss before taxation								(23,150)
Tax expense								(3,225)
Minority interests								(1,399)
Net loss for the period								(27,774)
Segment assets	147,623	28,617	2	4,381	4,390	10,564	-	195,577
Investment in associates	43,217	-	18,839	-	-	-	-	62,056
Total assets	190,840	28,617	18,841	4,381	4,390	10,564	-	257,633
Segment liabilities	103,699	14,222	51	6,187	4,540	24	-	128,723
Capital expenditure	6,095	183	-	-	49	175	-	6,502
Depreciation	2,230	562	-	-	57	377	-	3,226

Notes to the Financial Statements (cont'd)

21. SEGMENTAL INFORMATION (cont'd)

31.7.2004 <i>Business segments</i>	WD RM'000	WWD RM'000	AID RM'000	BSD RM'000	TSD RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
Revenue from external customers	88,779	51,524	-	272	6,191	-	-	146,766
Inter segment revenue	-	-	-	-	230	794	(1,024)	-
Total revenue	88,779	51,524	-	272	6,421	794	(1,024)	146,766
Segment result	6,379	4,201	-	(21)	174	228	-	10,961
Operating profit								10,961
Interest expense								(2,409)
Interest income								745
Share of profit of associates and joint venture								5,050
Profit before taxation								14,347
Tax expense								(3,273)
Minority interests								(1,808)
Net profit for the year								9,266
Segment assets	178,681	32,347	6,137	2,116	4,922	10,748	-	234,951
Investment in associates	44,907	-	17,660	-	-	-	-	62,567
Total assets	223,588	32,347	23,797	2,116	4,922	10,748	-	297,518
Segment liabilities	133,504	18,202	274	5,942	1,243	2	-	159,167
Capital expenditure	2,124	313	-	-	1	-	-	2,438
Depreciation	1,252	387	-	-	44	264	-	1,947

21. SEGMENTAL INFORMATION (cont'd)

31.12.2005 <i>Geographical segments</i>	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
Revenue from external customers	135,422	1,962	3,340	15,166	-	5,809	680	-	162,379
Inter segment revenue	-	-	-	-	-	-	-	-	-
Total revenue	135,422	1,962	3,340	15,166	-	5,809	680	-	162,379
Segment assets	120,123	482	618	10,884	10,376	53,013	81	-	195,577
Investment in associates	-	43,217	-	-	18,839	-	-	-	62,056
Total assets	120,123	43,699	618	10,884	29,215	53,013	81	-	257,633
31.7.2004 <i>Geographical segments</i>	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
Revenue from external customers	132,745	1,406	1,274	9,339	-	1,747	255	-	146,766
Inter segment revenue	-	-	-	-	-	-	-	-	-
Total revenue	132,745	1,406	1,274	9,339	-	1,747	255	-	146,766
Segment assets	203,749	137	531	11,713	4,015	14,806	-	-	234,951
Investment in associates	108	44,906	-	-	17,553	-	-	-	62,567
Total assets	203,857	45,043	531	11,713	21,568	14,806	-	-	297,518

22. CONTINGENT LIABILITIES (UNSECURED)

	Group	
	31.12.2005 RM'000	31.7.2004 RM'000
Bank guarantee given to third parties relating to performance, tender and advance payment bonds - unsecured	41,459	82,226

A sub-contractor had taken legal proceedings against the Group for an amount of RM4,745,000 pursuant to a Novation Agreement and Settlement Agreement both dated 23 November 2000.

The Group had successfully applied to amend the Defence and to include a Counter-claim of RM1,780,000 in the suit. The full trial is fixed from 10 to 12 May 2006.

Based on a solicitor's opinion, the Directors are of the view that the success of the claim is remote and no further provision is required to be made in the financial statements.

23. RELATED PARTIES

Controlling related party relationships are those with its subsidiaries as disclosed in Note 24.

Transactions with former Directors

Significant transactions with former Directors other than those disclosed elsewhere in the financial statements are as follows:

	Group	
	Period ended 31.12.2005 RM'000	Year ended 31.7.2004 RM'00
<i>Transactions</i>		
Company in which former Directors, Dato' (Dr.) Teoh Seng Foo and Teoh Seng Kian, have interest: Meda Complex Management Sdn. Bhd.		
Maintenance charges	-	(16)
The Summit Hotel		
Accommodation expenses	-	(122)
Affiliated company Kumpulan Emas Berhad		
Interest receivable	-	454
Insurance premium payable	-	(3)
Subsidiaries of affiliated company KE Management Services Sdn. Bhd.		
Management fees payable	-	(111)

The transactions have been entered into in the normal course of business and have been established under negotiated terms.

24. SUBSIDIARIES AND ASSOCIATES

The details of the subsidiaries, which are incorporated in Malaysia, unless disclosed otherwise, are as follows:

Name of Company	Group's effective interest		Principal activities
	31.12.2005	31.7.2004	
Salcon Engineering Berhad	100%	100%	<ul style="list-style-type: none"> - 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.
Integrated Water Services (M) Sdn. Bhd	51%	51%	Operation and maintenance of a water treatment plant.
Salcon Water (HK) Limited (Incorporated in Hong Kong) ^	100%	100%	Investment holding company involve in water supply projects in the People's Republic of China via its subsidiary.
Salcon Yunnan (HK) Limited ^ (Incorporated in Hong Kong; formerly known as Salcon Linqi (HK) Limited)	100%	–	Investment holding company involve in water supply projects in the People's Republic of China via its subsidiary.
Salcon Linyi (HK) Limited ^ (Incorporated in Hong Kong)	100%	–	Investment holding company involve in water supply projects in the People's Republic of China via its subsidiary.
Subsidiaries of Salcon Engineering Berhad:			
Salcon-Centrimax Engineering Sdn. Bhd.	100%	100%	Marketing, sales and servicing of equipment for water and palm oil industries.
Precise Metal. Sdn. Bhd.	100%	100%	Dormant
Salcon Agro Sdn. Bhd.	100%	100%	Dormant
Salcon Resources Sdn. Bhd.	100%	100%	Property investment
Bumi Tiga Enterprise Sdn. Bhd.	100%	100%	Investment holding
Salcon (Sarawak) Sdn. Bhd.	100%	100%	Dormant
Salcon Environmental Services Sdn. Bhd.	100%	100%	Operation and maintenance of water treatment plants.
Envitech Sdn. Bhd.	60%	60%	Design, building, operation and maintenance of waste-water and sewerage treatment plants.
Salcon Corporation Sdn. Bhd.	100%	100%	Dormant

24. SUBSIDIARIES AND ASSOCIATES (cont'd)

Name of Company	Group's effective interest		Principal activities
	31.12.2005	31.7.2004	
Subsidiaries of Bumi Tiga Enterprise Sdn. Bhd.:			
Skeel Engineering Sdn. Bhd	100%	100%	Dormant
Salcon Building Services Sdn. Bhd.	100%	100%	Dormant
Eagle Metalizing & Coatings Company Sdn. Bhd.	60%	60%	Dormant
Subsidiary of Salcon Water (HK) Limited			
Shandong Changle Salcon Water Company Limited ^ (Incorporated in the People's Republic of China)	100%	75%	Management and operation of water production and distribution of water in Changle County, Shandong Province.
Subsidiary of Salcon Yunnan (HK) Limited			
Chenggong Salcon Water Company Limited ^ (Incorporated in the People's Republic of China)	60%	–	Management and operation of water production and distribution of water in Chenggong County, Kunming City, Yunnan Province.
Subsidiary of Salcon Linyi (HK) Limited			
Linyi Salcon Water Company Limited ^ (Incorporated in the People's Republic of China)	60%	–	Management and operation of water production and distribution of water in Linyi City.

24. SUBSIDIARIES AND ASSOCIATES (cont'd)

The details of the associates, which are incorporated in Malaysia unless disclosed otherwise, are as follows:

Name of Company	Group's effective interest		Principal activities
	31.12.2005	31.7.2004	
Emas Utilities Corporation Sdn. Bhd.	40%	40%	Investment holding company in respect of a water supply project in Vietnam
Binh An Water Corporation Ltd. (Incorporated in Vietnam) + *	36%	36%	Production and supply of treated water to Ho Chi Minh City, Vietnam
Cross Continental Investments* (Incorporated in Republic of Mauritius)	49%	49%	Investment holding
Palm Tech India Ltd ^@ (Incorporated in India)	47%	46%	Oil palm plantation and development and manufacture and sale of crude palm oil and related products
Tricol Engineering Sdn. Bhd. ^	–	40%	Construction and installation of plant for palm oil industries

+ Emas Utilities Corporation Sdn. Bhd. holds 90% of this company.

* Audited by overseas KPMG firm.

^ Audited by other firm of accountants.

@ Cross Continental Investments hold 96.47% of this company.

25. ACQUISITION OF SUBSIDIARIES

The Company acquired a wholly owned subsidiary, Salcon Yunnan (HK) Limited (formerly known as Salcon Linqu (HK) Limited), a company incorporated in Hong Kong on 30 December 2004 for a cash consideration of USD1,000 comprising 1,000 ordinary shares of USD1 per share.

On 17 February 2005, the Company acquired a wholly owned subsidiary, Salcon Linyi (HK) Limited, a company incorporated in Hong Kong with a paid up capital of HK\$1 divided into 1 ordinary share of HK\$1 each.

Salcon Yunnan (HK) Limited, a wholly owned subsidiary of Salcon Berhad, has on 10 August 2005, injected USD1.73 million into Chenggong Salcon Water Company Limited ("CSW"), a company classified as a foreign investment enterprise in the People's Republic of China. The USD1.73 million equivalent to RM6.48 million cash investment effectively represents a 60% shareholding in CSW which has a registered capital of USD2.88 million equivalent to RM10.79 million. Accordingly, CSW became a subsidiary company of the Group.

Salcon Linyi (HK) Limited, a wholly owned subsidiary of Salcon Berhad had on 23 November 2005 injected USD4.444 million into Linyi Salcon Water Company Limited ("LSW"), a company incorporated in the People's Republic of China to acquire 60% registered capital of LSW. Accordingly, LSW became a subsidiary company of the Group.

Salcon Water (HK) Limited, a wholly owned subsidiary of Salcon Berhad had on 21 December 2005 acquired the remaining 25% registered capital of Shandong Changle Salcon Water Company Limited ("SCSW"), a company incorporated in the People's Republic of China for a total cash purchase consideration of RMB3.89 million. Accordingly, SCSW became a wholly owned subsidiary of the Group.

The effect of these acquisitions on the financial results during the financial period are immaterial to the Group.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities as at 31 December 2005:

	31.12.2005 RM'000	31.7.2004 RM'000
Non - current assets		
Property, plant and equipment	4,194	8,776
	<hr/> 4,194	<hr/> 8,776
Current assets	34,584	-
Current liabilities	-	(6,933)
Minority interest	(15,509)	(1,843)
	<hr/> 23,269	<hr/> -
Fair value of net assets acquired	23,269	-
Goodwill	3,388	-
	<hr/> 26,657	<hr/> -
Purchase consideration	26,657	-
Satisfied by cash	(26,657)	(5,472)
	<hr/> (26,657)	<hr/> (5,472)
Cash and cash equivalents (net of fixed deposits pledged and bank overdrafts)	23,269	5,472
	<hr/> 23,269	<hr/> 5,472
Cash outflow on acquisition	(3,388)	-
	<hr/> (3,388)	<hr/> -

26. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

Exposure to credit, currency, liquidity and interest rate risk 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. The Group and the Company are highly dependent on the domestic water and waste water industries.

Foreign currency risk

The Group and the Company do not have significant amount of transactions denominated in currency other than the Ringgit Malaysia. As such, the Group and the Company do not hedge exposures to foreign currency risk because the risk is insignificant. However, the Board keeps this policy under review.

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.

Interest rate risk

The Group and the Company borrowed for operations at variable rates using its overdrafts, revolving credit, banker acceptance and term loan facilities, and uses fixed rate hire purchase agreements to finance capital expenditure.

26. FINANCIAL INSTRUMENTS (cont'd)

The following table shows information about exposure to interest rate risk.

Effective interest rates and repricing analysis

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

Group	Effective interest rate %	Total RM'000	Within 1 year RM'000
31.12.2005			
Financial assets			
Fixed deposits	3.00	12,512	12,512
Financial liabilities			
Unsecured bank overdrafts	7.60	43	43
Unsecured bankers' acceptances	4.00	5,279	5,279
Unsecured revolving credits	5.00	7,880	7,880
Unsecured term loan	6.83	47,177	47,177
31.7.2004			
Financial assets			
Fixed deposits	2.69	29,062	29,062
Financial liabilities			
Unsecured bank overdrafts	7.40	428	428
Unsecured bankers' acceptances	3.88	15,734	15,734
Unsecured term loan	6.83	47,233	47,233
Company			
31.12.2005			
Financial liabilities			
Unsecured term loan	6.83	45,000	45,000
31.7.2004			
Financial liabilities			
Unsecured term loan	6.83	45,000	45,000

26. FINANCIAL INSTRUMENTS (cont'd)

Fair values

Recognised financial instruments

In respect of cash and cash equivalents, trade and other receivables, trade and other payables and short term borrowings, the carrying amounts approximate fair value due to the relatively short term nature of these financial instruments.

The aggregate fair values of the other financial assets carried on the balance sheet are represented in the following table.

Group	31.12.2005		31.7.2004	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Quoted shares - long term	18	18	32	32
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.

27. CHANGE IN ACCOUNTING PERIOD END

The Company changed its accounting period end from 31 July to 31 December. The comparatives for the Income Statements, Statements of Changes in Equity and Cash Flow Statements as well as the comparative in the notes to the financial statements relating to the Income Statements are for the previous twelve months ended 31 July 2004 and hence are not comparable to that for the current seventeen months ended 31 December 2005.

PARTICULARS OF GROUP PROPERTIES

The properties of the Group at 31 December 2005 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	5 years	30.07.2001	5,088
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	5 years	30.07.2001	5,099
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	8 years	14.03.2002	193
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	25 years	15.03.2002	679
					11,059

LONG-TERM LEASEHOLD PROPERTIES

Company	Location/Address	Description/ Existing Use	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Salcon Engineering Berhad	HS(D) 216, Plot No. 144, Mukim Ayer Panas, Daerah Jasin, Melaka	1,474 sq. metres of vacant bungalow lot	99 years leasehold expiring on 20.02.2077	31.07.2001	128
Salcon Engineering Berhad	HS(D) 216, Plot No. 145, Mukim Ayer Panas, Daerah Jasin, Melaka	1,087 sq. metres of vacant bungalow lot	99 years leasehold expiring on 20.02.2077	31.07.2001	127
Salcon Engineering Berhad	HS(D) 216, Plot No. 154, Mukim Ayer Panas, Daerah Jasin, Melaka	1,115 sq. metres of vacant bungalow lot	99 years leasehold expiring on 20.02.2077	31.07.2001	127
Shandong Changle Salcon Water Co. Ltd.	LeGuoYong2003, CL640 No. B003, Changle County Nanliu Village, Shandong Province China	10,872 sq. metres of industrial lot	50 years leasehold expiring on 19.01.2053	16.11.2003	3,113
Shandong Changle Salcon Water Co. Ltd.	LeGuoYong2003, CL641 No. B005, Changle County Nanliu Village, Shandong Province China	4,082 sq. metres of industrial lot	50 years leasehold expiring on 19.01.2053	16.11.2003	1,503
					4,998

STATISTICAL REPORT OF SHAREHOLDERS

as at 20 March 2006

Class of Securities	: Ordinary shares of RM0.50 each
Authorised Share Capital	: RM500,000,000.00
Issued and Fully Paid-up Share Capital	: RM212,045,402.00
Votings rights	: One vote per shareholder on a show of hands One vote per ordinary share on a poll
No. of shareholders	: 6,396

ANALYSIS OF SHAREHOLDINGS

Size of Holdings	No. of Holders	Total Holdings	% of Shares
1 - 99	1,674	89,610	0.04
100 - 1,000	1,256	820,260	0.39
1,001 - 10,000	2,546	12,576,977	5.93
10,001 - 100,000	800	23,919,258	11.28
100,001 - 10,602,269	118	130,412,297	61.50
10,602,270 and above	2	44,227,000	20.86
Total	6,396	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 Employees Provident Fund Board	10,927,000	5.15
3 Wong Swee Yee	8,481,700	4.00
4 Lembaga Tabung Angkatan Tentera	8,438,200	3.98
5 Ang Choon Kwee	8,095,000	3.82
6 Lim Kim Ming	8,036,000	3.79
7 Warisan Harta Sabah Sdn Bhd	7,051,900	3.33
8 Kong Sum Mooi	5,621,000	2.65
9 Inter-Pacific Equity Nominees (Tempatan) Sdn Bhd Pancaran Abadi Sdn Bhd for Kumpulan Emas Berhad	5,048,425	2.38
10 Foo San Kan	5,000,000	2.36
11 Teng Li Ling	4,937,700	2.33
12 How Boon Ngan	4,819,200	2.27
13 Loh Kee Kiat	4,819,200	2.27
14 Ong Aun Kung	3,212,800	1.52

LIST OF THIRTY LARGEST REGISTERED SHAREHOLDINGS (cont'd)

Name	No. of Shares	%
15 Kong Hon Kong	3,000,000	1.41
16 HLB Nominees (Tempatan) Sdn Bhd Pledged securities account for Teoh Seng Aun	2,784,800	1.31
17 HSBC Nominees (Asing) Sdn Bhd DZ Bank Intl for Uni Em Fernost Treuhandkonto, Luxembourg	2,647,600	1.25
18 Citigroup Nominees (Tempatan) Sdn Bhd Pledged securities account for Beh Hang Kong	2,600,000	1.23
19 Universal Trustee (Malaysia) Berhad Mayban Balanced Trust Fund	2,536,300	1.20
20 HSBC Nominees (Asing) Sdn Bhd Coutts BK Von Ernst SG for Beadle Group Limited	2,500,000	1.18
21 Cheng Yoong Choong	2,400,000	1.13
22 Jaggit Singh a/l Tara Singh	2,045,000	0.96
23 Tan Pek Son	2,000,020	0.94
24 HLB Nominees (Tempatan) Sdn Bhd Pledged securities account for Hii Chii Kok @ Hii Chee Kok	1,333,700	0.63
25 Amanah Raya Nominees (Tempatan) Sdn Bhd Amanah Saham Johor	1,160,200	0.55
26 Razali Bin Ismail	1,120,000	0.53
27 Lim See Teok	1,010,000	0.48
28 Mayban Nominees (Tempatan) Sdn Bhd Pledged securities account for Kumpulan Emas Berhad	1,009,000	0.48
29 Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged securities account for Ng Ah Chai	1,000,000	0.47
30 Citigroup Nominees (Tempatan) Sdn Bhd Pledged securities account for Lim See Teok	1,000,000	0.47
	147,934,745	69.77

STATISTICAL REPORT OF SHAREHOLDERS

as at 20 March 2006 (cont'd)

SUBSTANTIAL SHAREHOLDERS

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	-	-
Employees Provident Fund Board	10,927,000	5.15	-	-
Dato' Seri Goh Eng Toon	-	-	33,300,000*	15.70
Datin Seri Kee Seok Ai	-	-	33,300,000*	15.70

STATEMENT ON DIRECTORS' INTERESTS IN THE COMPANY AND RELATED CORPORATIONS

Name of Directors	Direct	%	Indirect	%
Tan Sri Razali Ismail	1,165,000	0.55	-	-
Dato' Seri Goh Eng Toon	-	-	33,300,000*	15.70
Dato' Lim See Teok	2,055,000	0.97	945,240^	0.44
Jaggit Singh a/I Tara Singh	2,045,000	0.96	-	-
Dato' Dr Freezailah Bin Che Yeom	25,000	0.01	-	-
Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas	-	-	45,000#	0.02
Ho Tet Shin	-	-	-	-

Notes to indirect interest in shares:

* Indirect interest held through Naga Muhibah Sdn Bhd

^ Indirect Interest held through his wife.

Indirect Interest held through his wife.

Other than Integrated Water Services (M) Sdn Bhd, Dato' Lim See Teok and Mr. Jaggit Singh a/I 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.



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 Annual General Meeting of the Company to be held at Ballroom 1, Level 5, The Summit Hotel, Subang USJ, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor on Tuesday, 9 May 2006 at 10.30 a.m. or at any adjournment thereof.

Resolutions relating to:	*FOR	*AGAINST
1. Adoption of Directors' Reports and Audited Financial Statements		
2. To approve payment of Directors' fee		
3. Re-election of Director : Tan Sri Razali Ismail		
4. Re-election of Director : Dato' Lim See Teok		
5. Re-election of Director : Mr. Ho Tet Shin		
6. Re-election of Director : Dato' Seri Goh Eng Toon		
7. Re-appointment of Auditors		
8. Authority to allot and issue shares pursuant to the Employees' Share Option Scheme ("ESOS")		
9. Authority to allot and issue shares in general pursuant to Section 132D of the Companies Act, 1965		

* 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 2006

.....
Signature of Shareholder(s)

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two(2) proxies to attend and vote in his stead. A proxy need not be a member of the Company and Section 149(1) of the Companies Act, 1965 shall not apply.
2. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.
3. 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 Company's Common Seal or under the hand of an officer or attorney duly authorised.
4. The Form of Proxy must be deposited at the Company's 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.
5. Any alteration in the form of proxy must be initialled.

FOLD HERE

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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SALCON BERHAD (593796-T)
ERRATA TO THE ANNUAL REPORT 2005

Reference is made to the Annual Report 2005 which was despatched to you on 17 April 2006.

Please be informed that under page 33 the Directors' interest should read as follows :

	Number of ordinary shares of RM0.50 each			
	At 1.8.2004/ Date of Appointment	Bought	Sold	At 31.12.2005
The Company				
Direct Interest				
Tan Sri Razali Ismail	45,000	1,120,000	-	1,165,000
Dato' Lim See Teok	55,000	2,000,000	-	2,055,000
Jaggit Singh A/L Tara Singh	45,000	2,000,000	-	2,045,000
Dato' Dr Freezailah bin Che Yeom	25,000	-	-	25,000
Deemed interest				
Tan Sri Razali Ismail	24,098,600	-	(24,098,600)	-
Dato' Lim See Teok	23,555,240	945,240	(23,555,240)	945,240
Jaggit Singh A/L Tara Singh	23,555,240	-	(23,555,240)	-
Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas	45,000	-	-	45,000
Dato' Seri Goh Eng Toon	33,300,000	-	-	33,300,000

	Number of options over ordinary shares of RM0.50 each				
	Option Price (RM)	At 1.8.2004	Granted	Exercised	At 31.12.2005
The Company					
Dato' Lim See Teok	1.87	800,000	-	-	800,000
Jaggit Singh A/L Tara Singh	1.87	600,000	-	-	600,000

This errata is dated 20 April 2006.