

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

A copy of this Abridged Prospectus has been registered with the Securities Commission ("SC"). A copy of this Abridged Prospectus, together with the Rights Subscription Form have also been lodged with the Registrar of Companies who takes no responsibility for their contents. Investors are advised to note that recourse for false or misleading statements or acts made in connection with this Abridged Prospectus is directly available through Sections 57, 58 and 153 of the Securities Commission Act, 1993.

Approvals for the Rights Issue with Warrants (as defined herein) have been obtained from the SC on 2 March 2007, and the shareholders of Salcon Berhad ("Salcon") at the Extraordinary General Meeting held on 30 March 2007. Approval in-principle has been obtained from Bursa Malaysia Securities Berhad ("Bursa Securities") on 4 April 2007 for the listing of and quotation for all new securities arising from the Rights Issue with Warrants and such new securities will be admitted to the Official List of the Bursa Securities and official quotation will commence after, among of others, receipt of confirmation from Bursa Malaysia Depository Sdn Bhd that all the Central Depository System accounts of the entitled holders have been duly credited and notices of allotment have been despatched to the entitled holders.

Neither Bursa Securities nor the SC takes any responsibility for the correctness of statements made or opinions expressed herein. Admission to the Official List of Bursa Securities and quotation of the said new securities are in no way reflective of the merits of the Rights Issue with Warrants.

All the documentation relating to the Rights Issue with Warrants has been seen and approved by the Directors of Salcon and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable inquiries, and to the best of their knowledge and belief, there are no false or misleading statements or other facts the omission of which would make any statement in these documents false or misleading.

This Abridged Prospectus together with the accompanying Rights Subscription Form and the Notice of Provisional Allotment are not intended to be issued, circulated or distributed in countries or jurisdictions other than Malaysia and no action has been or will be taken to ensure that the Rights Issue with Warrants comply with the laws of any countries or jurisdictions other than the laws of Malaysia. Any shareholder/renouncee who is a resident in countries other than Malaysia should therefore immediately consult their legal advisers as to whether the acceptance of all or any part of their entitlements pursuant to the Rights Issue with Warrants would result in contravention of any laws of such countries or jurisdictions. Salcon and MIMB Investment Bank Berhad (formerly known as Malaysian International Merchant Bankers Berhad) ("MIMB") shall not be under any responsibility or liability whatsoever to any party in the event that any such acceptance or renunciation made by any shareholder/renouncee shall become illegal, unenforceable, voidable or void in such countries or jurisdictions.

MIMB, being the Adviser and Underwriter, acknowledges that based on all available information, and to the best of its knowledge and belief, this Abridged Prospectus constitutes a full and true disclosure of all material facts concerning the Rights Issue with Warrants.

All enquiries concerning procedures for application, acceptance and payment for the Rights Issue with Warrants should be addressed to the Registrar of the Company, PFA Registration Services Sdn. Bhd., Level 13, Uptown 1, No. 1, Jalan SS 21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan. Please refer to the contents of this Abridged Prospectus for the relevant information before you decide to invest in the Rights Issue with Warrants.



SALCON BERHAD

(Company No.: 593796-T)

(Incorporated in Malaysia under the Companies Act, 1965)

RENOUNCEABLE RIGHTS ISSUE OF 212,045,402 NEW ORDINARY SHARES OF RM0.50 EACH ("RIGHTS SHARES") WITH 106,022,701 FREE DETACHABLE WARRANTS ("WARRANTS"), ON THE BASIS OF TWO (2) RIGHTS SHARES WITH ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.50 EACH HELD AT 5.00 P.M. ON 23 APRIL 2007 AT AN ISSUE PRICE OF RM0.57 PER RIGHTS SHARE

Adviser and Underwriter



MIMB INVESTMENT BANK BERHAD (10209-W)

(formerly known as Malaysian International Merchant Bankers Berhad)

A Participating Organisation of Bursa Malaysia Securities Berhad

IMPORTANT RELEVANT DATES:-

Entitlement Date	:	Monday, 23 April 2007 at 5.00 p.m.
Last date and time for sale of provisional allotment of Rights Shares with Warrants	:	Monday, 7 May 2007 at 5.00 p.m.
Last date and time for transfer of provisional allotment of Rights Shares with Warrants	:	Thursday, 10 May 2007 at 4.00 p.m.
Last date and time for acceptance and payment of Rights Shares with Warrants *	:	Tuesday, 15 May 2007 at 5.00 p.m.
Last date and time for application and payment of excess Rights Shares with Warrants *	:	Tuesday, 15 May 2007 at 5.00 p.m.
* or any such later date and time as may be determined and announced by the Directors of Salcon not less than two (2) market days from the stipulated closing dates.		

This Abridged Prospectus is dated 27 April 2007

THE SECURITIES COMMISSION ("SC") HAS APPROVED THE ISSUANCE AND LISTING OF THIS RIGHTS ISSUE WITH WARRANTS (AS DEFINED HEREIN) AND THAT THE APPROVAL SHALL NOT BE TAKEN TO INDICATE THAT THE SC RECOMMENDS THE RIGHTS ISSUE WITH WARRANTS.

BURSA MALAYSIA SECURITIES BERHAD ("BURSA SECURITIES") HAS APPROVED THE LISTING OF AND QUOTATION FOR ALL SECURITIES ARISING FROM THIS RIGHTS ISSUE WITH WARRANTS AND THAT THE APPROVAL SHALL NOT BE TAKEN TO INDICATE THAT BURSA SECURITIES RECOMMENDS THE RIGHTS ISSUE WITH WARRANTS.

THE SC SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF SALCON BERHAD AND TAKES NO RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT, MAKES NO REPRESENTATION AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS ABRIDGED PROSPECTUS.

YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. IN CONSIDERING THE INVESTMENT, IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Abridged Prospectus.

“Act”	: Companies Act, 1965
“Additional Undertaking”	: Naga Muhibah had via its letter dated 14 March 2007 provided an additional undertaking to subscribe for up to 72,722,701 Rights Shares in the event of undersubscription of the Rights Shares, which is in addition to its entitlement for the Rights Shares
“Board”	: Board of Directors of Salcon
“Bursa Depository”	: Bursa Malaysia Depository Sdn Bhd
“Bursa Securities”	: Bursa Malaysia Securities Berhad
“CDS”	: Central Depository System
“CDS account”	: An account established by Bursa Depository for a Depositor to record the deposits or withdrawal of securities and for dealings in such securities by the Depositor
“CCI”	: Cross Continental Investments
“Deed Poll”	: The deed poll executed by our Company on 12 April 2007 constituting the Warrants
“Depositor(s)”	: Holder(s) of securities account(s)
“EGM”	: Extraordinary General Meeting
“Entitled Shareholder(s)”	: Shareholder(s) of our Company whose name(s) appear in the Record of Depositors on the Entitlement Date
“Entitlement Date”	: At 5.00 p.m. on 23 April 2007, being the time and date which the Entitled Shareholders must be registered in the Record of Depositors to be entitled to the Rights Issue with Warrants
“EPS”	: Earnings per share
“ESOS”	: Employees’ share option scheme of Salcon
“ESOS Options”	: ESOS options that were previously granted and to be granted (up to 10% of the issued and paid-up share capital of our Company at any point of time) are exercised into new Shares on or prior to the Entitlement Date for the Rights Issue with Warrants
“GDP”	: Gross Domestic Product
“Haining Salcon”	: Haining Salcon Water Company Limited
“Haining Water”	: Haining City Water Investment Ltd Group
“HKD”	: Hong Kong Dollar

DEFINITIONS (Cont'd)

“Joint Venture Agreement”	: Joint Venture Agreement dated 31 August 2006 entered into between Haining Water and Salcon Zhejiang in relation to the JV
“JV”	: The joint venture between Salcon Zhejiang, a wholly-owned subsidiary of Salcon and Haining Water to design, construct, operate, maintain, produce and sell treated water in bulk to Haining City Water Supply Company on a 60:40 joint venture basis
“JV Parties”	: Salcon Zhejiang and Haining Water, collectively
“LAT”	: Loss after taxation
“LBT”	: Loss before taxation
“LPS”	: Loss per share
“MI”	: Minority interest
“MIMB”	: MIMB Investment Bank Berhad
“Naga Muhibah”	: Naga Muhibah Sdn Bhd
“NPA”	: Notice of Provisional Allotment issued together with this Abridged Prospectus, which is to notify the Entitled Shareholder(s) that his provisional allotment of Rights Shares with Warrants has been credited into his CDS account
“NTA”	: Net tangible assets
“PAT”	: Profit after taxation
“PBT”	: Profit before taxation
“Record of Depositors”	: A record of securities holders established by Bursa Depository under the rules of Bursa Depository
“Rights Issue with Warrants”	: Rights Issue with Warrants involving the issuance of 212,045,402 Rights Shares together with 106,022,701 free detachable warrants at an issue price of RM0.57 per Rights Share on a renounceable basis of two (2) Rights Shares with one (1) free detachable warrant for every two (2) existing Salcon Shares held by the Entitled Shareholders on the Entitlement Date
“Rights Share(s)”	: The new Salcon Shares to be issued pursuant to the Rights Issue with Warrants
“RM” and “sen”	: Ringgit Malaysia and sen respectively
“RMB”	: Chinese Renmimbi
“Rs”	: Rupees
“RSF”	: Rights Subscription Form issued together with this Abridged Prospectus, which is to be used by the Entitled Shareholder(s) and/or renounee(s) to subscribe/accept his provisional allotment of the Rights Shares with Warrants

DEFINITIONS (Cont'd)

“Salcon” or “Company”	: Salcon Berhad
“Salcon Group” or “Group”	: Salcon and its subsidiary companies
“Salcon Zhejiang”	: Salcon Zhejiang (HK) Limited, a wholly-owned subsidiary of Salcon
“SC”	: Securities Commission
“SCADA”	: System Control and Data Acquisition
“SC Guidelines”	: Policies and Guidelines on Issue/Offer of Securities issued by the SC
“SEB”	: Salcon Engineering Berhad, a wholly-owned subsidiary of Salcon
“Share(s)” or “Salcon Shares”	: Ordinary share(s) of RM0.50 each in our Company
“SHCB”	: Seng Hup Corporation Berhad (Special Administrators Appointed)
“USD”	: United States Dollar
“Warrant(s)”	: 106,022,701 free detachable warrants to be issued pursuant to the Rights Issue with Warrants

Words denoting the singular number only shall include the plural and also vice versa and words denoting the masculine gender only shall include the feminine gender and vice versa. Reference to persons shall include corporations.

Any reference in this Abridged Prospectus to any enactment is a reference to that enactment as for the time being amended or re-enacted.

Any reference to a time of day in this Abridged Prospectus shall be a reference to Malaysian time, unless otherwise stated.

Any reference to words such as “we”, “us”, “our” and “ourselves” in this Abridged Prospectus shall be a reference to our Company, our Group or any member company of our Group as the context requires, unless otherwise stated.

Any reference to “you” or applicant” shall be a reference to the shareholders of Salcon.

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CONTENTS	PAGE
CORPORATE INFORMATION	1
LETTER TO SHAREHOLDERS CONTAINING:-	
1.0 INTRODUCTION	4
2.0 DETAILS OF THE RIGHTS ISSUE WITH WARRANTS	5
2.1 Details of the Rights Issue with Warrants	5
2.2 Basis of the Issue and Exercise Prices	5
2.3 Ranking of Shares	6
2.4 Shareholders' Entitlements	6
2.5 Principal Terms of the Warrants	7
2.6 Quotation and Dealings	8
3.0 OTHER CORPORATE EXERCISES	8
4.0 PROCEDURES FOR APPLICATION, ACCEPTANCE AND PAYMENT	9
4.1 General	9
4.2 Last Date and Time for Acceptance and Payment	9
4.3 NPA	9
4.4 Procedure for Application and Acceptance	9
4.5 Procedure for Part Acceptance	11
4.6 Procedure for Sale/Transfer of Provisional Allotment of Rights Shares with Warrants	11
4.7 Procedure for Acceptance by Renouncees	12
4.8 Procedure for Excess Application	12
4.9 Form of Issuance	13
4.10 Law of Foreign Jurisdictions	13
5.0 RATIONALE FOR THE RIGHTS ISSUE WITH WARRANTS AND UTILISATION OF PROCEEDS	15
5.1 Rationale for the Rights Issue with Warrants	15
5.2 Utilisation of the Proceeds	15
6.0 RISK FACTORS AND INVESTMENT CONSIDERATIONS	17
6.1 Risks Relating to Our Group	17
6.2 Risks Relating to Our Industry	19
6.3 Risks Relating to the Rights Issue with Warrants	20
7.0 EFFECTS OF THE RIGHTS ISSUE WITH WARRANTS	22
7.1 On Share Capital	22
7.2 On Earnings	22
7.3 On NTA and Gearing	23
7.4 On Dividends	23
8.0 PROFIT AND DIVIDEND RECORDS	23
9.0 INDUSTRY REVIEW AND FUTURE PROSPECTS	23
9.1 Overview of the Malaysian Economy	23
9.2 Industry Review	24
9.3 Prospects of the Sector	25
9.4 Our Future Prospects	26

10.0	WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL CAPITAL COMMITMENTS	27
10.1	Working Capital.....	27
10.2	Borrowings	27
10.3	Contingent Liabilities	28
10.4	Material Capital Commitments.....	28
11.0	SHAREHOLDERS' UNDERTAKINGS AND UNDERWRITING ARRANGEMENT	28
11.1	Shareholders' Undertakings.....	28
11.2	Underwriting Arrangement.....	29
12.0	TERMS AND CONDITIONS	29
13.0	FURTHER INFORMATION.....	29

APPENDICES

APPENDIX I	:	Certified true extract of the ordinary resolution approving the Rights Issue with Warrants at our EGM held on 30 March 2007	30
APPENDIX II	:	Information on Salcon	32
APPENDIX III	:	Audited financial statements of the Salcon Group for the financial year ended 31 December 2006 together with the auditor's report thereon	43
APPENDIX IV	:	Proforma consolidated balance sheets of the Salcon Group as at 31 December 2006 together with the Reporting Accountants' letter thereon.....	120
APPENDIX V	:	Directors' Report.....	125
APPENDIX VI	:	Terms and conditions of the Warrants.....	126
APPENDIX VII	:	Statutory and general information.....	142



SALCON BERHAD

(Company No.: 593796-T)

(Incorporated in Malaysia under the Companies Act, 1965)

CORPORATE INFORMATION

BOARD OF DIRECTORS

Name	Occupation	Address	Nationality
Tan Sri Razali Ismail (Chairman, Independent Non-Executive Director)	Entrepreneur	Desa Kudalari 1802, No. 3 Lorong Kuda 50450 Kuala Lumpur	Malaysian
Dato' Seri Goh Eng Toon (Vice Chairman, Non-Independent Non-Executive Director)	Director	5 Jesselton Avenue 10450 Georgetown Penang	Malaysian
Jaggit Singh a/l Tara Singh (Executive Director)	Director	41, Jalan Seruling 41 Kawasan 3, Taman Klang Jaya 41200 Klang, Selangor Darul Ehsan	Malaysian
Dato' Dr Freezailah Bin Che Yeom (Independent Non-Executive Director)	Consultant	6 Jalan Kent Enam, Off Jalan Maktab, 54000 Kuala Lumpur	Malaysian
Dato' Seri Megat Najmuddin Bin Datuk Seri Dr Hj Megat Khas (Independent Non-Executive Director)	Director	No. 2, Jalan 12/7 46200 Petaling Jaya Selangor Darul Ehsan	Malaysian
Ho Tet Shin (Independent Non-Executive Director)	Accountant	1, Jalan Sri Hartamas 10 Taman Sri Hartamas 50480 Kuala Lumpur	Malaysian

AUDIT COMMITTEE

Name	Designation	Directorship
Ho Tet Shin	Chairman of the Committee	Independent Non-Executive Director
Dato' Dr Freezailah Bin Che Yeom	Member of the Committee	Independent Non-Executive Director
Dato' Seri Megat Najmuddin Bin Datuk Seri Dr Hj Megat Khas	Member of the Committee	Independent Non-Executive Director

**REGISTERED OFFICE/
CORPORATE OFFICE**

: 15th Floor Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Tel No: 603-8024 8822
Fax No: 603-8024 8811
E-mail: salconen@tm.net.my
Website: <http://www.salcon.com.my>

COMPANY SECRETARIES

: Ng Yen Hoong (LS 008016)
Lim Poh Yen (MAICSA 7009475)
PFA Corporate Services Sdn. Bhd.
Level 14, Uptown 1, No.1, Jalan SS 21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan
Tel No. 603- 7725 2888

SHARE 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 No. 603-7725 4888

**AUDITORS AND REPORTING
ACCOUNTANTS**

: KPMG (AF 0758)
Chartered Accountants
Wisma KPMG, Jalan Dungun
Damansara Heights
50490 Kuala Lumpur
Tel No. 603- 2095 3388

PRINCIPAL BANKERS

: EON Bank Berhad
Menara EON
288 Jalan Raja Laut
50350 Kuala Lumpur
Tel No. 603- 2694 2288

Malayan Banking Berhad
1st & 2nd Floor, Wisma IJM Annexe
Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Tel No. 603- 7956 4090

Standard Chartered Bank Malaysia Berhad
Menara Standard Chartered
30 Jalan Sultan Ismail
50250 Kuala Lumpur
Tel No. 603- 2117 7777

United Overseas Bank (Malaysia) Berhad
Menara UOB
Jalan Raja Laut
50350 Kuala Lumpur
Tel No. 603- 2692 7722

**SOLICITORS FOR THE
RIGHTS ISSUE WITH
WARRANTS**

: Jal & Lim
Peti #3, 5th Floor, East Block
Wisma Selangor Dredging
142-B, Jalan Ampang
50450 Kuala Lumpur
Tel No. 603-2161 1218

ADVISER AND UNDERWRITER

: MIMB Investment Bank Berhad
*(formerly known as Malaysian International Merchant Bankers
Berhad)*
12th Floor, Menara EON Bank
No. 288, Jalan Raja Laut
50350 Kuala Lumpur
Tel No. 603-2691 0200

**STOCK EXCHANGE LISTING
AND LISTING SOUGHT**

: Main Board of Bursa Securities

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SALCON BERHAD
(Company No.: 593796-T)
(Incorporated in Malaysia under the Companies Act, 1965)

Registered Office:

15th Floor Menara Summit
Persiaran Kewajipan, USJ1
47600 UEP Subang Jaya
Selangor Darul Ehsan

27 April 2007

Board of Directors:-

Tan Sri Razali Ismail (Chairman, Independent Non-Executive Director)
Dato' Seri Goh Eng Toon (Vice Chairman, Non-Independent Non-Executive Director)
Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas (Independent Non-Executive Director)
Dato' Dr Freezailah bin Che Yeom (Independent Non-Executive Director)
Jaggit Singh a/l Tara Singh (Executive Director)
Ho Tet Shin (Independent Non-Executive Director)

To: The Shareholders of Salcon Berhad

Dear Sir/Madam,

RENOUNCEABLE RIGHTS ISSUE OF 212,045,402 NEW ORDINARY SHARES OF RM0.50 EACH WITH 106,022,701 FREE DETACHABLE WARRANTS, ON THE BASIS OF TWO (2) RIGHTS SHARES WITH ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.50 EACH HELD AT 5.00 P.M. ON 23 APRIL 2007 AT AN ISSUE PRICE OF RM0.57 PER RIGHTS SHARE

1.0 INTRODUCTION

- 1.1 You have approved the Rights Issue with Warrants at an EGM held on 30 March 2007. A certified true extract of the ordinary resolution approving the Rights Issue with Warrants at the said EGM is reproduced in Appendix I of this Abridged Prospectus.
- 1.2 The SC had vide its letter dated 2 March 2007 approved the Rights Issue with Warrants. The approval of the SC for the Rights Issue with Warrants is subject to the condition that MIMB/Salcon should fully comply with all relevant requirements stipulated in the SC Guidelines pertaining to the implementation of the Rights Issue.
- 1.3 MIMB, on behalf of the Board, had on 9 March 2007 announced that the issue price per Rights Share and the exercise price of the Warrants had been fixed at RM0.57 and RM0.75 respectively.

- 1.4 The approval in-principle has been obtained from Bursa Securities on 4 April 2007 for the admission of the Warrants to the Official List of the Main Board of Bursa Securities and the listing of and quotation for the Rights Shares and Warrants and the new Salcon Shares to be issued upon the exercise of the Warrants on the Main Board of Bursa Securities. Official quotation will commence after receipt of confirmation from Bursa Depository that all the CDS accounts of the Entitled Shareholders/renouncees have been duly credited and notices of allotment have been despatched to them.
- 1.5 On 5 April 2007, MIMB, on behalf of our Board, announced that we had, on 5 April 2007, entered into an underwriting agreement with MIMB for the underwriting of up to 127,227,241 Rights Shares to be issued pursuant to the Rights Issue with Warrants.
- 1.6 No person is authorised to give any information or to make any representation not contained herein in connection with the Rights Issue with Warrants and if given or made, such information or representation must not be relied upon as having been authorised by our Company or MIMB in connection with the Rights Issue with Warrants.

You are advised to read, understand and consider carefully the contents of this Abridged Prospectus which set out the details of the Rights Issue with Warrants and the risk factors associated with the Rights Issue with Warrants.

2.0 DETAILS OF THE RIGHTS ISSUE WITH WARRANTS

2.1 Details of the Rights Issue with Warrants

The Rights Issue with Warrants involves the renounceable rights issue of 212,045,402 Rights Shares with 106,022,701 free detachable Warrants on the basis of two (2) Rights Shares together with one (1) free Warrant attached for every two (2) existing Shares held by the Entitled Shareholders on the Entitlement Date.

The renounceable entitlements to the Rights Shares with Warrants must be subscribed by the Entitled Shareholders in full or in part (subject to the subscription of the Rights Shares with Warrants in an equal proportion), as a package and not to be subscribed separately or disproportionately.

Shareholders who renounce all or any part of their entitlements to the Rights Shares provisionally allotted to them under the Rights Issue with Warrants will simultaneously relinquish their corresponding entitlements to the Rights Shares including their corresponding entitlements to the Warrants.

The Rights Shares with Warrants are not separately renounceable and the Warrants will be detached from the Rights Shares immediately upon issuance and traded separately on Bursa Securities.

Please refer to Appendix VI of this Abridged Prospectus for the principal terms of the Warrants.

2.2 Basis of the Issue and Exercise Prices

The issue price of RM0.57 per Rights Share was arrived at based on a discount of RM0.25 (or 30.5%) from the theoretical ex-rights price of Salcon Shares of RM0.82 per Share calculated based on the five (5) days WAMP of the Shares as traded on Bursa Securities from 2 March 2007 to 8 March 2007 (being the latest practicable date prior to the announcement of the price-fixing made on 9 March 2007) of RM1.079 per Share.

The exercise price of RM0.75 per new Salcon Share to which a Warrant holder will be entitled to subscribe upon exercise of the Warrants was fixed at a discount of RM0.07 (or 8.5%) from the theoretical ex-rights price of Salcon Shares of RM0.82 per Share.

2.3 Ranking of Shares

The Rights Shares to be issued pursuant to the Rights Issue with Warrants will, upon allotment and issuance, rank pari passu in all respects with the then existing ordinary shares of our Company except that they will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date (namely the date as at the close of business on which the shareholders must be registered and/or whose names must be recorded in the Record of Depositors in order to be entitled to any dividends, rights, allotments and/or other distributions) of which is before the allotment date of the Rights Shares.

All the new Shares in Salcon to be issued upon the exercise of the Warrants shall, on allotment and issue, rank pari passu in all respects with the then existing Salcon Shares of the Company except that they shall not be entitled to any dividends, that may be declared prior to the date of exercise of the Warrants, nor shall they be entitled to any distributions or entitlements for which the record date is prior to the date of exercise of the Warrants.

2.4 Shareholders' Entitlements

Shareholders whose names appear in the Record of Depositors of our Company on the Entitlement Date will be entitled to subscribe for the Rights Shares with Warrants.

In determining the shareholders' entitlements to the Rights Shares with Warrants, any fractional entitlements under the Rights Issue with Warrants will be disregarded and shall be dealt with in such manner as our Board shall in their absolute discretion deem expedient in the interest of our Company.

It is the intention of the Board to allot the excess Rights Shares in the following priority:-

- (i) firstly, to minimise the incidence of odd lots; and
- (ii) secondly, for allocation to persons who applied for excess Rights Shares on a pro-rata basis, calculated based on the quantum of excess Rights Shares applied for in the event of an oversubscription.

In the event that there is still unsubscribed Rights Shares with Warrants available after allocating all the excess Rights Shares with Warrants applicants, the unsubscribed Rights Shares will then be allotted to Naga Muhibah, a substantial shareholder of our Company, who has provided the Additional Undertaking to subscribe for additional Rights Shares with Warrants via excess shares application in respect of up to 72,722,701 Rights Shares with Warrants. Thereafter, any balance not taken up by the other Entitled Shareholders and/or renouncee(s) under the Rights Issue with Warrants will be allotted to the Underwriter, MIMB.

Any dealing in the Rights Shares and the Warrants shall be subject to, inter-alia, the provisions of the Securities Industry (Central Depositories) Act 1991 and Securities Industry (Central Depositories) Amendment Act 1998, the rules of Bursa Depository and any other relevant legislation. Accordingly, upon subscription, the Rights Shares and the Warrants will be credited directly into the respective CDS accounts of the successful applicants. No physical share or warrant certificates will be issued but notices of allotment will be despatched to the successful applicants.

We shall allot and issue the Rights Shares and the Warrants, despatch notices of allotment and make an application to Bursa Securities for the listing of and quotation for the Rights Shares and the Warrants within eight (8) market days from the last date and time for acceptance and payment for the Rights Shares with Warrants scheduled on 15 May 2007.

2.5 Principal Terms of the Warrants

- Form and denomination : The Warrants, which are issued with the Rights Shares will be immediately detached upon issue and separately traded. The Warrants will be issued in registered form and constituted by a Deed Poll to be executed by the Company.
- Number of Warrants : 106,022,701 Warrants to be issued in conjunction with the Rights Issue with Warrants to the Entitled Shareholders of Salcon on the basis of one (1) Warrant attached to two (2) Rights Shares subscribed.
- Exercise Price : The exercise price has been fixed by the Board at RM0.75 per Salcon Share, after taking into consideration the theoretical ex-rights price of RM0.82 based on the five (5)-day weighted average market price of Salcon Shares from 2 March 2007 to 8 March 2007 of RM1.079 per Share and the par value of Salcon Shares. The exercise price may be adjusted in accordance with the terms and conditions to be set out in the Deed Poll
- Exercise Period : The Warrants may be exercised at any time within a period of seven (7) years including and commencing from the issue date of the Warrants. The Warrants not exercised during the exercise period will thereafter lapse and become void.
- Exercise Rights : Each Warrant entitles the registered holder during the Exercise Period to subscribe for one (1) new Share in the share capital of the Company at the Exercise Price (as defined above).
- Deed Poll : The Warrants are constituted by the Deed Poll.
- Board Lot : For the purpose of trading on the Bursa Securities, a board lot of Warrants will be 100 Warrants carrying the rights to subscribe for 100 new Shares in Salcon or in such other denominations permitted by Bursa Securities from time to time.
- Status of new Salcon Shares to be issued pursuant to the exercise of the Warrants : All the new Shares in Salcon to be issued upon the exercise of the Warrants shall, on allotment and issue, rank pari passu in all respects with the then existing Salcon Shares of the Company except that they shall not be entitled to any dividends, that may be declared prior to the date of exercise of the Warrants, nor shall they be entitled to any distributions or entitlements for which the record date is prior to the date of exercise of the Warrants.
- Listing : Approval-in-principle from Bursa Securities has been obtained on 4 April 2007 for the admission of the Warrants to the Official List of the Main Board of Bursa Securities and for the listing of and quotation for the Warrants and the new Salcon Shares to be issued pursuant to the exercise of the Warrants on the Main Board of Bursa Securities.

Rights of Warrant holders on winding-up, compromise or arrangement of the Company : In a voluntary winding-up or compromise or arrangement in any other case, every Warrant holder is entitled, by exercising the Exercise Rights within six (6) weeks after the passing of such resolution for a members voluntary winding-up of the Company or within six (6) weeks from the last approval being granted for the compromise or arrangement, be treated as if he had immediately prior to the commencement of such winding-up, compromise or arrangement, exercised the Exercise Rights represented by the Warrants and had on such date been the holder of the new Shares arising from the exercise of the Warrants.

Upon the expiry of the above six (6) weeks, all exercise rights of the Warrants shall lapse and cease to be valid for any purpose.

Arrangement for the adjustment to the Exercise Price and number of Warrants in the event of alteration to the share capital of the Company : The Exercise Price and the number of Warrants in issue will from time to time be adjusted, calculated or determined by the directors of the Company in consultation with the approved adviser in accordance with the terms of the Deed Poll.

Warrants holders' rights to participate in any distribution and/or offer of further securities in the Company : The Warrant holders are not entitled to participate in any distribution and/or offer of further securities in the Company until and unless such holders exercise the Exercise Rights of the Warrants into new Shares.

2.6 Quotation and Dealings

Approval in-principle has been obtained from the Bursa Securities on 4 April 2007 for the admission of the Warrants to the Official List of Bursa Securities and the listing of and quotation for the Rights Shares, and Warrants and the new Salcon Shares to be issued upon the exercise of the Warrants on the Main Board of Bursa Securities. Official quotation will commence after receipt of confirmation from Bursa Depository that all the CDS accounts of the Entitled Shareholders/renouncees have been duly credited and notices of allotment have been despatched to them.

3.0 OTHER CORPORATE EXERCISES

Save as disclosed below, there are no other intended corporate exercise or scheme which has been approved by the relevant authorities but have not been completed, save for the Rights Issue with Warrants, as at the date of this Abridged Prospectus:

- (a) SEB had on 4 April 2007 accepted a conditional offer letter from Godrej Agrovet Limited (which is subject to a definitive agreement to be executed and any approval(s) by the relevant authorities, if required) to dispose its entire interest in CCI including Palm Tech India Limited (a subsidiary of CCI), representing 49% of the issued and paid-up share capital of CCI and the entire preference share capital of SEB in Palm Tech India Limited for a purchase consideration of RM24 million.

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4.0 PROCEDURES FOR APPLICATION, ACCEPTANCE AND PAYMENT

4.1 General

If you are an Entitled Shareholder, your CDS account will be duly credited with the number of provisionally allotted Rights Shares with Warrants for which you are entitled to subscribe for under the terms of the Rights Issue with Warrants. You will find enclosed with this Abridged Prospectus, a NPA notifying you of the crediting of such provisionally allotted Rights Shares with Warrants into your CDS account and a RSF to enable you to subscribe for such Rights Shares with Warrants. The RSF is also available on the Bursa Securities' website (<http://www.bursamalaysia.com>).

FULL INSTRUCTIONS FOR THE APPLICATION, ACCEPTANCE AND PAYMENT FOR THE RIGHTS SHARES WITH WARRANTS PROVISIONALLY ALLOTTED TO THE ENTITLED SHAREHOLDERS AND THE PROCEDURES TO BE FOLLOWED SHOULD ENTITLED SHAREHOLDERS WISH TO SELL/TRANSFER ALL OR ANY PART OF THEIR ENTITLEMENTS ARE SET OUT IN THIS ABRIDGED PROSPECTUS AND THE ACCOMPANYING RSF.

THE ENTITLED SHAREHOLDERS AND/OR THEIR RENOUNCEES ARE ADVISED TO READ THIS ABRIDGED PROSPECTUS, THE RSF AND THE NOTES AND INSTRUCTIONS THEREIN CAREFULLY.

4.2 Last Date and Time for Acceptance and Payment

The last date and time for acceptance and payment for the Rights Shares with Warrants are 5.00 p.m. on 15 May 2007 or such later date and time as may be determined and announced by our Directors at their absolute discretion.

4.3 NPA

The provisional allotment of Rights Shares with Warrants pursuant to the Rights Issue with Warrants as contained in the NPA is a prescribed security pursuant to Section 14(5) of the Securities Industry (Central Depositories) Act 1991 and therefore, all dealings in the provisional allotment of Rights Shares with Warrants (or the entitlements to the Rights Shares with Warrants) shall be by book entry through CDS accounts and shall be governed by the Securities Industry (Central Depositories) Act 1991, the Security Industry (Central Depositories) Amendment Act 1998 and the Rules of Bursa Depository.

4.4 Procedure for Application and Acceptance

An application to subscribe for the Rights Shares with Warrants provisionally allotted to the Entitled Shareholders must be on the RSF issued together with this Abridged Prospectus and must be completed in accordance with the notes and instructions printed therein. Applications which do not strictly conform to the terms of this Abridged Prospectus or RSF and notes and instructions printed therein or which are illegible may not be accepted at the absolute discretion of our Directors.

Entitled Shareholders who lose, misplace or for any reasons require another copy of the RSF, may obtain additional copies from their stockbrokers, the Bursa Securities' website (<http://www.bursamalaysia.com>), the Registrar, at the address stated herein, or at our registered office at the following address:-

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

If the Entitled Shareholder has multiple CDS accounts into which the provisionally allotted Rights Shares with Warrants have been credited, he cannot use one (1) single RSF for acceptance of all these provisionally allotted Rights Shares with Warrants. Separate RSF must be used for separate CDS accounts. If successful, the Rights Shares with Warrants subscribed by the Entitled Shareholders will be credited into the respective CDS account(s) and no physical certificates will be issued.

The minimum number of securities that can be accepted is two (2) Rights Shares with one (1) Warrant. Fractions of a Right Share and Warrant arising from the Rights Issue with Warrants shall be dealt with by our Directors as they may deem fit. However, applicants should take note that trading board lots for the Rights Shares and Warrants comprise 100 Salcon Shares and 100 Warrants each respectively.

Entitled Shareholders who wish to accept their entitlements in full are required to fill and complete Parts I and III of the RSF. Each completed RSF together with the relevant payment must be despatched by **ORDINARY POST** or **DELIVERED BY HAND** in the official envelope provided, to our Registrar at the following address:-

PFA Registration Services Sdn. Bhd.
Level 13, Uptown 1, No.1, Jalan SS 21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan

so as to arrive not later than **5.00 p.m. on 15 May 2007** being the last date and time for acceptance and payment or such later date and time as may be determined and announced by our Directors.

If acceptance of and payment for the Rights Shares with Warrants provisionally allotted to any Entitled Shareholder are not received by the Registrar by **5.00 p.m. on 15 May 2007**, being the last date and time for acceptance and payment or such later date and time as may be determined and announced by our Directors, the provisional entitlement of that Entitled Shareholder shall be deemed to have been declined and shall be cancelled and such Rights Shares with Warrants not taken up shall be allotted first to applicants applying for the excess Rights Shares with Warrants, second to Naga Muhibah pursuant to the Additional Undertaking and subsequently to the Underwriter of the Rights Issue with Warrants, if the Rights Shares with Warrants are not fully taken up by such applicants.

Our Directors shall reserve the right not to accept any application or to accept in part only any application without assigning any reason thereof.

EACH COMPLETED RSF MUST BE ACCOMPANIED BY REMITTANCE IN RINGGIT MALAYSIA FOR THE FULL AMOUNT IN THE FORM OF BANKERS DRAFT(S) OR CASHIER'S ORDER(S) OR MONEY ORDER(S) OR POSTAL ORDER(S) DRAWN ON A BANK OR POST OFFICE IN MALAYSIA AND MUST BE MADE IN FAVOUR OF "SALCON RIGHTS ISSUE ACCOUNT" CROSSED "A/C PAYEE ONLY" AND ENDORSED ON THE REVERSE SIDE, NAME AND ADDRESS IN BLOCK LETTERS TOGETHER WITH THE CDS ACCOUNT NUMBER OF THE APPLICANT.

NO ACKNOWLEDGEMENT OF THE RECEIPT OF THE RSF OR APPLICATION MONIES SHALL BE MADE BY OUR COMPANY OR THE REGISTRAR IN RESPECT OF THE RIGHTS ISSUE WITH WARRANTS. HOWEVER, SUCCESSFUL APPLICANTS SHALL BE ALLOTTED THEIR RIGHTS SHARES WITH WARRANTS AND NOTICES OF ALLOTMENT SHALL BE ISSUED AND FORWARDED BY ORDINARY POST TO SUCCESSFUL APPLICANTS AT THEIR OWN RISK TO THE ADDRESSES AS STATED IN THE RSF WITHIN EIGHT (8) MARKET DAYS FROM THE LAST DATE OF ACCEPTANCE AND PAYMENT FOR THE RIGHTS SHARES WITH WARRANTS.

APPLICANTS SHOULD NOTE THAT THE RSF AND REMITTANCES SO LODGED WITH THE REGISTRAR SHALL BE IRREVOCABLE AND SHALL NOT BE WITHDRAWN.

WHERE AN APPLICATION IS NOT ACCEPTED OR ACCEPTED IN PART ONLY, THE FULL AMOUNT OR THE BALANCE OF THE APPLICATION MONIES, AS THE CASE MAY BE, SHALL BE REFUNDED WITHOUT INTEREST AND SHALL BE DESPATCHED TO THE APPLICANT WITHIN EIGHT (8) MARKET DAYS FROM THE LAST DATE FOR ACCEPTANCE AND PAYMENT FOR THE RIGHTS SHARES WITH WARRANTS BY ORDINARY POST AT THE APPLICANT'S OWN RISK.

APPLICATIONS SHALL NOT BE DEEMED TO HAVE BEEN ACCEPTED BY REASON OF THE REMITTANCE BEING PRESENTED FOR PAYMENT.

4.5 Procedure for Part Acceptance

Entitled Shareholders are entitled to accept part of their entitlement subject to the subscription of the Rights Shares with Warrants in an equal proportion. The minimum number of Rights Shares with Warrants that can be subscribed for or accepted is two (2) Rights Shares together with one (1) free Warrant.

Entitled Shareholders have to complete Part I of the RSF by specifying the number of Rights Shares which the Entitled Shareholders is accepting, and Part III of the RSF and deliver the completed RSF together with the relevant payment to the Registrar, as stated in Section 4.4 herein.

The portion of the provisional allotment of Rights Shares with Warrants that has not been accepted shall be allotted to any other persons allowed under any law, regulations or rules to accept the transfer of the provisional allotment of Rights Shares with Warrants and the balance, if any, thereafter to the Underwriter.

4.6 Procedure for Sale/Transfer of Provisional Allotment of Rights Shares with Warrants

The Rights Shares with Warrants are renounceable as a package and as such Entitled Shareholders may sell/transfer all or part of their provisional allotment of Rights Shares with Warrants.

Entitled Shareholders who renounce all or any part of their entitlements to the Rights Shares provisionally allotted to them under the Rights Issue with Warrants will simultaneously relinquish their corresponding entitlements to the Rights Shares including their corresponding entitlements to the Warrants.

Entitled Shareholders who wish to sell/transfer some and accept only part of their provisional allotment of Rights Shares with Warrants or sell/transfer all their provisional allotment of Rights Shares with Warrants may do so immediately through their stockbrokers without first having to request for a split of their provisional allotment of Rights Shares with Warrants. To dispose of all or part of their provisional allotment of Rights Shares with Warrants, they may sell such provisional allotment of Rights Shares with Warrants on the open market or transfer such provisional allotment of Rights Shares with Warrants to such persons as may be allowed pursuant to the Rules of Bursa Depository.

IN SELLING ALL OR PART OF THEIR PROVISIONAL ALLOTMENT OF RIGHTS SHARES WITH WARRANTS, ENTITLED SHAREHOLDERS NEED NOT DELIVER ANY DOCUMENT TO THEIR STOCKBROKERS. THE ENTITLED SHAREHOLDERS ARE HOWEVER ADVISED TO ENSURE THAT THEY HAVE SUFFICIENT PROVISIONAL ALLOTMENT OF RIGHTS SHARES WITH WARRANTS STANDING IN THEIR CDS ACCOUNTS BEFORE TRADING.

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4.7 Procedure for Acceptance by Renounees

A renounee who wishes to accept the provisionally allotted Rights Shares with Warrants must obtain a copy of the RSF from his stockbroker, the Registrar, the Bursa Securities' website (<http://www.bursamalaysia.com>) or our registered office, complete the RSF and submit the same together with the remittance in accordance with the notes and instructions printed therein.

The procedures for application, acceptance and payment applicable to the Entitled Shareholders as set out in Section 4.4 herein also applies to renounees who wish to accept the provisionally allotted Rights Shares with Warrants.

THE RENOUNEES ARE ADVISED TO READ AND ADHERE TO THE RSF AND THE NOTES AND INSTRUCTIONS THEREIN CAREFULLY.

4.8 Procedure for Excess Application

You may apply for additional Rights Shares with Warrants in excess of your entitlement by completing Part II of the RSF (in addition to Parts I and III) and forwarding it (together with a separate remittance for the full amount payable in respect of the excess Rights Shares with Warrants applied for) to the Registrar. Payment for the excess Rights Shares with Warrants applied for should be in the same manner described above where the banker's draft(s) or cashier's order(s) or money order(s) or postal order(s) drawn on a bank or post office in Malaysia should be crossed "A/C PAYEE ONLY" and made payable to "SALCON EXCESS RIGHTS ACCOUNT" and endorsed on the reverse side with the name and address in block letters together with the CDS account number of the applicant to be received by the Registrar before 5.00 p.m. on 15 May 2007 or such later date and time as may be determined and announced by our Directors.

Our Directors reserve the right to allot any unsubscribed Rights Shares with Warrants by the entitled shareholders and/or the renounees to persons who have applied for excess Rights Shares with Warrants under Part II of the RSF in a fair and equitable basis and in such manner as they deem fit or expedient in the best interest of our Company.

It is the intention of the Board to allot the excess Rights Shares in the following priority:-

- (i) firstly, to minimise the incidence of odd lots; and
- (ii) secondly, for allocation to persons who applied for excess Rights Shares on a pro-rata basis, calculated based on the quantum of excess Rights Shares applied for in the event of an oversubscription.

In the event that there is still unsubscribed Rights Shares with Warrants available after allocating to all the excess Rights Shares with Warrants applicants, the unsubscribed Rights Shares will then be allotted to Naga Muhibah, a substantial shareholder of our Company, who has provided the Additional Undertaking to subscribe for additional Rights Shares with Warrants via excess shares application in respect of up to 72,722,701 Rights Shares with Warrants. Thereafter, any balance not taken up by the other Entitled Shareholders and/or renounee(s) under the Rights Issue with Warrants will be allotted to the Underwriter, MIMB.

NO ACKNOWLEDGEMENT SHALL BE ISSUED FOR SUCCESSFUL EXCESS RIGHTS SHARES WITH WARRANTS APPLICATIONS BUT A NOTICE OF ALLOTMENT SHALL BE DESPATCHED BY ORDINARY POST WITHIN EIGHT (8) MARKET DAYS FROM THE LAST DATE FOR APPLICATION AND PAYMENT FOR THE EXCESS RIGHTS SHARES WITH WARRANTS.

IN RESPECT OF UNSUCCESSFUL OR PARTIALLY UNSUCCESSFUL EXCESS RIGHTS SHARES WITH WARRANTS APPLICATIONS, THE SURPLUS MONIES WILL BE REFUNDED IN FULL WITHOUT INTEREST WITHIN EIGHT (8) MARKET DAYS FROM THE LAST DATE FOR APPLICATION AND PAYMENT FOR THE EXCESS RIGHTS SHARES WITH WARRANTS BY ORDINARY POST AT THE APPLICANT'S OWN RISK.

4.9 Form of Issuance

The Bursa Securities has already prescribed the securities of Salcon listed on the Main Board of Bursa Securities to be deposited with Bursa Depository. Accordingly, the Rights Shares and Warrants are prescribed securities and as such, the Securities Industry (Central Depositories) Act, 1991, Securities Industry (Central Depositories) Amendment Act, 1998 and the Rules of Bursa Depository shall apply in respect of the dealings in the said securities.

No physical share or Warrant certificate shall be issued to you under the Rights Issue with Warrants. The Rights Shares and Warrants shall be credited directly into your CDS account(s) maintained with Bursa Depository and a notice of allotment shall be despatched to you at the address maintained with Bursa Depository.

Any person who intends to purchase the Rights Shares with Warrants as a renounee from an Entitled Shareholder shall have his Rights Shares with Warrants credited directly as deposited securities into his CDS account(s).

The excess Rights Shares with Warrants, if allotted to the successful applicant who makes such excess application, shall be credited directly as deposited securities into his CDS account(s).

4.10 Laws of Foreign Jurisdictions

This Abridged Prospectus, the NPA and the RSF are not intended to be issued, circulated or distributed in countries or jurisdictions other than Malaysia. This Abridged Prospectus, the NPA and the RSF have not been (and will not be) made to comply with the laws of any foreign jurisdiction, and have not been (and will not be) lodged, registered or approved pursuant to or under any legislation of (or with or by any regulatory authorities or other relevant bodies of) any foreign jurisdiction, and the Rights Issue with Warrants will not be made or offered in any foreign jurisdiction.

A foreign Entitled Shareholder and/or his renounee(s) (if applicable) may only accept or renounce (as the case may be) all or any part of their provisional allotment of Rights Shares with Warrants and exercise any other rights in respect of the Rights Issue with Warrants to the extent that it would be lawful to do so.

Salcon, MIMB and their Directors and officers would not, in connection with the Rights Issue with Warrants, be in breach of the laws of any jurisdiction to which that foreign Entitled Shareholder and/or his renounee(s) is or may be subject to and he shall be solely responsible to seek advice as to the laws of the jurisdictions to which they are or may be subject to.

Salcon, MIMB and their Directors and officers shall not accept any responsibility or liability in the event that any acceptance or renunciation made by any foreign Entitled Shareholder and/or his renounee(s), is or shall become unlawful, unenforceable, voidable or void in any such jurisdictions.

Accordingly, the documents relating to the Rights Issue with Warrants will not be sent to the foreign Entitled Shareholders who do not have a registered address in Malaysia. However, such foreign Entitled Shareholders may collect the Abridged Prospectus including the accompanying documents from our Registrar, in which event our Registrar shall be entitled to request for such evidence as it deems necessary to satisfy itself as to the identify and authority of the person collecting the documents relating to the Rights Issue with Warrants.

The foreign Entitled Shareholders and/or their renounees will be responsible for payment of any issue, transfer or any other taxes or other requisite payments due in such jurisdiction and we shall be entitled to be fully indemnified and held harmless by such foreign applicants for any issue, transfer or other taxes or duties as such person may be required to pay. They will have no claims whatsoever against us and/or MIMB in respect of their rights or entitlements under the Rights Issue with Warrants. Such foreign applicants should consult their professional advisers as to whether they require any governmental, exchange control or other consents or need to comply with any other applicable legal requirements to enable them to accept the Rights Shares with Warrants.

By signing the RSF, the foreign Entitled Shareholders and/or their renounees are deemed to have represented, acknowledged and declared in favour of (and which representations, acknowledgements and declarations will be relied upon by) Salcon, our Directors and officers, MIMB and other experts that:-

- (i) we would not, by acting on the acceptance or renunciation in connection with the Rights Issue with Warrants, be in breach of the laws of any jurisdiction to which that foreign Entitled Shareholders and/or their renounees are or may be subject to;
- (ii) the foreign Entitled Shareholders and/or their renounees have complied with the laws to which they are or may be subject to in connection with the acceptance or renunciation;
- (iii) the foreign Entitled Shareholders and/or their renounees are not a nominee or agent of a person in respect of whom we would, by acting on the acceptance or renunciation, be in breach of the laws of any jurisdiction to which that person is or might be subject;
- (iv) the foreign Entitled Shareholders and/or their renounees are aware that the Rights Shares with Warrants can only be transferred, sold or otherwise disposed of, or charged, hypothecated or pledged in accordance with all applicable laws in Malaysia;
- (v) the foreign Entitled Shareholders and/or their renounees have respectively received a copy of this Abridged Prospectus and have had access to such financial and other information and have been afforded the opportunity to pose such questions to our representatives and receive answers thereto as they deem necessary in connection with their decision to subscribe for or purchase the Rights Shares with Warrants; and
- (vi) the foreign Entitled Shareholders and/or their renounees have sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing the Rights Shares with Warrants, and are and will be able, and are prepared to bear economic and financial risks of investing in and holding the Rights Shares with Warrants.

Persons receiving this Abridged Prospectus, NPA and RSF (including without limitation custodians, nominees and trustees) must not, in connection with the offers distribute or send it into any jurisdiction where to do so would or might contravene local securities, exchange control or relevant laws or regulations. If this Abridged Prospectus, NPA and RSF are received by any persons in such jurisdiction, or by the agent or nominee of such a person, he must not seek to accept the offer unless he has complied with and observed the laws of the relevant jurisdiction in connection therewith.

Any person who does forward this Abridged Prospectus, NPA and RSF to any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this section and we reserve the right to reject a purported acceptance of the Rights Shares with Warrants from any such application by a foreign Entitled Shareholder and/or his renounee(s) in any jurisdiction other than Malaysia.

We reserve the right, in its absolute discretion, to treat any acceptance as invalid if it believes that such acceptance may violate any applicable legal or regulatory requirements.

5.0 RATIONALE FOR THE RIGHTS ISSUE WITH WARRANTS AND UTILISATION OF PROCEEDS

5.1 Rationale for the Rights Issue with Warrants

The rationale for the Rights Issue with Warrants is as follows:-

- (a) To raise funds for the repayment of bank borrowings and working capital purposes;
- (b) To provide an opportunity to the existing shareholders to further increase their equity participation in the Company; and
- (c) The free Warrants attached to the Rights Shares are expected to enhance the attractiveness of the Rights Shares to be issued pursuant to the Rights Issue with Warrants. It would enable the Entitled Shareholders to benefit from the future growth of the Company and any potential capital appreciation arising thereof. The Company would then be able to raise further proceeds as and when the Warrants are exercised.

5.2 Utilisation of the Proceeds

The Rights Issue with Warrants is expected to raise gross proceeds of RM120.866 million based on the issue price of RM0.57 per Rights. We plan to utilise the said gross proceeds from the completion of the Rights Issue with Warrants in the following manner:-

	Estimated time frame		RM'000
Working capital for the Sabah sewage system project	24 months	Note a	55,000
General working capital for our Group	24 months	Note b	44,866
Repayment of bank borrowings	3 months	Note c	19,000
Estimated expenses relating to the Rights Issue with Warrants	3 months	Note d	2,000
Total			<u>120,866</u>

Notes:-

- (a) Working capital for the Sabah sewage system project

Rastamas-Salcon Joint Venture, a joint venture between Rastamas Contractor Sdn. Bhd. and our wholly-owned subsidiary, Salcon Engineering Berhad, on a 51:49 joint venture basis, had on 15 January 2007 received a Letter of Intent from the Pengarah Kerja Raya Negeri Sabah to undertake a project to design, construct and complete a sewage system in Kota Kinabalu, Sabah on turnkey/design and build basis, the value of which is up to RM183.4 million. The project is expected to commence by June 2007 and complete by May 2009.

- (b) General working capital for our Group

The proceeds from the Rights Issue with Warrants will enable us to raise additional working capital for the day-to-day operational costs of our Group. Such working capital may be utilised for projects within or outside of Malaysia. As at 30 March 2007, the total order books (excluding the Sabah sewage system project as disclosed in item (b) below) of our Group amount to about RM432 million while we are also tendering/negotiating for additional projects.

(c) Repayment of bank borrowings

We propose to utilise RM19,000,000 from the proceeds of the Rights Issue with Warrants to repay part of our existing bank borrowings as follows:

Lender	Type of facility	Amount outstanding as at 30 March 2007 RM'000	Proposed repayment from proceeds raised from the rights issue RM'000	Purpose of borrowing
EON Bank Berhad	Bridging Loan	27,000	17,000	To subscribe for the initial registered capital in Haining Salcon Water Company Limited (<i>Note 1</i>)
EON Bank Berhad	Revolving Credit	1,000	1,000	For Working Capital
Malayan Banking Berhad	Revolving Credit	1,000	1,000	For Working Capital

Note 1:

Salcon Zhejiang, a wholly-owned subsidiary company of Salcon, had on 31 August 2006 entered into a Joint Venture Agreement with Haining Water to set up the joint venture company, Haining Salcon, on a 60:40 basis to design, operate, maintain, produce and sell treated water in bulk to Haining City Water Supply Company which in turn will supply the treated water to the consumers of Haining City, Zhejiang Province, People's Republic of China.

The total estimated investment in the project is USD40 million of which USD11.25 million will be in the form of registered capital on a 60:40 basis contributed by the JV Parties while the remaining USD28.75 million is expected to be raised from project financing (estimated to be USD26 million) as well as internally generated funds of Haining Salcon (estimated to be USD2.75 million).

In view of the new set-up of Haining Salcon where the initial registered capital of which was only subscribed on 28 September 2006, no Accountants' Report or audited financial statements for Haining Salcon is available.

As at 30 March 2007, the total borrowings of our Group stood at approximately RM113.168 million. The Rights Issue with Warrants is expected to result in an estimated interest savings of up to RM1.021 million per annum to our Group based on the average interest rate of 5.35% per annum.

(d) Estimated expenses relating to the Rights Issue with Warrants

The proceeds to be raised from the Rights Issue with Warrants will also be utilised to defray expenses to be incurred in relation to the Rights Issue with Warrants which is estimated to be about RM2 million.

Any proceeds arising from the exercise of the Warrants will be used as additional working capital of our Group.

6.0 RISK FACTORS AND INVESTMENT CONSIDERATIONS

We are principally an investment holding company whilst the principal activities of our subsidiaries are design, construction, operation and maintenance of municipal potable water, sewerage and waste water facilities and palm oil mills; management and operation of water production and distribution of water; and provision of mechanical and electrical engineering services for general industries.

You should give due and careful regard to the investment considerations/risks factors before making an application, and such considerations/risks (which may not be exhaustive) would include the following:-

6.1 Risks relating to our Group

(a) Business Risks

We are principally an investment holding company whilst the principal activities of our subsidiaries are design, construction, operation and maintenance of municipal potable water, sewerage and waste water facilities and palm oil mills; management and operation of water production and distribution of water; and provision of mechanical and electrical engineering services for general industries and is subject to certain business risks inherent in these industries. These include but are not limited to the possibility of not being able to secure future contracts, scarcity of trained and experienced engineering, technical and support personnel, unforeseen requirements or weaknesses in design due to human errors, limitations of computer software, information or technology availability, raw material shortages, increases in cost of labour and material cost, changes in general economic, business and credit conditions, the entry of new players, changes in technology in treating water and wastewater and changes in the legal framework within which the said sectors operate. We are also subject to credit risk as billings are made on a progressive basis upon the completion of progress works and subject to approval by customers. The same risks are also applicable to all other players in the industries.

We seek to limit these risks through, inter alia, constantly tendering and/or negotiating for contracts from both the public and private sectors in Malaysia and overseas, nurturing and maintaining good business relationships with its customers and consultants, providing better incentives and benefits to maintain and retain staff, expansion of market share and increasing customer base. We practice a stringent credit control mechanism, conduct research and development and establish smart partnerships with foreign partners for product/design innovation and creativity to keep abreast with changes in the market and technology. We also maintain a reliable quality management system for its operations.

(b) Quality of Treated Water

There is a risk that water leaving the treatment plant fails to meet the required standards. This risk is mitigated by:

(i) Advanced Treatment Technology

We have extensive experience in the water treatment process and utilise advance and appropriate technologies to ensure that the water supplied to consumers meets required standards and is capable of dealing with the irregularities of raw water supply.

(ii) **Introduction of SCADA Telemetry Systems**

SCADA and telemetry systems are utilised where appropriate to improve the monitoring of water supply facilities that are operated and maintained by us. These systems will enable on-time collection and reporting of various data and information of the water supply system and will thus facilitate necessary action in case of any shortcomings and deficiencies.

(c) **Financing Risk**

As at 30 March 2007, our total borrowings amounts to approximately RM113.168 million, as detailed in Section 10.2 of this Abridged Prospectus. Any adverse movement in the prevailing market interest rates may have a significant impact on our financial performance. In mitigation, we manage our interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings, and actively review our debt portfolio, taking into account the level and nature of borrowings. These strategies allow us to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

(d) **Covenants on Borrowings**

As at 30 March 2007, certain of our banking facilities contain, inter-alia, certain restrictive covenants which may limit our operating and financial flexibilities. Any act by us falling within the ambit or scope of such covenants may require the written consent of the said financier. In particular, any breach of such covenants by us may result in the banking facilities being terminated and required to be redeemed in full. In relation to this, we shall take all appropriate precautions to prevent such breaches and shall obtain all relevant written consents, where applicable and required, from the said financier. Nevertheless, we do not foresee that such covenants would affect our operations, as the financiers are not expected to withhold their consents unreasonably.

In addition, we may in future procure new credit or banking facilities from other banks/financial institutions to, amongst others, finance our business operations and activities as well as to repay any outstanding bank borrowings. There is however no assurance that such new credit or banking facilities would not have any restrictive covenants that may limit our operating and financial flexibilities.

(e) **Dependence on Certain Customers/Contractors and Suppliers**

We depend on businesses on project, which vary in value. Thus, we may sometimes have projects which contribute significantly to our turnover and profit. Apart from the revenue generated from turnkey contracting, a portion of income also comes from operations and maintenance activities. Based on the historical track record of our Group, we have been able to tender and procure new projects to maintain a healthy level of projects.

It is our policy to source our raw materials from a large panel of suppliers to prevent incidence of disruption of supply of raw materials. Furthermore, gives us greater bargaining strength and flexibility in price negotiations with our suppliers.

We are also not solely dependent on any major contractors/suppliers, as we have established a wide network of contractors/suppliers. Such networks are established through long-term relationships with most of our contractors over the past few years and experience in the industry cultivated over time.

We also adopt various measures to minimise the risk of over dependency on certain contractors by:

- (i) Adopting an open tender system in selecting contractors. The selection is made after due consideration of their experience, track record and qualifications; and
- (ii) Ensuring that contractors are not awarded contracts beyond their capacity. Under such circumstances, we continuously review and evaluate the work in progress and the quality of each of the projects awarded to ensure timely completion of projects to the required standards.

(f) Dependence on Directors and Key Management

Our present success and achievements are largely attributable to the concerted efforts and invaluable experience of our Directors and key management personnel. We believe that our continued success in the future will, to a certain extent, hinge on our ability to retain our existing Directors and key management personnel. As such, any loss of our Directors and/or key management personnel may adversely affect our performance and continuing ability to compete effectively in the industry. We recognise the importance of our ability to attract and retain our key management personnel and have in place a human resource strategy which includes a competitive remuneration package and a human resource training and development programme for our employees in all key functions of our operations. Notwithstanding, there can be no assurance that we will be able to recruit, develop and retain an adequate number of highly skilled and motivated employees.

6.2 Risks relating to our industry

(a) Competition

We face competition from various quarters, which include private and public companies both in Malaysia and in the countries in which we operate. We have been in the industry for more than 30 years and are now an established name in the industry. We had gone through two major economic recessions.

Whilst no assurance can be given that we will be able to maintain our market share in the future, we believe that with our present business and marketing strategies and resources, we should be able to at least maintain our market share in the foreseeable future.

We have managed to mitigate this risk through joint ventures with local/foreign partners and believe that with our business and marketing strategies and resources, we are well poised to face new challenges in the industries in which we operate.

Whilst we will continue to take effective measures to remain competitive and maintain our existing market position, no assurance can be given that we will be able to maintain our market share in the future.

(b) Registration/Permits/Licenses

Our qualifications to tender for and secure various projects are based on certain registrations, permits and licenses locally and overseas. Some of these registrations, permits and licences (locally or overseas) are valid for only a specific period, subject to renewal. There are no assurances that these registrations, permits and licences will be renewed when they expire. Notwithstanding, we are confident of being able to renew all necessary registrations, permits and licences at the appropriate time, by conducting our business activities in a prudent manner.

(c) Political and Economic Considerations

Any adverse change in the political, economic and regulatory environment and uncertainties could have an unfavourable effect on our financial and business prospects. These include but are not limited to the risk of war, terrorist attacks, riots, changes in political leadership, global economic downturn/crisis and unfavourable changes in the governmental policies such as changes in the methods of taxation, interest rates, legislation, licensing or introduction of new regulations. Whilst we will continue to take effective measures such as prudent financial management and efficient operating procedures, there can be no assurance that any change to these factors will not materially and adversely affect our financial position or business in the future.

6.3 Risks relating to the Rights Issue with Warrants

(a) There is no Prior Market for the Warrants

There is no prior market for the Warrants. Accordingly, there can be no assurance that an active market for the Warrants will develop upon their listing on the Main Board of Bursa Securities, or if developed that such a market can be sustained.

(b) Volatility in Market Prices

The issue price of RM0.57 per Rights Share, which has been fixed by our Board on 9 March 2007, represents a discount of RM0.25 per Share or approximately 30.5% from the theoretical ex-rights price of Salcon Shares of RM0.82 per Share calculated based on the 5-day weighted average market price of Salcon Shares as traded on Bursa Securities from 2 March 2007 to 8 March 2007 of RM1.079 per Share. The exercise price of RM0.75 per new Salcon Share to which a Warrant holder will be entitled to subscribe upon exercise of the Warrants is at a discount of RM0.07 (or 8.5%) from the theoretical ex-rights price of Salcon Shares of RM0.82 per Share.

The future market prices of the Rights Shares would largely depend on, amongst others, market sentiments and our future profitability. There can be no assurance that the Rights Shares will trade at a level which is higher than the issue price.

Further, the market price of the Warrants, in turn, will be dependent on, amongst others, the market price of Salcon Shares and the remaining exercise period of the Warrants. There can be no assurance that the Warrants will be “in-the-money” upon listing of the Warrants on the Main Board of Bursa Securities, i.e. the market price of Salcon Shares trading above the Exercise Price of the Warrants. The future market price of Salcon Shares may trade either above or below the Exercise Price of the Warrants.

(c) Delay in or Abortion of the Rights Issue with Warrants

The Rights Issue with Warrants is exposed to the risk that it may be aborted or delayed on the occurrence of any one or more of the following events:-

- (i) Force majeure events or events/circumstances, which are beyond the control of our Company and/or Underwriter, arising prior to the implementation of the Rights Issue with Warrants;
- (ii) The parties as set out in Section 11 below who have given their irrevocable undertakings to subscribe for their respective entitlements under the Rights Issue with Warrants may not fulfil or be able to fulfil their obligations;
- (iii) The Underwriter exercising its rights pursuant to the Underwriting Agreement discharging itself from its obligation therein; and

- (iv) We are unable to meet the public spread requirements for the Warrants, whereby there must be no less than 100 holders holding not less than 1 board lot of the securities.

In this respect, we will exercise our best endeavour to ensure the successful implementation of the Rights Issue with Warrants. However, there can be no assurance that the abovementioned factors/events will not cause a delay in or abortion of the Rights Issue with Warrants.

(d) Forward Looking Statements

Certain statements in this Abridged Prospectus are based on historical data which may not be reflective of future results and others are forward-looking in nature that are based on assumptions and subject to uncertainties and contingencies which may or may not be achieved. Whether such statements ultimately prove to be accurate depends upon a variety of factors that may affect our business and operations, and such forward-looking statements also involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, plans, performances and achievements, expressed or implied, by such prospective statements. Although we believe that the expectations reflected in such future statements are reasonable at this time, there can be no assurance that such prospective statements or expectations will prove to be correct in the future. Any deviation from the expectations may have a material adverse effect on our financial and business performance.

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7.0 EFFECTS OF THE RIGHTS ISSUE WITH WARRANTS

7.1 On Share Capital

The effects of the Rights Issue with Warrants on our issued and paid-up share capital are shown below:-

	No. of Shares	RM
Existing share capital as at 31 December 2006	212,045,402	106,022,701
To be issued pursuant to:		
- Rights Issue with Warrants	212,045,402	106,022,701
	<u>424,090,804</u>	<u>212,045,402</u>
Assuming all the Warrants are exercised	106,022,701	53,011,351
Enlarged issued and paid-up share capital	<u>530,113,505</u>	<u>265,056,753</u>

7.2 On Earnings

The Rights Issue with Warrants is not expected to have any material effect on the earnings of our Group for the financial year ending 31 December 2007 as it is expected to be completed in the second (2nd) quarter of the financial year ending 31 December 2007. Nevertheless, the Rights Issue with Warrants is expected to result in interest savings arising from the repayment of bank borrowings.

Whilst the earnings per Share of our Company is expected to be diluted as a result of the increase in the number of Salcon Shares in issue after the Rights Issue with Warrants and as and when the Warrants are being exercised into new Shares, we are of the view that the enlarged paid-up capital is reflective of the future earnings prospects of our Group.

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7.3 On NTA and Gearing

For illustration purposes only, the proforma effects of the Rights Issue with Warrants on our consolidated NTA and gearing based on our audited accounts for the financial year ended 31 December 2006 are set out as follows:-

Group	Audited as at 31.12.06 RM'000	I After Rights Issue with Warrants RM'000	II After I and assuming full exercise of Warrants RM'000
Share capital	106,023	212,045	265,057
Share premium	19,011	31,854*	58,360
Translation reserve	(24)	(24)	(24)
Revaluation reserve	18	18	18
Accumulated losses	(12,281)	(12,281)	(12,281)
Shareholders' funds	112,747	231,612	311,130
Less: Goodwill	33,857	33,857	33,857
NTA	78,890	197,755	277,273
No. of Shares ('000)	212,046	424,090	530,114
NTA per Share (RM)	0.37	0.47	0.52
Borrowings (RM'000)	106,431	87,431	87,431
Gearing (times)	0.94	0.38	0.28

* Net of estimated expenses for the Rights Issue with Warrants amounting to approximately RM2.0 million.

7.4 On Dividends

We do not expect the Rights Issue with Warrants to have any material effect on the future dividend policy of our Company as it would be dependent on the profitability and cash flow of our Group and available tax credits to frank dividends in the future.

8.0 PROFIT AND DIVIDEND RECORDS

A summary of our audited profit and dividend records for the past 3 financial years ended 31 December 2006 are set out in Section 7 of Appendix II of this Abridged Prospectus.

9.0 INDUSTRY REVIEW AND FUTURE PROSPECTS

9.1 Overview of the Malaysian Economy

Malaysia has achieved significant progress in developing the economy and improving the quality of life of its people, despite the difficult and volatile external environment in recent years. Economic management in 2006 remains challenging amidst an environment of persistently high crude oil prices, rising global interest rates and increasing competition from China, India and other emerging regional economies. With pragmatic macroeconomic policies coupled with strong economic fundamentals, including robust private investment, low unemployment as well as steady consumer spending, real GDP is projected to grow at 5.8% in 2006 (2005: 5.2%).

Growth in 2006 is broad-based, led by services, manufacturing and agriculture sectors. With continuing strong domestic demand and expanding trade-related activities, the services sector is estimated to expand by 5.7% (2005: 6.5%), with all sub-sectors recording positive growth. The manufacturing sector is envisaged to record a higher growth of 7.3% in 2006 (2005: 5.1%). The Global uptrend in demand for electronics will impact positively on Malaysia's exports of electrical and electronic products, leading to a stronger growth in manufacturing output. The agriculture sector continues to benefit from the Government's efforts to modernise and transform it into a large and commercially viable sector. Value added of the sector is expected to accelerate strongly by 5.3% (2005: 2.5%), underpinned by higher rubber output, strong growth in livestock, food crops and a turnaround in the fishing sub-sector. Government policies and strategies geared towards increasing food production have also assisted the agriculture sector to expand. Value added of the mining sector is, however expected to be higher at 2.4% (2005: 0.8%), backed mainly by higher production of crude oil. Meanwhile, the construction sector is expected to turnaround this year, recording a positive growth of 0.7% (2005: -1.6%), mainly due to several public sector works and private civil engineering activities to be implemented during the second half of the year.

(Source: *Economic Report 2006/2007*).

9.2 Industry Review

Enhancing the Water Delivery System

A major focus in the utilities sector will be on increasing the quality and reliability of the water supply system. Towards this end, water infrastructure such as intakes, treatment plants and dams will be constructed and upgraded. In addition, major projects such as the Pahang-Selangor Inter State Raw Water Transfer will be implemented. Stricter enforcement and rehabilitation of water distribution networks will also be carried out to reduce the rate of non-revenue water ("NRW") in the country from 38 per cent in 2005 to 30 per cent by 2010. Increased coverage of water supply to rural areas will also be emphasised. In order to achieve sustainability of water supply, water conservation efforts will be promoted through awareness programmes. *Suruhanjaya Pengurusan Air Negara* will commence operations during the Ninth Plan period to regulate the water supply system and sewerage services in Peninsular Malaysia. Water regulation will be aimed at improving service standards and performance in the water and sewerage industry.

The privatisation of water supply services in Selangor was undertaken to meet the high capital expenditure required in building new dams, reservoirs and water treatment plants as well as replacing old pipes to cater to the increase in demand for treated water. In this regard, a total of RM3.4 billion of capital expenditure was committed for capital works. In addition, as part of the efforts to improve the efficiency of water distribution to consumers and reduce the loss of treated water, the Government provided a sum of RM500 million to replace old pipes and install new meters in Selangor, Kuala Lumpur and Putrajaya.

Water Supply

Among the major projects undertaken to ensure adequate and sustainable water supply to meet domestic and industrial water demand were the Rasa Phase II Water Treatment Plant ("WTP") and Bukit Badong Phase II WTP in Selangor, Gadek WTP in Melaka, Gemencheh WTP in Negeri Sembilan and Bintulu WTP in Sarawak. The construction of four dams was also completed, namely the Beris Dam in Kedah, Chereh Dam in Pahang, Jus Dam in Melaka and Kelalong Dam in Sarawak. The production capacity increased from 11,917 million litres per day ("mld") in 2000 to 14,226 mld in 2005. Water supply coverage increased from 92 per cent to 95 per cent during the same period.

A total of RM640 million was expended to reduce NRW. Measures undertaken included the replacement of 3,380 kilometres of old pipes and old water meters and the reduction of water pilferages as well as the rehabilitation and upgrading of water distribution systems and WTPs. The national NRW rate decreased from 40 per cent in 2000 to 38 per cent in 2005.

In line with the policy of providing potable water to rural areas, a total of RM734 million was expended for the *Bekalan Air Luar Bandar* ("BALB") programme. This programme comprised the construction of pipe connections from public water mains to rural areas, upgrading of existing WTPs and water supply systems as well as the construction of reticulation systems. The programme also included the implementation of alternative water supply systems. The BALB programme benefited 41,000 people in Peninsular Malaysia, 207,000 in Sabah and 106,000 in Sarawak.

The Federal Constitution was amended in January 2005 to transfer matters related to water supply services from the State List to the Concurrent List. The amendment enabled the Federal Government to regulate water supply services while ownership and control of water resources, dams and catchment areas remained with the state governments. Two bills were drafted, aimed at creating an effective and efficient water services industry and the formation of the *Suruhanjaya Perkhidmatan Air Negara* ("SPAN") as the water services regulator.

Sewerage

One of the major projects implemented to provide efficient, reliable and environmentally safe sewerage services was the National Sewerage Project ("NSP"). The construction of Phase 1 of the NSP, which comprised five projects in Kuala Lumpur and Selangor, began in 2004. The construction of several sewerage treatment plants ("STPs") was completed such as the plants in Bayan Baru, Kuala Terengganu, Port Dickson as well as in Padang Mat Sirat and Pantai Tengah in Langkawi. Other sewerage facilities such as septic tanks and communal treatment plants were also constructed and existing systems were upgraded and rehabilitated. The population served by these sewerage facilities increased from 6.7 million in 2000 to 8.1 million in 2005.

(Source: Ninth Malaysian Plan 2006-2010)

9.3 Prospects of the Sector

Water Supply

Efforts will be undertaken to conserve the quantity and improve the quality of existing water resources as well as identify potential water resources to be developed to ensure adequate and sustainable supply of water. Water demand for domestic and industrial use expected to increase at an average rate of 6.6 per cent per annum to 16,270 mld in 2010. The construction of new dams, water intakes, WTPs and distribution systems will be undertaken. With the expansion in capacity, the water supply coverage is expected to increase to 96.8 per cent.

The efficiency of water supply will be improved through the NRW reduction programme. Measures to be undertaken include strict enforcement against water theft, pipe and meter replacements, Geographical Information System ("GIS") mapping of distribution networks, rehabilitation of distribution systems and upgrading of existing WTPs as well as setting up operation centres. The national NRW rate is expected to decrease to 30 per cent in 2010.

The development of inter-state and inter-basin water transfers will be given priority to address water shortage and uneven distribution of water resources in the country. The Inter-State Raw Water Transfer Project from Pahang to Selangor ("Pahang-Selangor ISRWT"), which will commence construction during the Plan period, is expected to address the increasing water demand in Selangor, Kuala Lumpur and Putrajaya. In addition to the NRW reduction programme, the protection of water resources, rainwater harvesting, the use of water from stormwater management ponds for non-potable purposes and development of groundwater will be promoted as interim measures to address the anticipated shortage of water in Selangor, Kuala Lumpur and Putrajaya.

To increase accessibility to potable water in rural areas, priority will be given to states with low supply coverage such as Sabah, Sarawak, Pahang, Kelantan, Terengganu and Kedah. Emphasis will be given to isolated areas such as villages of *Orang Asli* and other indigenous groups, small estates and rural schools. In this regard, groundwater abstraction, rainwater harvesting and gravity feed water supply systems will be implemented. The groundwater exploration and development programme will also be undertaken to supply water to other water shortage areas and for irrigation. The use of horizontal wells, underground dams and groundwater accumulated from padi fields will be promoted.

The SPAN will be operationalised during the Plan period to regulate water supply and sewerage services in Peninsular Malaysia. Water service providers and owners of water service systems will be licensed by SPAN and required to comply with its service standards and key performance indicators. In addition, the Water Asset Management Company (“WAMCO”) will be established to develop future water supply infrastructure.

Sewerage

Sewerage services will continue to be expanded to ensure the quality of effluent discharged into receiving water bodies comply with environmental standards and safeguard public health. Upgrading, rehabilitation and refurbishment of existing sewerage treatment systems, which are in the catchments of public water supply systems, will continue to be given priority. The programme on rationalisation of sewerage systems will be continued. Small and scattered STPs will be decommissioned after the construction of centralised STPs within their catchment areas to reduce the high cost of operation and maintenance.

Awareness campaigns on the importance of managing wastewater and sewerage systems for maintaining cleanliness and protecting the environment as well as water resources will be intensified. Research and development on reuse of sludge for industrial, agricultural and landscape purposes as well as wastewater reclamation for non-potable purposes will be undertaken. The provisions in the Sewerage Services Act, 1993, which mandates properties within 30 metres of centralised sewerage systems be connected to the system, will be fully enforced. The increase in connections to the centralised system will facilitate the improvement of public and environmental health as well as effectiveness of the centralised STPs.

(Source: Ninth Malaysian Plan 2006-2010)

9.4 Our Future Prospects

We are of the view that the water sector is projected to remain positive given the efforts by the government to conserve the quantity and improve the quality of existing and potential water resources. It is anticipated that the water demand for domestic and industrial use to increase at an average rate of 6.6% per annum to 16,270 mld in 2010. The water supply coverage is expected to increase to 96.8% in view of the construction of new dams, water intakes, WTPs and distribution systems. In addition, the sewerage sector is expected to continue to expand in view of the rationalisation programme of sewerage systems under the Ninth Malaysian Plan.

We believe that our Group with extensive years of experience and technical expertise are well positioned to benefit from the increase in water and sewerage allocations under the Ninth Malaysian Plan. The Rights Issue with Warrants is expected to raise additional working capital to fund future projects and growth.

Going forward, we envisage that the implementation of the Ninth Malaysian Plan as well as our existing and future overseas projects and concessions will augur well for our Group over the next few years.

(Source: The Board of Salcon)

10.0 WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL CAPITAL COMMITMENTS

10.1 Working Capital

We are of the opinion that after taking into consideration the various banking facilities available and the amount to be raised from the Rights Issue with Warrants, we will have sufficient working capital for our current core business requirements for a period of 12 months from the date of issue of this Abridged Prospectus.

10.2 Borrowings

As at 30 March 2007, being the latest practicable date prior to the registration of this Abridged Prospectus, we had total borrowings (all interest-bearing debts) of RM113.168 million which can be analysed as follows:-

	BY CURRENCIES			TOTAL
	USD'000	RMB'000	RM'000	RM'000
Local				
Interest-bearing borrowings:				
Short-term borrowings	-	-	36,171	36,171
Long-term borrowings	-	-	45,000	45,000
Non-interest bearing borrowings:				
Short-term borrowings	-	-	-	-
Long-term borrowings	-	-	-	-
Sub-total	<u>-</u>	<u>-</u>	<u>81,171</u>	<u>81,171</u>
Foreign				
Interest-bearing borrowings:				
Short-term borrowings	-	8,500	-	* 3,954
Long-term borrowings	580	55,764	-	* 28,043
Non-interest bearing borrowings:				
Short-term borrowings	-	-	-	-
Long-term borrowings	-	-	-	-
Sub-total	<u>580</u>	<u>64,264</u>	<u>-</u>	<u>31,997</u>
Total	<u>580</u>	<u>64,264</u>	<u>81,171</u>	<u>113,168</u>

Note:

* The RMB and USD are translated to RM based on the exchange rates as provided in the audited financial statements for the financial year ended 31 December 2006:

- (a) RMB0.4651 : RM1.00
 (b) USD1.00 : RM3.6319

The interest rates for the local interest-bearing long-term borrowings are fixed.

There has been no default on payments of either interest and/or principal sums in respect of any borrowings throughout the past one (1) financial year immediately preceding the date of this Abridged Prospectus.

10.3 Contingent Liabilities

As at 30 March 2007, being the latest practicable date prior to the registration of the Abridged Prospectus, we are not aware of any contingent liabilities, which upon becoming enforceable may have a material impact on our profit or net asset value, save as disclosed below:-

	Amount RM'000
Guarantees given to financial institutions for facilities granted to subsidiary companies	<u>169,544</u>

10.4 Material Capital Commitments

As at 30 March 2007, being the latest practicable date prior to the registration of this Abridged Prospectus, the material capital commitments incurred or known to be incurred by us are as follows:-

Capital Expenditure	Amount RM'000	Purpose	Source of Funding
Approved and contracted for	37,537	Construction of water and waste water treatment plant and pipe line reticulation works	Internal fund and project financing from bank
Approved but not contracted for	47,400	Construction of water and waste water treatment plant and pipe line reticulation works	Internal fund and project financing from bank

11.0 SHAREHOLDER'S UNDERTAKINGS AND UNDERWRITING ARRANGEMENT

11.1 Shareholder's Undertakings

The following shareholder of Salcon has given its written irrevocable undertaking to subscribe and/or procure subscription for its entitlement to the Rights Shares and Warrants in respect of its direct shareholdings in Salcon and additional Rights Shares and Warrants in the event there are unsubscribed Rights Shares with Warrants that are not taken up by other entitled shareholders pursuant to the Rights Issue with Warrants:-

Naga Muhibah

	Shareholdings as at 30 March 2007		Entitlements under the Rights Issue with Warrants		Additional Rights Shares under the Rights Issue with Warrants	
	No. of shares	%	No. of units	%	No. of units	%
Shares	33,300,000	15.70	33,300,000	15.70	72,722,701	34.30
Warrants	-	-	16,650,000	15.70	36,361,350	34.30

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11.2 Underwriting Arrangement

Pursuant to the underwriting agreement dated 5 April 2007, MIMB has agreed to underwrite the remaining 106,022,701 Rights Shares, representing 50.0% of the total Rights Shares which are not subject to the undertakings by the shareholders as mentioned in Section 11.1 above, at an underwriting commission of 2.0% of the value of Rights Shares based on the issue price of RM0.57 per Rights Share. The underwriting commission payable to MIMB will be fully borne by us.

12.0 TERMS AND CONDITIONS

The issuance of Rights Shares with Warrants pursuant to the Rights Issue with Warrants is governed by the terms and conditions as set out in this Abridged Prospectus and the Deed Poll as well as the notes and instructions as contained in RSF.

13.0 FURTHER INFORMATION

Other financial, general and statutory information relating to our Company and the Rights Issue with Warrants are provided in the attached Appendices.

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



Jagjit Singh a/l Tara Singh
Executive Director

CERTIFIED TRUE EXTRACT OF THE ORDINARY RESOLUTION APPROVING THE RIGHTS ISSUE WITH WARRANTS AT OUR EGM HELD ON 30 MARCH 2007

A reproduction of the certified true extract of the ordinary resolution approving the Rights Issue with Warrants at our EGM held at Caymans 1, Level 10, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 46150 Petaling Jaya, Selangor Darul Ehsan on Friday, 30 March 2007 is set out hereunder.

SALCON BERHAD (593796-T)
(Incorporated in Malaysia)

EXTRACT OF MINUTES OF THE EXTRAORDINARY GENERAL MEETING OF THE COMPANY HELD ON 30 MARCH 2007

ORDINARY RESOLUTION

-PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 233,249,943 NEW ORDINARY SHARES OF RM0.50 EACH IN SALCON BERHAD ("RIGHTS SHARES") WITH UP TO 116,624,971 FREE DETACHABLE WARRANTS ("WARRANTS") AT AN ISSUE PRICE OF RM0.57 PER RIGHTS SHARE, ON THE BASIS OF TWO (2) RIGHTS SHARES WITH ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.50 EACH IN SALCON ("SALCON SHARES" OR "SHARES") HELD ON A DATE TO BE DETERMINED LATER ("PROPOSED RIGHTS ISSUE WITH WARRANTS")

RESOLVED:-

THAT, subject to the approval being obtained from all relevant authorities and the approval of Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing of and quotation for up to 233,249,942 Rights Shares and 116,624,971 Warrants pursuant to the Proposed Rights Issue with Warrants, the Directors of the Company be and are hereby approved and authorized to:-

- (i) issue and allot up to 233,249,942 Rights Shares, by way of renounceable provisional allotment to the registered shareholders of the Company whose name appear on the Record of Depositors at the close of business on an entitlement date to be determined later by the Directors of the Company, on the basis of two (2) Rights Shares with one (1) Warrant for every two (2) existing ordinary shares held, at an issue price of RM0.57 per Rights Share, the proceeds of which shall be utilised in the manner as set out in Section 2.6 of the Circular to Shareholders of Salcon dated 15 March 2007 relating to the Proposed Rights Issue with Warrants, and on such other terms and conditions as the Directors may determine and that the Rights Shares so issued and allotted to the Proposed Rights Issue with Warrants to Shareholders will rank *pari passu* in all respects with the then existing ordinary shares of the Company except that they will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is before the allotment date of the Rights Shares;
- (ii) allot and issue up to 116,624,971 Warrants in Salcon free of charge, in registered form and constituted by a deed poll to be executed by the Company constituting the Warrants ("Deed Poll"), together with the Rights Shares on the basis of one (1) Warrant for every two (2) Rights Shares issued, where each Warrant entitles the holder thereof, subject to any adjustments in accordance with the provisions of the Deed Poll, at any time during the exercise period commencing on and including the date of issue of the Warrants and expiring seven (7) years from the date of issue of the Warrants ("Exercise Period"), to subscribe for one (1) new ordinary share of RM0.50 each in the Company at an exercise price of RM0.75 per Share;

SALCON BERHAD (593796-T)

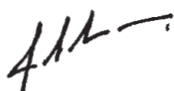
EXTRACT OF MINUTES OF THE EXTRAORDINARY GENERAL MEETING HELD ON 30 MARCH 2007

2

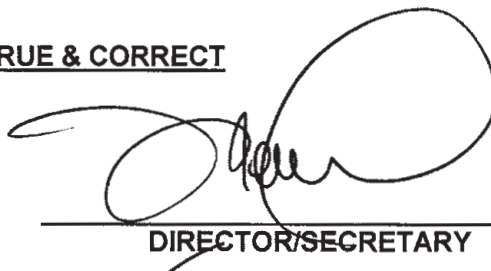
- (iii) allot and issue new ordinary shares of RM0.50 each in the Company pursuant to the exercise of any Warrant, (subject to any adjustments to the subscription rights attached to and the number of the Warrants made in accordance with the Deed Poll) and the new ordinary shares of RM0.50 each in Salcon so issued and allotted pursuant to the exercise of the Warrants which will rank *pari passu* in all respects with the then existing ordinary shares of the Company except that they will not be entitled to any dividends, that may be declared prior to the date of exercise of the Warrants, nor shall they be entitled to any distributions or entitlements for which the record date is prior to the exercise of the Warrants;
- (iv) allot and issue any further Warrants pursuant to the adjustments in accordance with the terms of the Deed Poll ("Further Warrants") as may be required or permitted to be issued as a consequence of the adjustment pursuant to the provisions of the Deed Poll and which shall be treated as equal in all respects and form part of the same series of the Warrants, and such number of new ordinary shares of RM0.50 each in the Company credited as fully paid-up arising from the exercise of the subscription rights represented by such Further Warrants (subject to any further adjustments to the subscription rights attached to and the number of the Further Warrants made in accordance with the Deed Poll), and that such new ordinary shares of RM0.50 each so issued and allotted shall, upon allotment and issue, rank *pari passu* in all respects with the then existing ordinary shares of the Company except that they shall not be entitled to any dividends, that may be declared prior to the date of exercise of the Further Warrants, nor shall they be entitled to any distributions or entitlements for which the record date is prior to the exercise of the Further Warrants; and
- (v) give effect to the aforesaid with full power to assent to any modification, variation and/or amendment, as may be required/approved by the relevant authorities, to deal with fractional shares and/or warrants arising from the Proposed Rights Issue with Warrants to Shareholders in their absolute discretion deem fit and expedient, and to take up all steps and to enter into all such agreements, arrangements, undertakings, indemnities, transfers, assignments and guarantees with any party or parties as may be required in order to implement, finalise and give full effect to the said Proposed Rights Issue with Warrants.

Dated this 3rd day of April, 2007.

CERTIFIED TRUE & CORRECT



DIRECTOR



DIRECTOR/SECRETARY

INFORMATION ON SALCON

1. HISTORY

We were incorporated in Malaysia under the Act on 25 September 2002 as a private limited company under the name of Salcon Sdn. Bhd. On 24 February 2003, we were converted into a public company and assumed our present name of Salcon Berhad. Our Company was listed on the Main Board of Bursa Securities on 3 September 2003.

2. PRINCIPAL ACTIVITIES

Our Company is an investment holding company whilst the principal activities of our subsidiaries are design, construction, operation and maintenance of municipal potable water, sewerage and waste water facilities and palm oil mills; management and operation of water production and distribution of water; and provision of mechanical and electrical engineering services for general industries.

3. SHARE CAPITAL

As at 30 March 2007, details of our share capital are as follows:-

Type of ordinary shares	Number of shares	Par value RM	Amount RM
Authorised	1,000,000,000	0.50	500,000,000
Issued and paid-up	212,045,402	0.50	106,022,701

The movements in our issued and paid-up share capital since incorporation are as follows:-

Date of Allotment	No. of Shares Allotted	Par Value RM	Type of Consideration	Cumulative Issued and Paid-Up Share Capital RM
25.09.2002	2	0.50	Subscribers' shares	1
21.07.2003	160,396,000	0.50	Issued pursuant to the acquisition of shares in SHCB and to the creditors and existing shareholders of SHCB at RM0.50 per ordinary share	80,198,001
24.07.2003	1,666,500	0.50	Issued pursuant to the acquisition of SEB	81,031,251
19.08.2003	29,200,000	0.50	Public issue at RM1.20	95,631,251
30.01.2004	155,500	0.50	Cash - ESOS at RM1.87	95,709,001
09.02.2004	156,500	0.50	Cash - ESOS at RM1.87	95,787,251
16.02.2004	320,500	0.50	Cash - ESOS at RM1.87	95,947,501
24.02.2004	260,000	0.50	Cash - ESOS at RM1.87	96,077,501
01.03.2004	230,600	0.50	Cash - ESOS at RM1.87	96,192,801
08.03.2004	243,500	0.50	Cash - ESOS at RM1.87	96,314,551
15.03.2004	75,000	0.50	Cash - ESOS at RM1.87	96,352,051
22.03.2004	39,000	0.50	Cash - ESOS at RM1.87	96,371,551
29.03.2004	14,500	0.50	Cash - ESOS at RM1.87	96,378,801
05.04.2004	1,000	0.50	Cash - ESOS at RM1.87	96,379,301
12.04.2004	2,000	0.50	Cash - ESOS at RM1.87	96,380,301
19.04.2004	8,000	0.50	Cash - ESOS at RM1.87	96,384,301
29.09.2005	19,276,800	0.50	Cash - Private Placement at RM0.51	106,022,701

4. SUBSTANTIAL SHAREHOLDERS

Our substantial shareholders as per the Register of Substantial Shareholders as at 30 March 2007 are as follows:-

	Nationality/ Country of Incorporation	Number of Shares held as at 30 March 2007			Number of Shares held after the Rights Issue with Warrants		
		Direct	%	Indirect	Direct	%	Indirect
Naga Muhibah Sdn. Bhd.	Malaysia	33,300,000	15.70	-	66,600,000	15.70	-
Dato' Seri Goh Eng Toon	Malaysian	-	-	33,300,000 ¹	-	-	66,600,000 ¹
Datin Seri Kee Seok Ai	Malaysian	-	-	33,300,000 ¹	-	-	66,600,000 ¹

Notes:-

1. Deemed interested through his/her shareholdings in Naga Muhibah Sdn. Bhd. pursuant to Section 6(A)4 of the Act

The above shareholdings do not take into consideration the Rights Shares to be subscribed by Naga Muhibah pursuant to the Additional Undertaking.

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5. **BOARD OF DIRECTORS**

The direct and indirect interests of our Directors, all of whom are Malaysians, in our issued and paid-up share capital as at 30 March 2007 according to the Register of Directors' Shareholdings are as follows:-

Name, Age (Designation)	Profession	Nationality	Address	Number of Shares held as at 30 March 2007		Number of Shares held after the Rights Issue with Warrants	
				Direct	%	Indirect	%
Tan Sri Razali Ismail, 68 (Chairman, Independent Non- Executive Director)	Entrepreneur	Malaysian	Desa Kudalari 1802, No. 3 Lorong Kuda 50450 Kuala Lumpur	572,000	0.27	-	-
Dato' Seri Goh Eng Toon, 74 (Vice Chairman, Non- Independent Non- Executive Director)	Director	Malaysian	5 Jesselton Avenue 10450 Georgetown Penang	-	-	33,300,000 ¹	15.70
Jagjit Singh a/l Tara Singh, 60 (Executive Director)	Director	Malaysian	41, Jalan Seruling 41 Kawasan 3, Taman Klang Jaya 41200 Klang, Selangor	1,745,000	0.82	-	-
Dato' Dr Freezailah Bin Che Yeom, 68 (Independent Non- Executive Director)	Consultant	Malaysian	6 Jalan Kent Enam, Off Jalan Maktab, 54000 Kuala Lumpur	25,000	0.01	50,000	0.01
Dato' Seri Megat Najmuddin Bin Datuk Seri Dr Hj Megat Khas, 63 (Independent Non- Executive Director)	Director	Malaysian	No. 2, Jalan 12/7 46200 Petaling Jaya Selangor Darul Ehsan	-	-	45,000 ²	0.02
						-	-
						90,000 ²	0.02

Company No: 593796-T

Name, Age (Designation)	Profession	Nationality	Address	Number of Shares held as at 30 March 2007		Number of Shares held after the Rights Issue with Warrants	
				Direct	Indirect	Direct	Indirect
Ho Tet Shin, 57 (Independent Non- Executive Director)	Accountant	Malaysian	1, Jalan Sri Hartamas 10 Taman Sri Hartamas 50480 Kuala Lumpur	-	-	-	-

Notes:-

1. Deemed interested through his/her shareholdings in Naga Muhibah Sdn. Bhd. pursuant to Section 6(A)4 of the Act
2. Deemed interested through shareholdings of his spouse pursuant to Section 6(A)4 of the Act

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6. SUBSIDIARY AND ASSOCIATED COMPANIES

As at 30 March 2007, our subsidiary companies are set out below:-

Subsidiary companies	Date/ Place of Incorporation	Effective equity interest %	Issued and paid-up capital	Principal Activity
Salcon Engineering Berhad	03.04.1974/ Malaysia	100.00	RM20,000,000	Design, construction, operation and maintenance of municipal potable water, sewerage waste water facilities and palm oil mills; Provision of mechanical and electrical engineering services for general industries; and Investment holding.
Integrated Water Services (M) Sdn. Bhd.	04.07.1985/ Malaysia	51.00	RM20,000	Operation and maintenance of a water treatment plant.
Salcon Water (HK) Limited	23.04.2003/ Hong Kong	100.00	USD10,000 (ordinary shares) USD1,920 (preference shares)	Investment holding company involve in water supply projects in the People's Republic of China via its subsidiary.
Salcon Yunnan (HK) Limited	23.03.2004/ Hong Kong	100.00	USD1	Investment holding company involve in water supply projects in the People's Republic of China via its subsidiary.
Salcon Linyi (HK) Limited	11.01.2005/ Hong Kong	100.00	HKD1	Investment holding company involve in water supply projects in the People's Republic of China via its subsidiary.
Salcon Zhejiang (HK) Limited	12.06.2006/ Hong Kong	100.00	HKD1	Investment holding company involve in water supply projects in the People's Republic of China via its subsidiary.
Salcon Water International Limited	20.04.2006/ Hong Kong	100.00	HKD1	Investment holding company

Subsidiary companies	Date/ Place of Incorporation	Effective equity interest %	Issued and paid-up capital	Principal Activity
Salcon Water (Asia) Limited	20.04.2006/ Hong Kong	100.00	HKD1	Investment holding company
Salcon Capital Sdn. Bhd. (formerly known as Salcon Technology Sdn Bhd)	15.08.2006/ Malaysia	100.00	RM2	Dormant
Salcon-Centrimax Engineering Sdn. Bhd. ¹	03.05.1979/ Malaysia	100.00	RM3,000,000	Marketing, sales and servicing of equipment for water and palm oil industries.
Precise Metal Sdn. Bhd. ¹	28.04.1983/ Malaysia	100.00	RM200,000	Dormant
Salcon Power Sdn. Bhd. (formerly known as Salcon Agro Sdn. Bhd.) ¹	22.02.1992/ Malaysia	100.00	RM2	Dormant
Salcon Resources Sdn. Bhd. ¹	12.09.1975/ Malaysia	100.00	RM2,500,001	Property investment
Bumi Tiga Enterprise Sdn. Bhd. ¹	12.05.1980/ Malaysia	100.00	RM1,700,000	Investment holding
Salcon (Sarawak) Sdn. Bhd. ¹	13.10.1999/ Malaysia	100.00	RM2	Dormant
Salcon Environmental Services Sdn. Bhd. ¹	27.10.1992/ Malaysia	100.00	RM2,500,001	Operation and maintenance of water treatment plants.
Envitech Sdn. Bhd. ¹	30.08.1984/ Malaysia	60.00	RM3,500,000	Design, building, operation and maintenance of waste-water and sewerage treatment plants.
Salcon Corporation Sdn. Bhd. ¹	26.07.1991/ Malaysia	100.00	RM2	Dormant
Salcon (Perak) Sdn Bhd (formerly known as Mantap Realiti Sdn. Bhd.) ¹	05.06.2006/ Malaysia	60.00	RM10	Dormant
Salcon Infrastructure Sdn Bhd ¹	03.11.2006/ Malaysia	100.00	RM2	Dormant

Subsidiary companies	Date/ Place of Incorporation	Effective equity interest %	Issued and paid-up capital	Principal Activity
Skeel Engineering Sdn. Bhd. ²	28.05.1970/ Malaysia	100.00	RM1,000,000	Dormant
Salcon Building Services Sdn. Bhd. ²	09.12.1980/ Malaysia	100.00	RM1,400,000	Dormant
Eagle Metalizing & Coatings Sdn. Bhd. ²	13.05.1991/ Malaysia	60.00	RM555,000	Dormant
Shandong Changle Salcon Water Company Limited ³	14.11.2003/ People's Republic of China	100.00	USD1,920,000	Management and operation of water production and distribution of water in Changle County, Shandong Province.
Chenggong Salcon Water Company Limited ⁴	17.05.2005/ People's Republic of China	60.00	RMB23,200,000	Management and operation of water production and distribution of water in Chenggong County, Kunming City, Yunnan Province.
Linyi Salcon Water Company Limited ⁵	07.11.2005/ People's Republic of China	60.00	USD7,400,000	Management and operation of water production and distribution of water in Linyi City.
Haining Salcon Water Company Limited ⁶	28.09.2006/ People's Republic of China	60.00	USD11,250,000	Management and operation of water production and sale of water in Haining City.
Linyi Water Supply Equipment Installation Company ⁷	03.07.1993/ People's Republic of China	60.00	RMB120,000	Repair and maintenance of municipal water supply pipeline and water supply equipments.

Notes:

- 1 Held indirectly through Salcon Engineering Berhad*
- 2 Held indirectly through Bumi Tiga Enterprise Sdn. Bhd.*
- 3 Held indirectly through Salcon Water (HK) Limited*
- 4 Held indirectly through Salcon Yunnan (HK) Limited*
- 5 Held indirectly through Salcon Linyi (HK) Limited*
- 6 Held indirectly through Salcon Zhejiang (HK) Limited*
- 7 Held indirectly through Linyi Salcon Water Company Limited*

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As at 30 March 2007, our associated companies are set out below:-

Associated companies	Date/ Place of Incorporation	Effective equity interest %	Issued and paid-up capital	Principal Activity
Emas Utilities Corporation Sdn. Bhd.	03.09.1987/ Malaysia	40.00	RM2,000,000 (ordinary shares) RM25,000 (preference shares)	Investment holding company in respect of a water supply project in Vietnam.
Binh An Water Corporation Ltd. ⁸	15.03.1995/ Vietnam	36.00	USD10,800,000	Production and supply of treated water to Ho Chi Minh City, Vietnam.
Cross Continental Investments	25.06.1998/ Republic of Mauritius	49.00	USD2,500	Investment holding.
Palm Tech India Ltd. ⁹	06.04.1993/ India	47.00	Rs53,500,000 (ordinary shares) Rs112,519,500 (cumulative redeemable preference shares)	Oil palm plantation and development and manufacture and sale of crude palm oil and related products.

Notes:

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

9 Cross Continental Investments hold 96.47% of this company

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7. PROFIT AND DIVIDEND RECORD

7.1 Summary of Results

A summary of our audited consolidated results for the financial year ended 31 July 2004, seventeen (17) months period ended 31 December 2005 and financial year ended 31 December 2006 is as follows:-

	Financial year ended 31 July 2004	17 months ended 31 December 2005	Financial year ended 31 December 2006
	Audited		
	RM'000	RM'000	RM'000
Revenue	146,766	162,379	121,290
Gross profit	34,372	17,557	28,996
Earnings/(Loss) before interest, depreciation, amortisation and taxation	15,035	(21,989)	4,210
Less:			
Interest expenses	(2,409)	(5,062)	(4,679)
Depreciation	(1,947)	(3,226)	(5,311)
Amortisation	(1,382)	(1,931)	-
Earnings/(Loss) after interest, depreciation, amortisation and exceptional items	9,297	(32,208)	(5,780)
Shares of results of associated companies and joint ventures	5,050	9,058	6,329
PBT / (LBT)	14,347	(23,150)	549
Taxation	(3,273)	(3,225)	4,469
PAT / (LAT)	11,074	(26,375)	5,018
MI	(1,808)	(1,399)	(691)
Net profit/(loss)	9,266	(27,774)	4,327
Gross profit margin (%)	23.42	10.81	23.91
PBT margin / (LBT margin) (%)	9.78	(14.26)	0.45
PAT margin / (LAT margin) (%)	7.55	(16.24)	4.13
No. of Shares in issue ('000)	192,768	212,045	212,045
Net EPS / (LPS)			
- Basic (sen) ¹	4.86	(14.15)	2.04
- Diluted (sen) ²	-	-	-

Notes:-

- (1) Based on the weighted average number of ordinary shares outstanding during the financial period/year.
- (2) The diluted EPS/(LPS) was not presented as it was anti-dilutive.
- (3) There were no extraordinary nor exceptional items throughout the financial years/period under review.

7.2 Brief commentary on past financial performances

7.2.1 Financial Year Ended 31 July 2004 (“FYE2004”)

The revenue for FYE2004 increased to RM146.766 million due to the full recognition of the revenue and profits of SEB and its subsidiaries compared to the period from 25 September 2002 to 31 July 2003. Nevertheless, the Group’s revenue is still lower than that forecasted in the Prospectus dated 28 July 2003 for FYE2004 amounting to RM388.575 million. The reason for the shortfall in revenue compared to the forecast was due to deferral of decisions on project implementation by relevant authorities. Review by the Malaysian government on structural conditions in the water sector had affected market conditions since the release of the aforesaid Prospectus.

Accordingly, the Group achieved a PAT and MI of RM9.266 million, which is RM20.624 million (or 69.0%) short of the PAT&MI of RM29.890 million as forecasted in the Prospectus dated 28 July 2003.

7.2.2 For the 17 Months Ended 31 December 2005 (“17ME2005”)

The revenue increased from RM146.766 million in FYE2004 to RM162.379 million in 17ME2005. However, on an annualised basis, the revenue for 17ME2005 was RM114.621 million, lower by RM32.145 million compared to FYE2004. Such decline is attributable to the tail-end effect of some existing projects and new projects were secured only at the later part of the period. Nevertheless, 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, Thailand.

The Group also registered a LAT and MI amounting to RM27.774 million or RM19.605 million on an annualised basis. The losses arose mainly from the lower revenue, increased cost for its construction projects as a result of rising material prices and the provision for doubtful debt amounting to RM12.810 for 17ME2005.

7.2.3 Financial Year Ended 31 December 2006 (“FYE2006”)

The revenue decreased from RM162.379 million in 17ME2005 to RM121.290 million in FYE2006. However, on an annualised basis, the revenue for FYE2006 increased by RM6.669 million as compared to RM114.621 million in 17ME2005. The increase in revenue for FYE2006 was attributable to the long-term water concessions in China which started to generate revenue.

The Group recorded a PAT and MI amounting to RM4.327 million for FYE2006 representing an increase of RM23.932 million as compared to RM19.605 million on an annualised basis for 17ME2005. The Group generated a higher PAT and MI mainly due to higher gross profit margin achieved as a result of the management’s cost control measures and the recognition of deferred tax asset arising from unutilised tax losses.

8. SHARE PRICES

The monthly highest and lowest prices of Salcon Shares as traded on the Main Board of Bursa Securities for the past 12 months are as follows:-

	Highest (RM)	Lowest (RM)
Year 2006		
April	0.60	0.52
May	0.65	0.49
June	0.63	0.48
July	0.54	0.50
August	0.62	0.50
September	0.96	0.61
October	1.26	0.95
November	1.59	1.22
December	1.47	1.29
Year 2007		
January	1.60	1.30
February	1.67	1.14
March	1.40	0.97

Our last transacted price on Bursa Securities on 12 January 2007, being the date immediately prior to the announcement of the Rights Issue with Warrants was RM1.33 per share.

Our last transacted price on Bursa Securities on 18 April 2007, being the market day immediately prior to the ex-date of the Rights Issue with Warrants was RM1.30 per share.

Our last transacted price on Bursa Securities on 20 April 2007, being the latest practicable date prior to the printing of this Abridged Prospectus was RM0.955 per share.

(Source: Bursa Securities).

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AUDITED FINANCIAL STATEMENTS OF THE SALCON GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 TOGETHER WITH THE AUDITORS' REPORT THEREON

(Prepared for inclusion in this Abridged Prospectus)



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KPMG (Firm No. AF 0758)
Chartered Accountants
Wisma KPMG
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50490 Kuala Lumpur, Malaysia

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Fax +60 (3) 2095 0971
Internet www.kpmg.com.my

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 11 to 85. The preparation of the financial statements is the responsibility of the Company's Directors.

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

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

In our opinion,

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:
 - i) the state of affairs of the Group and of the Company at 31 December 2006 and the results of their operations and cash flows for the year ended on that date; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.



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

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

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

A handwritten signature in black ink, appearing to be 'KPMG' followed by a flourish.

KPMG
Firm Number: AF 0758
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Hew Lee Lam Sang' followed by a flourish.

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

Kuala Lumpur,

Date: 30 March 2007

Salcon Berhad

(Company No. 593796-T)

(Incorporated in Malaysia)

and its subsidiaries**Balance sheets at 31 December 2006**

		Group		Company	
	Note	2006 RM'000	2005 RM'000 restated	2006 RM'000	2005 RM'000 restated
Assets					
Property, plant and equipment	3	120,492	31,138	-	-
Goodwill	4	11,239	7,142	-	-
Prepaid lease payments	5	15,423	973	-	-
Investment property	6	2,318	2,318	-	-
Investments in subsidiaries	7	-	-	70,675	70,210
Investments in associates	8	55,440	62,056	-	-
Other investments	10	11,079	11,079	4,500	4,500
Deferred tax assets	11	6,421	77	-	-
Total non-current assets		<u>222,412</u>	<u>114,783</u>	<u>75,175</u>	<u>74,710</u>
		-----	-----	-----	-----
Prepaid lease payments	5	527	450	-	-
Receivables, deposits and prepayments	12	87,208	106,264	69,011	47,143
Inventories	13	1,457	756	-	-
Current tax assets		2,089	6,200	21	13
Cash and cash equivalents	14	22,196	29,861	6	19
Total current assets		<u>113,477</u>	<u>143,531</u>	<u>69,038</u>	<u>47,175</u>
		-----	-----	-----	-----
Total assets		<u>335,889</u>	<u>258,314</u>	<u>144,213</u>	<u>121,885</u>

Balance sheets at 31 December 2006

(continued)

	Note	Group		Company	
		2006 RM'000	2005 RM'000 restated	2006 RM'000	2005 RM'000 restated
Equity					
Share capital		106,023	106,023	106,023	106,023
Reserves		19,005	19,125	19,011	19,011
Accumulated losses		(12,281)	(16,608)	(53,420)	(48,586)
Total equity attributable to shareholders of the Company	15	112,747	108,540	71,614	76,448
Minority interest		37,735	21,051	-	-
Total equity		150,482	129,591	71,614	76,448
Liabilities					
Loans and borrowings	16	79,625	47,359	55,000	45,000
Total non-current liabilities		79,625	47,359	55,000	45,000
Payables and accruals	18	78,311	67,763	599	437
Loans and borrowings	16	26,806	13,362	17,000	-
Taxation		461	37	-	-
Dividend payable		204	202	-	-
Total current liabilities		105,782	81,364	17,599	437
Total liabilities		185,407	128,723	72,599	45,437
Total equity and liabilities		335,889	258,314	144,213	121,885

The notes on pages 20 to 85 are an integral part of these financial statements.

Salcon Berhad
(Company No. 593796-T)
(Incorporated in Malaysia)
and its subsidiaries

Income statements for the year ended 31 December 2006

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

The notes on pages 20 to 85 are an integral part of these financial statements.

Salcon Berhad
(Company No. 593796-T)
(Incorporated in Malaysia)
and its subsidiaries

Statements of changes in equity for the year ended 31 December 2006

Group	Attributable to Shareholders of the Company						
	Non-distributable			Distributable			
	Share capital RM'000	Share premium RM'000	Translation reserve RM'000	Revaluation reserve RM'000	Retained profits/ (Accumulated losses) RM'000	Minority interest RM'000	Total equity RM'000
At 1 August 2004	96,384	18,891	97	-	15,497	7,482	138,351
Issue of shares	9,639	193	-	-	-	-	9,832
Private placement expenses	-	(73)	-	-	-	-	(73)
Dividend	-	-	-	-	(5,012)	-	(5,012)
Foreign exchange translation differences	-	-	17	-	-	-	17
Net gain recognised directly in equity	-	-	17	-	-	-	17
(Loss)/Profit for the period	-	-	-	-	(27,774)	1,399	(26,375)
Total recognised income and expense for the period	-	-	17	-	(27,774)	1,399	(26,358)
Acquisition of subsidiaries	-	-	-	-	-	13,650	13,650
Dividends to minority interest	-	-	-	-	-	(1,480)	(1,480)
At 31 December 2005	106,023	19,011	114	-	(17,289)	21,051	128,910

Statements of changes in equity for the year ended 31 December 2006 (continued)

Group	<i>Attributable to Shareholders of the Company</i>					
	<i>Non-distributable</i>			<i>Distributable</i>		
	Share capital RM'000	Share premium RM'000	Translation reserve RM'000	Revaluation reserve RM'000	Retained profits/ (Accumulated losses) RM'000	Total RM'000
At 31 December 2005						
- as previously reported	106,023	19,011	114	-	(17,289)	107,859
- effect of adopting FRS 3	-	-	-	-	681	681
At 1 January 2006 (restated)	106,023	19,011	114	-	(16,608)	108,540
Foreign exchange translation differences	-	-	(138)	-	-	(138)
Revaluation of property, plant and equipment	-	-	-	18	-	18
Net gains recognised directly in equity	-	-	(138)	18	-	(120)
Profit for the year	-	-	-	-	4,327	4,327
Total recognised income and expense for the year	-	-	(138)	18	4,327	4,207
Acquisition of subsidiaries	-	-	-	-	-	-
Dividends to minority interest	-	-	-	-	-	-
At 31 December 2006	106,023	19,011	(24)	18	(12,281)	112,747
						37,735
						150,482

Statements of changes in equity for the year ended 31 December 2006

(continued)

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

The notes on pages 20 to 85 are an integral part of these financial statements.

Salcon Berhad

(Company No. 593796-T)

(Incorporated in Malaysia)

and its subsidiaries**Cash flow statements for the year ended 31 December 2006**

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

Cash flow statements for the year ended 31 December 2006

(continued)

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

Cash flow statements for the year ended 31 December 2006

(continued)

Cash and cash equivalents

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

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

Acquisition of property, plant and equipment

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

The notes on pages 20 to 85 are an integral part of these financial statements.

Salcon Berhad
(Company No. 593796-T)
(Incorporated in Malaysia)
and its subsidiaries

Notes to the financial statements

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

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

The consolidated financial statements as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates, jointly controlled entities and unincorporated joint ventures. The financial statements of the Company as at and for the year ended 31 December 2006 do not include other entities.

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

1. Basis of preparation

(a) Statement of compliance

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

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

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

Standard / Interpretation	Effective date
FRS124, <i>Related Party Disclosures</i>	1 October 2006
FRS139, <i>Financial Instruments : Recognition and Measurement</i>	To be announced
Amendment to FRS119 ₂₀₀₄ , <i>Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures</i>	1 January 2007
FRS6, <i>Exploration for and Evaluation of Mineral Resources</i>	1 January 2007
Amendment to FRS121, <i>The Effects of Changes in Foreign Exchange Rates - Net Investment in Foreign Operation</i>	1 July 2007
IC Interpretation 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	1 July 2007
IC Interpretation 2, <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	1 July 2007
IC Interpretation 5, <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	1 July 2007
IC Interpretation 6, <i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>	1 July 2007
IC Interpretation 7, <i>Applying the Restatement Approach under FRS129₂₀₀₄ Financial Reporting in Hyperinflationary Economies</i>	1 July 2007
IC Interpretation 8, <i>Scope of FRS2 Share-based Payments</i>	1 July 2007

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

The Group and the Company plan to apply FRS124 and the Amendment to FRS119₂₀₀₄ initially for the annual period beginning 1 January 2007 and to apply the rest of the above-mentioned FRSS (except for FRS 6 as explained below and FRS139 which its effective date has yet to be announced) and Interpretations for the annual period beginning 1 January 2008.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

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

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

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

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

(b) Basis of measurement

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

- Investment properties

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

1. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

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

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

2. Significant accounting policies

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

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

(a) Basis of consolidation

(i) *Subsidiaries*

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

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

(ii) *Associates*

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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) *Associates (continued)*

Associates are accounted for in the consolidated financial statements using the equity method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated financial statements include the Group's share of the income and expenses of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

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

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

(iii) *Joint ventures*

Jointly-controlled entities

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

Joint ventures are accounted for in the consolidated financial statements using the equity method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated financial statements include the Group's share of the income and expenses of the equity accounted joint ventures, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

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

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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) *Joint ventures (continued)*

Jointly-controlled operation and assets

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

(iv) *Changes in Group composition*

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

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

The Group treats all other changes in group composition as equity transactions between the Group and its minority shareholders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(v) *Minority interest*

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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(v) *Minority interest (continued)*

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

(vi) *Transactions eliminated on consolidation*

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

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

(b) Foreign currency

(i) *Foreign currency transactions*

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

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

2. Significant accounting policies (continued)

(b) Foreign currency (continued)

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

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

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

(iii) Net investment in foreign operations

Exchange differences arising from monetary items that in substance form part of the Company's net investment in foreign operations, are recognised in the Company's income statement. Such exchange differences are reclassified to equity in the consolidated financial statements only when the loan is denominated in either the functional currency of the Company or the foreign operation. Deferred exchange differences are released to the income statement upon disposal of the investment.

(c) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

2. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(i) *Recognition and measurement (continued)*

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

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

Property, plant and equipment under the revaluation model

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

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

(ii) *Subsequent costs*

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

2. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated. Capital work-in-progress are not depreciated until the assets are ready for their intended use.

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

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

The depreciable amount is determined after deducting the residual value.

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

(d) Leased assets

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

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

2. Significant accounting policies (continued)

(d) Leased assets (continued)

Accounting policy note on Leasehold land / Prepaid lease payments

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided except for leasehold land classified as investment property.

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

Revalued leasehold land

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

(e) Intangible assets

(i) *Goodwill*

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

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

With the adoption of FRS 3 beginning 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

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

2. Significant accounting policies (continued)

(e) Intangible assets (continued)

(i) *Goodwill (continued)*

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

Amortised goodwill and negative goodwill

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

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

(ii) *Amortisation*

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

(iii) *Acquisition of minority interest*

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

2. Significant accounting policies (continued)

(f) Investments in equity securities

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

Subsequent to initial recognition:

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

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

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

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

- a) the recognition of an asset on the day it is received by the entity, and
- b) the derecognition on an asset and recognition of any gain or loss on disposal on the date it is delivered.

(g) Investments property

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both. These include land held for a currently undetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

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

2. Significant accounting policies (continued)

(g) Investments property (continued)

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

When an item of inventory or property development is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to the transfer and its fair value is recognised in the income statement.

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

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

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

First adoption of FRS 140, Investment Property

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

2. Significant accounting policies (continued)

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Receivables

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

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

Receivables are not held for the purpose of trading.

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

Amount due from contract customers represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Amount due from contract customers is presented as part of receivables, deposits and prepayments in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented in payables and accruals as amount due to contract customers.

(k) Cash and cash equivalents

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

2. Significant accounting policies (continued)

(I) Impairment of assets

The carrying amounts of assets except for financial assets, inventories, assets arising from construction contracts, deferred tax assets and investment property that is measured at fair value are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated. For goodwill that have indefinite useful lives, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus. Where an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement.

2. Significant accounting policies (continued)

(m) Share capital

Shares issue expenses

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

(n) Loans and borrowings

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

(o) Employee benefits

(i) Short term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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

(ii) Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. In the previous year, share options granted to employees is not recognised as an employee cost. Following the adoption of FRS 2, *Share-based Payment*, the grant date fair value of share options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The change in accounting policy is applied retrospectively only for those shares options granted after 31 December 2004 and have not vested as of 1 January 2006 as provided in the transitional provision of FRS 2.

2. Significant accounting policies (continued)

(p) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

(q) Payables

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

(r) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

2. Significant accounting policies (continued)

(r) Revenue (continued)

(ii) Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statement.

(iii) Dividend income

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

(s) Lease payment

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

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

(t) Interest income and borrowing costs

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

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

2. Significant accounting policies (continued)

(u) Tax expense

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

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

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

(v) Earnings per share

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

2. Significant accounting policies (continued)

(w) Segment reporting

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

3. Property, plant and equipment

Group Cost / Valuation	Freehold land RM'000	Freehold buildings RM'000	Long term leasehold buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Capital work-in- progress RM'000	Total RM'000
At 1 August 2004	821	12,343	3,136	6,233	5,778	3,079	140	31,530
Additions	-	2	810	1,788	986	837	2,079	6,502
Disposals	-	-	(60)	(230)	(1,085)	(93)	-	(1,468)
Transfer to investment properties	(330)	(307)	-	-	-	-	-	(637)
Acquisition of subsidiary	-	-	-	4,119	58	17	-	4,194
At 31 December 2005 / 1 January 2006	491	12,038	3,886	11,910	5,737	3,840	2,219	40,121
Additions	-	-	3,326	5,670	898	489	26,944	37,327
Disposals/write-off	-	-	(45)	(83)	(952)	(189)	-	(1,269)
Acquisition of subsidiary	-	-	31,479	25,779	220	1	71	57,550
Elimination of accumulated depreciation on revaluation	-	(1,629)	-	-	-	-	-	(1,629)
Reclassification	-	-	-	2,704	(54)	(154)	(2,496)	-
Effect of movements in exchange rates	-	-	-	-	12	6	-	18
At 31 December 2006	491	10,409	38,646	45,980	5,861	3,993	26,738	132,118

3. Property, plant and equipment (continued)

Depreciation	Freehold land RM'000	Freehold buildings RM'000	Long term leasehold buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Capital work-in-progress RM'000	Total RM'000
At 1 August 2004	-	1,142	104	785	3,045	1,720	-	6,796
Depreciation for the period	-	328	211	885	1,214	551	-	3,189
Disposals	-	-	(4)	(145)	(781)	(72)	-	(1,002)
At 31 December 2005 / 1 January 2006	-	1,470	311	1,525	3,478	2,199	-	8,983
Depreciation for the year	-	232	1,165	2,605	826	483	-	5,311
Disposals/write-off	-	-	(45)	(31)	(821)	(119)	-	(1,016)
Elimination of accumulated depreciation on revaluation	-	(1,667)	-	-	-	-	-	(1,667)
Effect of movements in exchange rates	-	-	-	-	5	10	-	15
At 31 December 2006	-	35	1,431	4,099	3,488	2,573	-	11,626
Carrying amounts								
At 1 August 2004	821	11,201	3,032	5,448	2,733	1,359	140	24,734
At 31 December 2005 / 1 January 2006	491	10,568	3,575	10,385	2,259	1,641	2,219	31,138
At 31 December 2006	491	10,374	37,215	41,881	2,373	1,420	26,738	120,492

3. Property, plant and equipment (continued)

Assets under hire purchase

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

Property, plant and equipment under the revaluation model

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

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

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

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

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

4. Goodwill

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

5. Prepaid lease payments

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

5. Prepaid lease payment (continued)

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

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

6. Investment properties

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

Included in the above are:

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

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

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

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

7. Investments in subsidiaries

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

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

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest	
			2006	2005
Salcon Engineering Berhad	Malaysia	- Design, construction, operation and maintenance of municipal potable water, sewerage and waste water facilities; - Provision of mechanical and electrical engineering services for general industries; and - Investment holding.	100%	100%
Integrated Water Services (M) Sdn. Bhd	Malaysia	Operation and maintenance of a water treatment plant.	51%	51%
Salcon Water (HK) Limited ^	Hong Kong	Investment holding company involve in water supply projects in the People's Republic of China via its subsidiary.	100%	100%
Salcon Yunnan (HK) Limited ^	Hong Kong	Investment holding company involve in water supply projects in the People's Republic of China via its subsidiary.	100%	100%

7. Investments in subsidiaries (continued)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest	
			2006	2005
Salcon Linyi (HK) Limited ^	Hong Kong	Investment holding company involve in water supply projects in the People's Republic of China via its subsidiary.	100%	100%
Salcon Zhejiang (HK) Limited ^	Hong Kong	Investment holding company involve in water supply projects in the People's Republic of China via its subsidiary.	100%	-
Salcon Water International Limited ^	Hong Kong	Dormant	100%	-
Salcon Water (Asia) Limited ^	Hong Kong	Dormant	100%	-
Salcon Technology Sdn. Bhd. (formerly known as Telcalibre Sdn. Bhd.)	Malaysia	Dormant	100%	-
<i>Subsidiaries of Salcon Engineering Berhad:</i>				
Salcon-Centrimax Engineering Sdn. Bhd.	Malaysia	Marketing, sales and servicing of equipment for water and palm oil industries	100%	100%
Precise Metal. Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Agro Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Resources Sdn. Bhd.	Malaysia	Property investment	100%	100%
Bumi Tiga Enterprise Sdn. Bhd.	Malaysia	Investment holding	100%	100%
Salcon (Sarawak) Sdn. Bhd.	Malaysia	Dormant	100%	100%

7. Investments in subsidiaries (continued)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest	
			2006	2005
Salcon Environmental Services Sdn. Bhd.	Malaysia	Operation and maintenance of water treatment plants	100%	100%
Envitech Sdn. Bhd.	Malaysia	Design, building, operation and maintenance of waste-water and sewerage treatment plants	60%	60%
Salcon Corporation Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Perak Sdn. Bhd. (formerly known as Mantap Realiti Sdn. Bhd.)	Malaysia	Dormant	60%	-
Salcon Infrastructure Sdn. Bhd.	Malaysia	Dormant	100%	-
<i>Subsidiaries of Bumi Tiga Enterprise Sdn. Bhd.:</i>				
Skeel Engineering Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Building Services Sdn. Bhd.	Malaysia	Dormant	100%	100%
Eagle Metalizing & Coatings Company Sdn. Bhd.	Malaysia	Dormant	60%	60%
<i>Subsidiary of Salcon Water (HK) Limited</i>				
Shandong Changle Salcon Water Company Limited ^	People's Republic of China	Management and operation of water production and distribution of water in Changle County, Shandong Province.	100%	100%
<i>Subsidiary of Salcon Yunnan (HK) Limited</i>				
Chenggong Salcon Water Company Limited ^	People's Republic of China	Management and operation of water production and distribution of water in Chenggong County, Kunming City, Yunnan Province.	60%	60%

7. Investments in subsidiaries (continued)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest	
			2006	2005
<i>Subsidiary of Salcon Linyi (HK) Limited</i>				
Linyi Salcon Water Company Limited ^	People's Republic of China	Management and operation of water production and distribution of water in Linyi City.	60%	60%
<i>Subsidiary of Salcon Zhejiang (HK) Limited</i>				
Haining Salcon Water Company Limited ^	People's Republic of China	Management and operation of water production and sale of water in Haining City, ZheJiang Province.	60%	-
<i>Subsidiary of Linyi Salcon Water Company Limited</i>				
Linyi Water Supply Equipment Installation Company ^	People's Republic of China	Repair and maintenance of municipal water supply pipeline, equipment, water supply equipment.	60%	-

^ Audited by other firm of accountants.

8. Investment in associates

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

Summary financial information on associates:

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

* Cross Continental Investments. CCI holds 96.47% in Palm Tech India Ltd, a company incorporated in India.

** Emas Utilities Corporation Sdn. Bhd. EUC holds 90% in Binh An Water Corporation Ltd , a company incorporated in Vietnam.

9. Investment in jointly controlled entities

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

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

Details of jointly controlled entities are as follows:

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

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

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

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

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

10. Other investments

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
		restated		restated
<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)	(157)	-	-
- Other investments	(54)	(54)	-	-
	<u>11,079</u>	<u>11,079</u>	<u>4,500</u>	<u>4,500</u>
Market value:				
Quoted shares in Malaysia	<u>18</u>	<u>18</u>	<u>-</u>	<u>-</u>

11. Deferred tax assets and liabilities

Recognised deferred tax assets/(liabilities)

Deferred tax assets are attributable to the following:

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

11. Deferred tax assets and liabilities (continued)

Recognised deferred tax assets/(liabilities) (continued)

In recognising the deferred tax assets attributable to unutilised tax loss carry-forwards the Directors made an assumption that there will not be any substantial change (more than 50%) in the shareholders before these assets are utilised. If there is substantial change in the shareholders, unutilised tax loss carry-forwards amounting to approximately RM22 million will not be available to the Group, resulting in a decrease in net deferred tax assets of RM6 million.

Unrecognised deferred tax assets

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

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

The deductible temporary differences do not expire under current tax legislation. If there is substantial change in shareholders (more than 50%), unutilised tax loss carry-forwards and unutilised capital allowance carry-forwards will not be available to the Group. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

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

11. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

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

12. Receivables, deposits and prepayments

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

12. Receivables, deposits and prepayments (continued)

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

Amount due from contract customers

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

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

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

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

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

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

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

13. Inventories

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

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

14. Cash and cash equivalents

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

15. Capital and reserves

Share capital

	Group and Company			
	Amount	Number	Amount	Number
	2006	of shares	2005	of shares
	RM'000	2006	RM'000	2005
		'000	restated	'000
Authorised:				
Ordinary shares of RM0.50 each	<u>500,000</u>	<u>1,000,000</u>	<u>500,000</u>	<u>1,000,000</u>
Issued and fully paid				
Ordinary shares of RM0.50 each				
On issue at 1 January / 1 August	106,023	212,046	96,384	192,768
Issued for cash	-	-	9,639	19,278
	<u>106,023</u>	<u>212,046</u>	<u>106,023</u>	<u>212,046</u>
	<u><u>106,023</u></u>	<u><u>212,046</u></u>	<u><u>106,023</u></u>	<u><u>212,046</u></u>

15. Capital and reserves (continued)

Share capital (continued)

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Translation reserve

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

Revaluation reserve

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

16. Borrowings

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

16. Borrowings (continued)

Term and debt repayment schedule

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

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

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

The above facilities are guaranteed by the Company.

Hire purchase creditors

Hire purchase creditors are payable as follows:

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

16. Borrowings (continued)

Terms and debt repayment schedule

Group	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
2006						
Bank overdraft		2,878	2,878	-	-	-
Bankers' acceptances	2007	2,625	2,625	-	-	-
Revolving credits	2007	250	250	-	-	-
Term loans						
- RM	2007 - 2009	72,000	17,000	10,000	45,000	-
- RMB	2007 - 2010	28,430	3,953	20,338	4,139	-
Hire purchase creditors	2007 - 2010	248	100	138	10	-
		106,431	26,806	30,476	49,149	-

2005

Bank overdraft		43	43	-	-	-
Bankers' acceptances	2006	5,279	5,279	-	-	-
Revolving credits	2006	7,880	7,880	-	-	-
Term loans						
- RM	2009	45,000	-	-	45,000	-
- RMB	2009	2,177	-	-	2,177	-
Hire purchase creditors	2007 - 2010	342	160	141	41	-
		60,721	13,362	141	47,218	-

Company 2006

Term loans						
- RM	2007 - 2009	72,000	17,000	10,000	45,000	-

2005

Term loan						
- RM	2009	45,000	-	-	45,000	-

17. Employee benefits

Equity compensation benefits

Share option plan

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

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

Grant date/employees entitled	Number of instruments '000	Vesting conditions	Contractual life of options
Option granted to Executive Directors and eligible employees on 7 January 2004*	2,507	Eligible employees are confirmed staff with at least one year service as at the date of offer including Executive Directors of any company comprised in the Group and employees under a fixed term employment contract for at least three years as at the date of offer.	5 years
Total share options		2,507	

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

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

	Group and Company	
	2006	2005
	'000	'000
Outstanding at 1 January / 1 August	3,911	5,175
Forfeited during the year/period	(1,404)	(1,264)
Outstanding at 31 December	<u>2,507</u>	<u>3,911</u>

17. Employee benefits (continued)

Terms of the options outstanding at 31 December 2006:

Expiry date	Exercise price	Number
30 October 2008	RM1.87	<u>2,507,500</u>

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

	Group and Company	
	2006	2005
	'000	'000
Number of ordinary shares		
Held at 1 January / 1 August	3,911	5,175
Held at 31 December	2,507	3,911
	Group and Company	
	2006	2005
	RM'000	RM'000
Fair value		
At 1 January / 1 August	1,604	7,090
Outstanding at 31 December	3,410	1,604

18. Payables and accruals

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

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

18. Payables and accruals (continued)

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

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

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

19. Revenue

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

20. Operating loss

	Group		Company	
	Year ended 31.12.2006	1.8.2004 to 31.12.2005	Year ended 31.12.2006	1.8.2004 to 31.12.2005
	RM'000	RM'000	RM'000	RM'000
		restated		restated
Operating loss is arrived at after charging:				
Allowance for diminution in value of investments	-	14	-	-
Allowance for doubtful debts	4,477	12,810	-	-
Amortisation of goodwill	-	1,931	-	-
Amortisation of prepaid lease payments	450	37	-	-
Auditors' remuneration				
- Holding company auditors	125	103	30	15
- Other auditors	71	106	-	-
Depreciation of property, plant and equipment	5,311	3,189	-	-

20. Operating loss (continued)

	Group		Company	
	Year ended 31.12.2006	1.8.2004 to 31.12.2005	Year ended 31.12.2006	1.8.2004 to 31.12.2005
	RM'000	RM'000 restated	RM'000	RM'000 restated
Operating loss is arrived at after charging:				
Impairment loss on investment in subsidiary	-	-	-	16,857
Interest expense on:				
- Bank overdraft	59	27	-	-
- Loans	4,230	4,800	3,669	4,707
- Other borrowings	390	235	-	-
Personnel expenses (including key management personnel):				
- Contributions to Employees Provident Fund	1,335	2,067	-	-
- Wages, salaries and others	18,556	20,015	160	142
Unrealised loss on foreign exchange	-	-	2,006	-
Property, plant and equipment written off	34	158	-	-
Rental of premises	91	145	-	-
Realised loss on foreign exchange	55	14	-	-
	=====	=====	=====	=====
and after crediting:				
Dividend income from subsidiaries (unquoted)	-	-	719	1,173
Interest income:				
- Subsidiary	-	-	674	1,712
- Others	498	544	-	48
Gain on disposal of property, plant and equipment	42	160	-	-
Unrealised gain on foreign exchange	404	-	-	-
Gain on revaluation of property, plant and equipment	19	-	-	-
Realised gain on foreign exchange	21	58	-	-
	=====	=====	=====	=====

21. Key management personnel compensation

The key management personnel compensation is as follows:

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

22. Tax expense

Recognised in the income statement

	Group		Company	
	Year ended 31.12.2006	1.8.2004 to 31.12.2005	Year ended 31.12.2006	1.8.2004 to 31.12.2005
	RM'000	RM'000 restated	RM'000	RM'000 restated
Tax expense	(4,469)	2,281	4	1
Share of tax of equity accounted associates	902	944	-	-
Total tax expense	<u>(3,567)</u>	<u>3,225</u>	<u>4</u>	<u>1</u>

Major components of tax expense include:

Current tax expense

Malaysian - current year	1,883	2,109	-	-
- prior year	(33)	424	4	1
Overseas - current year	25	34	-	-
Total current tax recognised in the income statement	<u>1,875</u>	<u>2,567</u>	<u>4</u>	<u>1</u>

22. Tax expense (continued)

Recognised in the income statement (continued)

	Group		Company	
	Year ended 31.12.2006 RM'000	1.8.2004 to 31.12.2005 RM'000 restated	Year ended 31.12.2006 RM'000	1.8.2004 to 31.12.2005 RM'000 restated
Deferred tax expense				
Origination and reversal of temporary differences	(6,344)	(286)	-	-
Total deferred tax recognised in the income statement	(6,344)	(286)	-	-
Share of tax of equity accounted associates	902	944	-	-
	902	944	-	-
Total tax expense	(3,567)	3,225	4	1
Profit/(Loss) for the year / period	5,018	(26,375)	(4,834)	(20,323)
Total tax expense	(3,567)	3,225	4	1
Profit/(Loss) excluding tax	1,451	(23,150)	(4,830)	(20,322)
Tax calculated using Malaysian tax rate of:				
- income taxable at 20%	96	217	-	-
- income taxable at 28%	273	(6,799)	(1,352)	(5,690)
Effect of tax rates in foreign jurisdiction	2	(142)	-	-
Non-deductible expenses	2,303	5,373	1,553	6,018
Tax exempt income	(201)	(1,177)	(201)	(328)
Recognition of previously unrecognised tax losses	(6,007)	-	-	-
Effect of deferred tax assets not recognised	-	4,848	-	-
Other items	-	481	-	-
	(3,534)	2,801	-	-
Under provided in prior years	(33)	424	4	1
	(3,567)	3,225	4	1

23. Earnings per ordinary share - Group

Basic earnings per share

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

Weighted average number of ordinary shares

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

	2006 sen	2005 sen
Basic earnings/(loss) per share	<u>2.04</u>	<u>(14.15)</u>

Diluted earnings per share

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

24. Dividends

Dividends recognised by the Company are:

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

25. Segment reporting

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

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

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

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

Business segments

The Group comprises the following main business segments:

- | | |
|--------------------------------------|---|
| Water Division ("WD") | - Design, construction, operation and maintenance of water treatment plants and non-revenue water works. |
| Waste Water Division ("WWD") | - Design, building, operation and maintenance of waste water and sewerage treatment plants. |
| Agro Industry Division ("AID") | - Design, construction and commission of oil palm mills, oil palm plantation development and manufacture and sale of crude palm oil and related products. |
| Building Services Division ("BSD") | - Provision of mechanical and electrical engineering services for general industries. |
| Trading and Service Division ("TSD") | - Trading and servicing of equipment for water and palm oil industries. |

Geographical segments

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

WWD segment is mainly operated in Malaysia.

AID segment is mainly operated in Malaysia, India and Indonesia.

BSD segment is mainly operated in Malaysia.

TSD segment is mainly operated in Malaysia, Papua New Guinea and Indonesia.

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

25. Segment reporting (continued)

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

25. Segment reporting (continued)

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

25. Segment reporting (continued)

2006

Geographical segments

	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	88,577	2,325	4,880	823	-	23,341	1,344	-	121,290
Segment assets	102,383	214	207	4,557	10,376	162,686	26	-	280,449
Investment in associates	-	35,197	-	-	20,243	-	-	-	55,440
Total assets	102,383	35,411	207	4,557	30,619	162,686	26	-	335,889
Capital expenditure	439	-	-	-	-	36,888	-	-	37,327

2005

Geographical segments

Revenue from external customers	135,422	1,962	3,340	15,166	-	5,809	680	-	162,379
Segment assets	120,804	482	618	10,884	10,376	53,013	81	-	196,258
Investment in associates	-	43,217	-	-	18,839	-	-	-	62,056
Total assets	120,804	43,699	618	10,884	29,215	53,013	81	-	258,314
Capital expenditure	1,495	-	-	58	-	4,949	-	-	6,502

26. Financial instruments

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

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount except for government bodies. Fixed deposits are placed only with established banks and financial institutions.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group and the Company are highly dependent on the domestic water and waste water industries.

Interest rate risk

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

26. Financial instruments (continued)

Effective interest rates and repricing analysis

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

Group	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	More than 5 years RM'000
2006								
Fixed rate instruments								
Deposits								
- RM	3.0%	203	203	-	-	-	-	-
- RMB	2.1%	14,646	14,646	-	-	-	-	-
		<u>14,849</u>	<u>14,849</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Term loan (unsecured)								
- RM	6.9%	(45,000)	-	-	(45,000)	-	-	-
Hire purchase creditors (secured)	4.7% - 5.0%	(248)	(100)	(138)	(10)	-	-	-
		<u>(45,248)</u>	<u>(100)</u>	<u>(138)</u>	<u>(45,010)</u>	<u>-</u>	<u>-</u>	<u>-</u>

26. Financial instruments (continued)

Effective interest rates and repricing analysis (continued)

Group	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	More than 5 years RM'000
2006								
Floating rate instruments								
Bank overdraft (unsecured)	8.3%	(2,878)	(2,878)	-	-	-	-	-
Bankers' acceptance (unsecured)	4.7%	(2,625)	(2,625)	-	-	-	-	-
Revolving credits (unsecured)	5.5%	(250)	(250)	-	-	-	-	-
Term loans (unsecured)								
- RM	5.4%	(27,000)	(17,000)	(10,000)	-	-	-	-
- RMB	4.2%	(28,430)	(3,953)	(20,338)	(4,139)	-	-	-
		<u>(61,183)</u>	<u>(26,706)</u>	<u>(30,338)</u>	<u>(4,139)</u>	<u>-</u>	<u>-</u>	<u>-</u>

26. Financial instruments (continued)

Group	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	More than 5 years RM'000
2005								
Fixed rate instruments								
Deposits								
- RM	3.0%	3,675	3,675	-	-	-	-	-
- RMB	3.0%	8,837	8,837	-	-	-	-	-
		<u>12,512</u>	<u>12,512</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Term loan (unsecured)								
- RM	6.9%	(45,000)	-	-	-	(45,000)	-	-
Hire purchase creditors (secured)	4.4% - 6.5%	(342)	(160)	(141)	(41)	-	-	-
		<u>(45,342)</u>	<u>(160)</u>	<u>(141)</u>	<u>(41)</u>	<u>(45,000)</u>	<u>-</u>	<u>-</u>

26. Financial instruments (continued)

Effective interest rates and repricing analysis (continued)

Group	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	More than 5 years RM'000
2005								
Floating rate instruments								
Bank overdraft (unsecured)	7.6%	(43)	(43)	-	-	-	-	-
Bankers' acceptance (unsecured)	4.0%	(5,279)	(5,279)	-	-	-	-	-
Revolving credits (unsecured)	5.0%	(7,880)	(7,880)	-	-	-	-	-
Term loan (unsecured)								
- RMB	6.0%	(2,177)	-	-	-	(2,177)	-	-
		<u>(15,379)</u>	<u>(13,202)</u>	<u>-</u>	<u>-</u>	<u>(2,177)</u>	<u>-</u>	<u>-</u>
		<u><u>(15,379)</u></u>	<u><u>(13,202)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>(2,177)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

26. Financial instruments (continued)

Effective interest rates and repricing analysis (continued)

Company	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	More than 5 years RM'000
2006								
Fixed rate instruments								
Term loan (unsecured)								
- RM	6.9%	(45,000)	-	-	(45,000)	-	-	-
Floating rate instruments								
Term loan (unsecured)								
- RM	5.4%	(27,000)	(17,000)	(10,000)	-	-	-	-
2005								
Fixed rate instruments								
Term loan (unsecured)								
- RM	6.9%	(45,000)	-	-	-	(45,000)	-	-

26. Financial instruments (continued)

Currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily Renminbi.

Liquidity risk

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

Fair values

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

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

It was not practicable to estimate the fair value of the Group's investment in unquoted shares due to the lack of comparable quoted market prices and inability to estimate fair value without incurring excessive costs.

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

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

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

26. Financial instruments (continued)

Estimation of fair values

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

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

27. Contingencies (unsecured)

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

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

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

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

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

28. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

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

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation is disclosed in Note 21.

Other related party transactions

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

29. Acquisition of subsidiaries

Business combination

- (i) The Company had on 20 April 2006, incorporated two wholly-owned subsidiaries, Salcon Water International Limited and Salcon Water (Asia) Limited, both companies were incorporated in Hong Kong with a paid-up capital of HK\$1 divided into 1 share of HK\$1 each. These changes had no material impact on the earnings and net assets of the Group during the financial year.
- (ii) The Company had on 12 June 2006, incorporated a wholly-owned subsidiary, Salcon Zhejiang (HK) Limited, a company incorporated in Hong Kong with a paid-up capital of HK\$1 divided into 1 share of HK\$1 each. This change had no material impact on the earnings and net assets of the Group during the financial year.
- (iii) Salcon Engineering Berhad (“SEB”), a wholly-owned subsidiary of the Company had on 26 September 2006 acquired 100% of the issued and paid-up share capital of Salcon (Perak) Sdn. Bhd. (formerly known as Mantap Realiti Sdn. Bhd.) comprising 2 ordinary shares of RM1 each for a nominal consideration of RM2. The acquisition had no material impact on the earnings and net assets of the Group during the financial year. On 31 October 2006, SEB acquired additional 4 ordinary shares of RM1 each for a nominal consideration of RM4 from the creation of an additional 8 ordinary shares of RM1. Upon the additional acquisitions of 4 ordinary shares, the effective interest in Salcon (Perak) Sdn. Bhd is 60%.
- (iv) SEB had on 20 November 2006 acquired 100% of the issued and paid-up share capital of Salcon Infrastructure Sdn. Bhd. comprising 2 ordinary shares of RM1 each for a nominal consideration of RM2. The acquisition had no material impact on the earnings and net assets of the Group during the financial year.
- (v) The Company had on 28 November 2006 acquired 100% of the issued and paid-up share capital of Salcon Technology Sdn. Bhd. (formerly known as Telcalibre Sdn. Bhd.) comprising 2 ordinary shares of RM1 each for a nominal consideration of RM2. The acquisition had no material impact on the earnings and net assets of the Group during the financial year.
- (vi) Salcon Zhejiang (HK) Limited (“Salcon Zhejiang”), a wholly-owned subsidiary of the Company had on 31 August 2006 entered into a Joint Venture Agreement (“JV”) with Haining City Water Investment Ltd. Group to set up the joint venture company, Haining Salcon Water Company Limited (“Haining Salcon”) on a 60:40 basis. Pursuant to the JV, Salcon Zhejiang had subscribed for 60% of the initial registered capital in Haining Salcon for a cash consideration of USD6.75 million, equivalent to RM25 million. Accordingly, Haining Salcon became a subsidiary company of the Group.

29. Acquisition of subsidiaries (continued)

The acquisition of Haining Salcon and finalisation of assets injection in Linyi Salcon had the following effect on the Group's assets and liabilities on acquisition date:

Group	Note	Recognised values on acquisition RM'000
Property, plant and equipment	3	57,550
Prepaid lease payments	5	14,888
Inventories		407
Receivables, deposits and prepayments		(10,727)
Cash and cash equivalents		29,080
Payables and accruals		(32,680)
Borrowings		(16,745)
Minority interest		(16,668)
Net identifiable assets and liabilities		25,105
Goodwill on acquisition	4	4,097
Cash acquired		29,202
		(29,080)
Net cash outflow		122

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

30. Subsequent events

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

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

- (a) proposed Rights Issue with Warrants;
- (b) issuance of new ordinary shares in the Company upon exercise of Warrants; and
- (c) listing of and quotation for the Rights Shares, Warrants and new ordinary shares in the Company upon exercise of such Warrants on the Main Board of Bursa Malaysia Securities Berhad.

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

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

31. Changes in accounting policies

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

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

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

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

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

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

	Group 2006 RM'000
Income statement for the year ended 31 December	
Goodwill amortisation which would be charged to the income statement	1,536
	=====
	Group 2006
Earnings per share	
Decrease in basic earnings per share	(0.72)
	=====

32. Comparative figures

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

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

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

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

PROFORMA CONSOLIDATED BALANCE SHEETS OF THE SALCON GROUP AS AT 31 DECEMBER 2006 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON

(Prepared for inclusion in this Abridged Prospectus)



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Chartered Accountants
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Internet www.kpmg.com.my

The Board of Directors
Salcon Berhad
15th Floor, Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan

18 April 2007

Dear Sirs

Salcon Berhad

**Reporting accountants' letter on the proforma consolidated balance sheets
as at 31 December 2006**

We have reviewed the presentation of the proforma consolidated balance sheets of Salcon Berhad and its subsidiary companies ("Salcon Group") as at 31 December 2006 which have been prepared for illustrative purposes only, for which the Directors are solely responsible, as set out in the attachment, for submission to the Securities Commission ("SC") in connection with the rights issue with detachable warrants on the basis of two (2) rights shares with one (1) warrant for every two (2) existing ordinary shares of RM0.50 each and should not be relied on for any other purposes.

Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the proforma consolidated balance sheets to the audited financial statements of Salcon and its subsidiaries as at 31 December 2006 and considering the evidence supporting the adjustments, and discussing the proforma consolidated balance sheets with the Directors of Salcon.

In our opinion,

- i) the proforma consolidated balance sheets have been properly prepared from the audited financial statements of Salcon and its subsidiaries which were prepared in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board;
- ii) such basis is consistent with the accounting policies adopted by Salcon Group;
- iii) each material adjustment made to the information used in the preparation of the proforma consolidated balance sheets is appropriate for the purposes of preparing the proforma consolidated balance sheets; and



iv) the proforma consolidated balance sheets have been properly prepared on the basis of assumptions stated in the attachment.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Hew Lee Lam Sang'.

KPMG
Firm No. AF 0758
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Hew Lee Lam Sang'.

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



**SALCON BERHAD (“Salcon”)
AND ITS SUBSIDIARIES (“Salcon Group”)**

**NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1. Basis of preparation of proforma consolidated balance sheets

- 1.1 The proforma consolidated balance sheets have been prepared based on the audited consolidated financial statements of Salcon Group for the financial year ended 31 December 2006 and using the bases and the accounting principles consistent with those adopted in the audited consolidated balance sheets, after giving effect to the proforma adjustments considered appropriate.
- 1.2 The proforma consolidated balance sheets have been prepared for illustrative purposes only and, because of their nature, may not give a true picture of the actual financial position, results of operations and cash flows of the Salcon Group.
- 1.3 The statutory audited financial statements of Salcon Group for the financial year ended 31 December 2006 were prepared in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board.
- 1.4 Proforma I – Rights issue with warrants

Proforma I incorporates the effects of the following transactions:

The rights issue with warrants involves the issuance of up to 212,045,402 rights shares together with up to 106,022,701 free detachable warrants at an issue price of RM0.57 per rights share on a renounceable basis of two (2) rights shares with one (1) free detachable warrant for every two (2) existing Ordinary Shares of Salcon.

The rights issue with warrants is expected to raise gross proceeds of RM120,865,879 based on the issue price of RM0.57 per rights share and it is utilised as follows:

	RM'000
Repayment of bank borrowings	19,000
Working capital for sewage system project	55,000
General working capital for the Salcon Group	44,866
Estimated expenses relating to the rights issue with warrants	2,000
	<u>120,866</u>

1.5 Proforma II – Full exercise of warrants

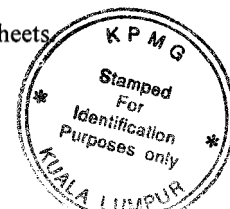
Proforma II incorporates the effects Proforma I and the following transactions:

The 106,022,701 warrants to be issued in conjunction with the rights issue with warrants to the entitled shareholders of Salcon at RM0.75 per Salcon share for a total cash proceeds of RM79,517,025.

SALCON BERHAD
PROFORMA CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2006

	Audited as at 31 December 2006 RM'000	Proforma I RM'000	II RM'000
Assets			
Property, plant and equipment	120,492	120,492	120,492
Goodwill	11,239	11,239	11,239
Prepaid lease payments	15,423	15,423	15,423
Investment property	2,318	2,318	2,318
Investments in associates	55,440	55,440	55,440
Other investments	11,079	11,079	11,079
Deferred tax assets	6,421	6,421	6,421
Total non-current assets	222,412	222,412	222,412
Prepaid lease payments	527	527	527
Receivables, deposits and prepayments	87,208	87,208	87,208
Inventories	1,457	1,457	1,457
Current tax assets	2,089	2,089	2,089
Cash and cash equivalents	22,196	122,061	201,579
Total current assets	113,477	213,342	292,860
Total assets	335,889	435,754	515,272
Equity			
Share capital	106,023	212,045	265,057
Reserves	19,005	31,848	58,354
Accumulated losses	(12,281)	(12,281)	(12,281)
Total equity attributable to shareholders of the Company	112,747	231,612	311,130
Minority interest	37,735	37,735	37,735
Total equity	150,482	269,347	348,865
Liabilities			
Loans and borrowings	79,625	79,625	79,625
Total non-current liabilities	79,625	79,625	79,625
Payables and accruals	78,311	78,311	78,311
Loans and borrowings	26,806	7,806	7,806
Taxation	461	461	461
Dividend payable	204	204	204
Total current liabilities	105,782	86,782	86,782
Total liabilities	185,407	166,407	166,407
Total equity and liabilities	335,889	435,754	515,272
Net Tangible Assets ("NTA")	78,890	197,755	277,273
NTA per share (sen)	37.20	46.63	52.30

The accompanying notes form an integral part of the Proforma Consolidated Balance Sheets.



SALCON BERHAD**NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS**

The Proforma Consolidated Balance Sheets of the Group which have been prepared for illustrative purposes only are based on the audited financial statements of the Group as at 31 December 2006.

1. Proforma I – Rights issue with warrants

Proforma I incorporates the effects of the following transactions:

The rights issue with warrants involves the issuance of up to 212,045,402 rights shares together with up to 106,022,701 free detachable warrants at an issue price of RM0.57 per rights share on a renounceable basis of two (2) rights shares with one (1) free detachable warrant for every two (2) existing Ordinary Shares of Salcon.

The rights issue with warrants is expected to raise gross proceeds of RM120,865,879 based on the issue price of RM0.57 per rights share and it is utilised as follows:

	RM'000
Repayment of bank borrowings	19,000
Working capital for sewage system project	55,000
General working capital for the Salcon Group	44,866
Estimated expenses relating to the rights issue with warrants	2,000
	<u>120,866</u>

2. Proforma II – Full exercise of warrants

Proforma II incorporates the effects Proforma I and the following transactions:

The 106,022,701 warrants to be issued in conjunction with the rights issue with warrants to the entitled shareholders of Salcon at RM0.75 per Salcon share for a total cash proceeds of RM79,517,025.

3. The Proforma Consolidated Balance Sheets of the Group have been prepared based on the accounting principles and bases consistent with those normally adopted by the Group in the preparation of the consolidated financial statements for the financial year ended 31 December 2006.



DIRECTORS' REPORT

(Prepared for inclusion in this Abridged Prospectus)



Salcon Berhad (593796-T)

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Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan

18 April 2007

To: The Shareholders of Salcon Berhad

Dear Sir/Madam,

On behalf of the Board of Directors of Salcon Berhad ("Salcon" or the "Company"), I report after due inquiry that during the period from 31 December 2006 (being the date to which the last audited financial statements of the Company and its subsidiary companies have been made up) to the date hereof, being a date not earlier than fourteen (14) days before the issue of this Abridged Prospectus, that:-

- (a) the business of the Company and its subsidiaries, in the opinion of the Directors, has been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Company and its subsidiaries which have adversely affected the trading or the value of the assets of the Company or any of its subsidiaries;
- (c) the current assets of the Company and its subsidiaries that appear in the books at values are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in Section 10.3 of this Abridged Prospectus no contingent liabilities have risen by reason of any guarantees or indemnities given by the Company or any of its subsidiaries;
- (e) there has been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which the Directors are aware of, since the last audited financial statements of the Company and its subsidiaries; and
- (f) there have been no material changes in the published reserves or any unusual factors affecting the profits of the Company and its subsidiaries since the last audited financial statements of the Company and its subsidiaries.

Yours faithfully,

For and on behalf of the Board of Directors

SALCON BERHAD

Jagjit Singh a/l Tara Singh
Executive Director

TERMS AND CONDITIONS OF THE WARRANTS
(As extracted from the Deed Poll dated 12 April 2007)

The Warrants to be issued have been constituted by a Deed Poll executed by the Company. An extract of the Deed Poll which sets forth the terms and conditions of the Warrants is set out below. Unless the context otherwise requires, all definitions herein shall have the same meaning described to the in the Deed Poll. You should note that the words, terms and expressions contained in the extract below may differ from the meaning and context in which they are used in other sections of this Abridged Prospectus. You are advised to read the entire Deed Poll, a copy of which is available for inspection during the normal working hours from Monday to Friday (except public holidays) at our registered office.

1. DEFINITIONS

- (a) Terms not specifically defined herein shall, unless the context otherwise requires, have the same meanings as defined in the Deed Poll when used in these Conditions.
- (b) A reference to the singular includes the plural and vice versa and a gender includes the other gender.
- (c) The headings in these Conditions are inserted for convenience of reference and will not affect the construction of the same.
- (d) A reference to a statute includes regulations under it and consolidations, amendments, re-enactments or replacements of any of them.
- (e) In giving any certificate or making any adjustment, the Auditors and the Approved Adviser are deemed to be acting as experts and not as arbitrators and, in the absence of manifest error, their decision is conclusive and binding on the Company and all Warrant Holders.

2. EXERCISE OF EXERCISE RIGHTS

2.1 Exercise Rights

Upon and subject to the Conditions, the Warrant Holders will have the right to exercise the Exercise Rights at any time during the Exercise Period upon payment of the Exercise Price in cash to subscribe for the whole or part of the New Share in respect of the Exercise Rights represented by the Warrants being exercised. Any Exercise Rights, which have not then been exercised, upon the expiry of the Exercise Period, will lapse and become null and void.

2.2 Exercise Form and Payment of Exercise Money

The Exercise Form must be in such form as provided by the Company and presently in the form set out in the Second Schedule (Part II) of the Deed Poll. In order to exercise the Exercise Rights represented by any Warrant, a Warrant Holder, must complete and sign the Exercise Form (which will be made available by the Company in the manner as may be stipulated by Bursa Securities) and deliver the Exercise Form to the Registrar together with a remittance in Ringgit Malaysia by banker's draft or cashier's order drawn on a bank operating in Malaysia or money order or postal order made in favour of "Salcon Warrants Account" crossed "A/C Payee Only" for the full amount of the Exercise Money payable in respect of the Warrants, Provided Always that in every case:

- (a) compliance must also be made with the exchange control of Bank Negara Malaysia or other statutory requirement for the time being applicable;

- (b) additional payment for all fees, stamp duty and taxes payable under the *Stamp Act*, 1949 (if any) for the issue of the New Shares, unless the Company is obliged to make such payment under the Deed Poll or otherwise required by Bursa Securities, is to be remitted to the Registrar by way of banker's draft or cashier's order drawn on a bank operating in Malaysia or by way of money order or postal order issued by a post office in Malaysia;
- (c) the Warrants are or have been, at the date of delivery of the Exercise Form to the Registrar, designated as "free securities" in accordance with the provisions of the Rules;
- (d) such other evidence (if any) as the Registrar may require to determine the due execution of the Exercise Form by or on behalf of the Warrant Holder, is furnished; and
- (e) the Registrar must within seven (7) days from the date of allotment of the New Shares pursuant to the exercise of the Warrants deposit the same into the account maintained by the Company.

If any Conditions relating to the exercise of any Warrants have not been complied with under any Conditions, then all monies paid and all documents delivered to the Registrar will be returned to the exercising Warrant Holder by registered post at the risk of the Warrant Holder by the seventh (7th) day following the date of the notice as referred to in Clause 3.1 of the First Schedule (or, if earlier, the last day of the Exercise Period).

2.3 Allotment and Issuance of New Ordinary Shares

- 2.3.1 Within eight (8) Market Days of the Exercise Date, the Company will or cause and procure the Registrar:
 - (a) to issue and allot the New Shares to the relevant Warrant Holders;
 - (b) to despatch the notices of allotment to the relevant Warrant Holders by way of ordinary post at their own risk; and
 - (c) to notify Bursa Depository of the names of the exercising Warrant Holders together with such particulars as may be required by Bursa Depository for the purpose of making appropriate entries in the Securities Account of the respective Warrant Holder, and must deliver to Bursa Depository the appropriate scrips (in such denominations as may be specified by Bursa Depository) registered in the name of Bursa Depository or its nominee company. No share certificates will be issued to the Warrant Holders.
- 2.3.2 New Shares to be issued by the Company upon exercise of the Exercise Rights attached to the Warrants will rank *pari passu* in all respects with the existing Shares save and except that the New Shares shall not be entitled to any dividends that may be declared prior to the date of exercise of the Exercise Rights nor shall the New Shares be entitled to any distribution or entitlements for which the Book Closure Date falls before the date of exercise of the Exercise Rights.
- 2.3.3 In respect of each Warrant in which Exercise Rights have been exercised, the Company is to instruct and/or cause and procure the Registrar to instruct, in accordance with the provisions of the Rules, Bursa Depository to debit the appropriate number of Warrants in which Exercise Rights have been exercised from the Securities Account of such Warrant Holder.
- 2.3.4 The Company will use all reasonable endeavours to obtain approval for quotation and permission to deal from Bursa Securities for all the New Shares arising from the exercise of the Exercise Rights represented by any Warrant.

3. ADJUSTMENT OF EXERCISE PRICE AND EXERCISE RIGHTS

The Exercise Price of the Shares to which a Warrant Holder is entitled to subscribe will from time to time be adjusted by the Directors in consultation with the Approved Adviser or certified by the Auditors in accordance with the provisions as contained in the Memorandum, which is deemed to form part of these Conditions.

4. RESTRICTIONS TO PROTECT EXERCISE RIGHTS

4.1 As from the date of issue of the Warrants and, as long as any of the Exercise Rights remain exercisable:

4.1.1 the Company must not, unless it gives rise to an adjustment as provided in the Memorandum, make any distribution out of its capital;

4.1.2 the Company must keep available free from pre-emptive or other rights parts of its authorised but unissued share capital to satisfy in full all Exercise Rights for the time being outstanding;

4.1.3 the Company will not, if and so long as the share capital of the Company is divided into Shares of more than one class, in any way modify the rights attached to the Shares as a class or attach any special restrictions to the same save as provided in the Conditions and in this Deed Poll; and

4.1.4 the Company must not create or permit to issue any Shares which, as regards to dividends, voting or capital, has rights more favourable than those attached to the New Shares. However, nothing in this paragraph 3.1.4 will prevent the issue of shares to officers, including directors, if applicable, or employees of the Company or of any of its subsidiaries pursuant to purchase or option schemes approved by the Shareholders in general meetings.

5. WINDING UP, COMPROMISE OR ARRANGEMENT AND AMALGAMATION

5.1 Winding Up, Compromise or Arrangement

5.1.1 As long as any of the Exercise Rights remain exercisable, if a resolution has been passed for a members' voluntary winding up or where there is a compromise or arrangement for the purpose of or in connection with a scheme of arrangement between the Company and its shareholders and/or creditors then :-

- (i) if such winding up or scheme of arrangement is one in which the Warrant Holders, or some person designated by them for such purpose by Special Resolution, are to be a party, the terms of such winding up or scheme of arrangement are binding on all the Warrant Holders;

- (ii) in a voluntary winding up or compromise or arrangement in any other case, every Warrant Holder is entitled upon and subject to the Conditions at any time, within six (6) weeks after the passing of such resolution for a members voluntary winding-up of the Company or within six (6) weeks from the last approval being granted for the compromise or arrangement, by irrevocable surrender of his Warrants to the Company by submitting the Exercise Form(s) duly completed, authorising the debiting of his Warrants, together with payment of the relevant Exercise Price to elect, be treated as if he had immediately prior to the commencement of such winding-up, compromise or arrangement, exercised the Exercise Rights represented by such Warrants to the extent specified in the Exercise Form(s) and had on such date been the holder of the Shares to which he would have become entitled pursuant to such exercise and the liquidator of the Company or the Company, as the case may be, must give effect to such election accordingly and all Exercise Rights, which have not been exercised within the above six (6) weeks, will lapse and the Warrants will cease to be valid for any purpose.

5.2 Amalgamation

5.2.1 In the event of any consolidation, amalgamation or merger of the Company with any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation or a consolidation, amalgamation or merger pursuant to Condition 4.1.1(i) above) or in the event of any sale or transfer of all or substantially all of the assets of the Company, the Company:

- (i) must notify the Warrant Holders within fourteen (14) days of such event in accordance with Condition 9 below;
- (ii) cause the corporation resulting from or surviving such consolidation, amalgamation or merger or the corporation which have acquired such assets, as the case may be, to execute such instruments or other documents or assurances as may be necessary to legally ensure that the remaining Warrant Holders will have the right (during the Exercise Period) to exercise such Warrant then remaining unexercised and to be issued such class and amount of shares and other securities and property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of New Shares which would have become liable to be issued upon exercise of such Warrant immediately prior to such consolidation, amalgamation, merger or sale, failing which such fair compensation as certified by an Approved Adviser or an Auditor,

and the above provisions will apply in the same way to any subsequent consolidations, amalgamations, mergers, sales or transfers.

5.2.2 If it is a party to any transaction referred to in Condition 4.2.1 above in which the Company is not the continuing corporation, the Company shall use its best endeavours to obtain all consents which may be necessary or appropriate under the laws of Malaysia to enable the new corporation to give effect to all rights and obligation created under the Warrants.

6. FURTHER ISSUES/GENERAL OFFER

6.1 Subject to the Conditions, the Company is at liberty to issue Shares to Shareholders either for cash or as a bonus distribution and further Exercise Rights upon such terms and conditions as the Company deems fit but the Warrant Holders will not have any participating rights in such issue unless otherwise resolved by the Company in a general meeting.

- 6.2 If any general offer for the Shares of the Company is made under the Malaysian Code on Take-over and Mergers, 1998 to the shareholders of the Company before the expiry of the Exercise Period, the Company is at liberty (but is not obliged) to procure a like offer to be made to the Warrant Holders as if their rights to subscribe for Shares had been exercised the day immediately preceding the Book Closure Date of such offer or invitation on the basis then applicable.

7. MEETINGS OF WARRANT HOLDERS, MODIFICATIONS AND WAIVER

- 7.1 Warrant Holders holding not less than ten percent (10%) of the Exercise Rights for the time being outstanding may (with the consent of the Company) request for a meeting of Warrant Holders to be held to consider any matter affecting their interests. The Company must by written request made in duplicate in the prescribed form and in accordance with the Rules inform Bursa Depository of the date of the meeting and request Bursa Depository to prepare the Record of Depositors to whom notices of the meeting are to be given by the Company. Such Record of Depositors will be the final record of all Depositors who are deemed to be the Warrant Holders, eligible to be present and vote at such meetings.
- 7.2 In addition to but not in derogation of clause 2 of the Deed Poll, all or any of the rights for the time being attached to the Warrants (other than the Exercise Price or number of Warrants or the formulae for the adjustment of the Exercise Price or number of Warrants or other than as specifically provided in the Memorandum) may be altered or abrogated by the Company from time to time (whether or not the Company is being wound up) and the sanction of a Special Resolution passed at a meeting of the Warrant Holders is sufficient to effect such alteration or abrogation. Any such modification is however subject to the approval of the relevant authorities where applicable.
- 7.3 All the provisions of the Articles of Association for the time being of the Company as to general meetings of the Company will apply to any Warrant Holders' meeting, as if the Warrants were a class of shares forming part of the capital of the Company save that:-
- 7.3.1 such a meeting may only be convened by or with the consent of the Company;
- 7.3.2 not less than fourteen (14) days' notice of such meeting must be given;
- 7.3.3 a quorum for any such meeting must be at least two (2) Warrant Holders present in person or by proxy and holding or representing at least ten per centum (10%) of the Warrants remaining unexercised;
- 7.3.4 every Warrant Holder present in person or by proxy at any such meeting or adjourned meeting is entitled on a show of hands to one (1) vote and every Warrant Holder present in person or by proxy at any meeting is entitled on a poll to one (1) vote for each Warrant;
- 7.3.5 a poll can be demanded by the chairman of the meeting or by one (1) or more Warrant Holders present in person or by proxy and holding or representing at least ten per centum (10%) of the Warrants remaining unexercised or by the Company;
- 7.3.6 if such meeting is adjourned for want of a quorum, such adjournment is to such date and time not being less than ten (10) or more than twenty-eight (28) days thereafter, and to such place as may be appointed by the chairman of the meeting. At any adjourned meeting, those Warrant Holders who are then present in person or by proxy will form a quorum and at least seven (7) days' notice of any adjourned meeting is to be given in the same manner as for an original meeting and such notice must state those Warrant Holders who are then present at the adjourned meeting in person or by proxy will form a quorum;
- 7.3.7 a person nominated in writing by the Company (who need not be a Warrant Holder) will preside as chairman at every such meeting and, if no such person is nominated or if at any meeting no person nominated is present within fifteen (15) minutes after the time appointed for holding the meeting, the Warrant Holders present are to appoint any one of the Warrant Holders present to be chairman;

- 7.3.8 in case of equality of votes, the chairman will both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a Warrant Holder or as a proxy;
- 7.3.9 the Company (through its representatives) and its financial and legal advisers are entitled to attend and speak at any meeting of the Warrant Holders;
- 7.3.10 the instrument appointing a proxy is the usual or common form, or such other form as the Company and Bursa Securities may approve, and is to be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under the common seal or under the hand of an officer or attorney duly authorised and such instrument is deemed to confer authority to demand or join in demanding a poll. The proxies named in any instrument of proxy need not be a Warrant Holder;
- 7.3.11 the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notorially certified copy of such power or authority must be deposited at the registered office of the Company, or at such other place (if any) specified by the Company not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting, at which the person named in the instrument proposes to vote and in default, the instrument of proxy is not to be treated as valid unless the chairman of the meeting decides otherwise before such meeting or adjourned meeting proceeds to business; and
- 7.3.12 any resolutions passed at a meeting of the Warrant Holders duly convened and held in accordance with the Deed Poll are binding upon all the Warrant Holders whether present or not present at the meeting. The passing of any such resolution will be conclusive evidence that the circumstances justify the passing of the same, the intention being that it will rest with the meeting to determine without appeal whether or not the circumstances justify the passing of such resolution. Minutes of all resolutions and proceedings at every meeting are to be made and duly entered in books to be from time to time provided for that purpose by the Company and any such minutes if purporting to be signed by the chairman of the meeting at which such resolutions were passed or by the chairman of the next succeeding meeting of the Warrant Holders are deemed to be conclusive evidence until the contrary is proved, every such meeting in respect of the proceedings of which minutes have been made and signed as aforesaid will be deemed to have been duly convened and held and all resolutions passed or proceedings transacted thereat to have been duly passed or transacted.

8. REGISTER, TRANSFERS AND TRANSMISSION

- 8.1 For the purposes of trading on Bursa Securities and subject to such conditions which Bursa Securities may impose from time to time, a board lot for the Warrants will be One Hundred (100) Warrants carrying the right to subscribe for One Hundred (100) New Shares.
- 8.2 Subject to the provisions of the Central Depositories Act and the Rules, no person is to be recognised by the Company as having title to a Warrant entitling the Warrant Holder to subscribe for a fractional part of a New Share or otherwise than as the sole holder of the entirety of such New Share.
- 8.3 The Company will or cause and procure the Registrar to keep and maintain a register of the details of the issue of the Warrants (as required pursuant to section 68A of the Act). In the event of any discrepancy whatsoever, the entries in the Record of Depositors will, unless otherwise determined, be deemed conclusive.
- 8.4 Each Warrant Holder will be deemed to remain the registered holder of the Warrant registered in his name until the name of the transferee is entered in the Record of Depositors. The Company will not be bound to take notice of any trust whether express, implied or constructive to which any Warrants may be subject, notwithstanding any such notice, whether express or otherwise of the right, title, interest or claim of any other person to or in such Warrants.

- 8.5 Any transfer of the Warrants is to be effected in the manner prescribed under the Central Depositories Act and the Rules.
- 8.6 Subject to the provisions of Central Depositories Act and the Rules, unless otherwise provided in this Deed Poll, the provisions of the Company's Articles of Association for the time being relating to the registration, transfer and transmission will apply to the registration, transfer and transmission of Warrants.

9. STAMP DUTY OR FEES

Any stamp duties or fees (subject to such maximum sum as may be imposed from time to time by the authorities) or charges, if any, in relation to the exercise of the Exercise Rights and/or the New Shares will be for the account of the relevant Warrant Holders.

10. NOTICES

Any notice may be given to any Warrant Holder personally or by sending the same by post in a prepaid letter addressed to such Warrant Holder at his registered address stated in the Record of Depositors or by advertisement of such notice in one (1) daily English language newspaper circulated in Malaysia.

11. ANNUAL REPORTS AND ACCOUNTS

The Company will, upon request in writing, send to each Warrant Holder a copy of the Company's most recent annual report and accounts together with all documents required by law to be annexed to the same.

12. GOVERNING LAW AND JURISDICTION

The Warrants and the Conditions are governed by and will be construed in accordance with, the laws of Malaysia. The Company and the Warrant Holders irrevocably and unconditionally submit to the non-exclusive jurisdiction of the courts of Malaysia and waive any right to object to proceedings being brought in such courts.

13. EXPIRY

- 13.1 The Company shall send to each of the Warrant Holders a notice of expiry at least thirty (30) days prior to the Expiry Date and such notice is also to be advertised in one (1) English language daily newspaper circulating in Malaysia.
- 13.2 At the expiry of the Exercise Period, any Warrants which have not been exercised will lapse and cease to be valid and the Company is to, in accordance with the Rules, instruct Bursa Depository to debit the appropriate number of Warrants from the Securities Account of the relevant Warrant Holders. Such debiting is to be effected on the expiry of the Exercise Period. The Company will be entitled, at any time on or after the expiry of the Exercise Period, to demand that Bursa Depository deliver to the Company the certificate for the Warrants and thereafter to cancel or cause the cancellation of such certificate.

Notes:

The attention of the Warrant Holders is drawn to Part IV, Division 2 of the Securities Commission Act, 1993 and Part II of the Malaysian Code on Take-over and Mergers, 1998 as amended or replaced from time to time.

PROVISIONS FOR ADJUSTMENT OF EXERCISE PRICE AND EXERCISE RIGHTS

1. DEFINITIONS

Unless the context otherwise requires all words and expressions defined in the Deed Poll and the Conditions will have the same meanings when used in this Memorandum.

2. ADJUSTMENT

The Exercise Price and the number of Warrants in issue will from time to time be adjusted, calculated or determined by the directors of the Company in consultation with the Approved Adviser in accordance with the following provisions: -

- (i) If and wherever a Share by reason of any consolidation or subdivision or conversion will have a different par value, the Exercise Price will be adjusted by multiplying it by the revised par value and dividing the result by the former par value and the number of Warrants will be adjusted by multiplying the existing number of Warrants held by the former par value and dividing the result by the revised par value. Each such adjustment will be effective from the close of business on the Market Day or such period as may be prescribed by Bursa Securities, immediately preceding the date on which the consolidation or subdivision or conversion becomes effective (being the date when the Shares are traded on Bursa Securities at the new par value).
- (ii) If and whenever the Company will make any issue of Shares to Shareholders credited as fully paid by way of capitalisation of profits or reserves (including any share premium account and capital redemption reserve fund), the Exercise Price must be adjusted by multiplying it by the following fraction:-

$$\frac{A}{A + B}$$

and the number of Warrants must be adjusted by multiplying the existing number of Warrants held by the following fraction:-

$$\frac{A + B}{A}$$

where:-

- A = the aggregate number of issued and fully paid-up Shares immediately before such capitalisation issue; and
- B = the aggregate number of Shares to be issued pursuant to any allotment to Shareholders credited as fully paid by way of capitalisation of profits or reserves (including any share premium account and capital redemption reserve fund).

Each such adjustment will be effective on the (if appropriate, retroactively) day next following the Book Closure Date for such issue.

- (iii) (a) If and whenever the Company may make a Capital Distribution (as defined below) to Shareholders whether on a reduction of capital or otherwise (save and except any capital reduction involving the cancellation of capital which is lost or unrepresented by available assets); or
- (b) If and whenever the Company makes any offer or invitation to Shareholders where they may acquire or subscribe for Shares by way of rights; or
- (c) If and whenever the Company makes any offer or invitation to Shareholders by way of rights where they may acquire or subscribe for securities convertible into Shares or rights to acquire or subscribe for Shares,

then and in respect of each such case, the Exercise Price must be adjusted by multiplying it by the following fraction:-

$$\frac{C - D}{C}$$

and in respect of the case referred to in sub-paragraph 2(iii)(b) above, the number of Warrants will be adjusted by multiplying the existing number of Warrants held by the following fraction:

$$\frac{C}{C - D^*}$$

where:-

C = the market price of each Share as may be determined in accordance with any guideline or rule issued by the Securities Commission from time to time, if any, or if there is none, the Current Market Price of each Share on the Market Day immediately preceding the date on which the Capital Distribution or, as the case may be, at the price fixing date or failing which, immediately preceding the date of the announcement of the Book Closure Date of the Capital Distribution or, as the case may be, of the offer or invitation; and

D = (aa) in the case of any offer or invitation to acquire or subscribe for Shares by way of rights or for securities convertible into Shares under this sub-paragraph 2(iii)(b) and 2(iii)(c) the value of rights attributable to one (1) Share (as defined below); or

(bb) in the case of any other transaction falling within this sub-paragraph 2(iii) hereof, the fair market value, (as determined with the concurrence of the Auditors) by an Approved Adviser, of that portion of the Capital Distribution attributable to one (1) Share.

For the purpose of sub-paragraph (aa) of "D" above, the "value of the rights attributable to one (1) Share" must be calculated in accordance with the formula:

$$\frac{C - E}{F + 1}$$

where:-

C = as C above;

E = the subscription consideration for one (1) additional Share under the terms of such offer or invitation or subscription price of one (1) additional Share upon conversion of the convertible securities or exercise of such rights to acquire or subscribe for one (1) Share under the offer or invitation;

F = the number of Shares which is necessary to hold in order to be offered or invited to acquire or subscribe for one (1) additional Share or such number of securities with rights to acquire or subscribe for one (1) additional Share; and

D* = the value of rights attributable to one (1) Share (as defined below);

For the purpose of definition D* above, the “**value of the rights attributable to one (1) Share**” must be calculated in accordance with the formula: -

$$\frac{C - E^*}{F^* + 1}$$

where:-

C = as C above;

E* = the subscription consideration for one (1) additional Share under the terms of such offer or invitation;

F* = the number of Shares which is necessary to hold in order to be offered or invited to acquire or subscribe for one (1) additional Share; and

For the purposes of sub paragraph 2(iii) “**Capital Distribution**” must (without prejudice to the generality of the expression) include distributions in cash or specie or by way of issue of Shares (not falling under sub-paragraph 2(ii) above) or other securities credited as fully or partly paid up by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund). Any dividend charged or provided for in the accounts pertaining to any period will (whenever paid and howsoever described) be deemed to be a Capital Distribution unless it is paid out of the aggregate of the net profits attributable to the Shareholders for the period for which such dividend is charged or provided for as shown in the audited consolidated profit and loss accounts of the Company.

Each such adjustment will be effective (if appropriate retroactively) from the day next following the Book Closure Date for such transactions.

- (iv) If and whenever the Company makes any allotment to its Shareholders provided in sub-paragraph 2(ii) and also makes any offer or invitation to its Shareholders as provided in sub-paragraph (b) or (c) of sub-paragraph 2(iii) and the Book Closure Date for the purposes of the allotments is the Book Closure Date for the purpose of the offer or invitation, the Exercise Price will be adjusted by multiplying it by the following fraction:-

$$\frac{(G \times C) + (H \times I)}{(G + H + B) \times C}$$

and in respect of each case referred to in these sub-paragraphs (ii) and (iii)(b), the number of Warrants held by each Warrant Holder will be adjusted by multiplying the existing number of Warrants held by the following fraction:-

$$\frac{(G + H^* + B) \times C}{(G \times C) + (H^* \times I^*)}$$

where:-

- B = as B above;
- C = as C above;
- G = the aggregate number of issued and fully paid-up Shares in issue on the Book Closure Date;
- H = the aggregate number of new shares under an offer or invitation to acquire or subscribe for Shares by way of rights or under an offer or invitation by way of rights to acquire or subscribe for securities convertible into Shares or rights to acquire or subscribe for Shares, as the case may be;
- H* = the aggregate number of new shares under an offer or invitation to acquire or subscribe for Shares by way of rights;
- I = the exercise consideration of one (1) additional Share under the offer or invitation to acquire or subscribe for Shares or the Exercise Price on conversion of such securities or exercise of such rights to acquire or subscribe for one (1) additional Share, as the case may be; and
- I* = the subscription consideration of one (1) additional Share under the offer or invitation to acquire or subscribe for Shares.

Each such adjustment will be effective (if appropriate retroactively) from the date next following the Book Closure Date for the above transactions.

- (v) If and whenever the Company makes any offer or invitation to its Shareholders to acquire or subscribe for Shares as provided in sub-paragraph 2(iii)(b) together with an offer or invitation to acquire or subscribe for securities convertible into or rights to acquire or subscribe for Shares as provided in sub-paragraph 2(iii)(c), the Exercise Price must be adjusted by multiplying it by the following fraction: -

$$\frac{(G \times C) + (H \times I) + (J \times K)}{(G + H + J) \times C}$$

and the number of Warrants held by each Warrant Holder will be adjusted by multiplying the existing number of Warrants by the following fraction:-

$$\frac{(G + H^*) \times C}{(G \times C) + (H^* \times I^*)}$$

where:-

C = as C above;

G = as G above;

H = as H above;

H* = as H* above;

I = as I above;

I* = as I* above;

J = the aggregate number of Shares to be issued to its Shareholders upon conversion of such securities or exercise of such rights to subscribe for Shares by the Shareholders; and

K = the exercise price on the conversion of such securities or exercise of such rights to acquire or subscribe for one (1) additional Share.

Each such adjustment will be effective (if appropriate retroactively) from the date next following the Book Closure Date for the above transactions.

- (vi) If and whenever the Company makes an allotment to its Shareholders as provided in sub-paragraph 2(ii) and also makes an offer or invitation to acquire or subscribe for Shares to its Shareholders as provided in sub-paragraph 2(iii)(b), together with rights to acquire or subscribe for securities convertible into or with rights to acquire or subscribe for Shares as provided in sub-paragraph 2(iii)(c), and the Book Closure Date for the purpose of allotment is also the Book Closure Date for the purpose of the offer or invitation the Exercise Price will be adjusted by multiplying it by the following fraction :-

$$\frac{(G \times C) + (H \times I) + (J \times K)}{(G + H + J + B) \times C}$$

and the number of Warrants held by each Warrant Holder will be adjusted by multiplying the existing number of Warrants held by the following fraction:-

$$\frac{(G + H^* + B) \times C}{(G \times C) + (H^* \times I^*)}$$

where:-

B	=	as B above;
C	=	as C above;
G	=	as G above;
H	=	as H above;
H*	=	as H* above;
I	=	as I above;
I*	=	as I* above;
J	=	as J above;
K	=	as K above.

Each such adjustment will be effective (if appropriate retroactively) from the date next following the Book Closure Date for the above transactions.

- (vii) If and whenever (otherwise than pursuant to an offer or invitation by way of rights to all Shareholders and requiring an adjustment under sub-paragraphs 2(iii)(b), 2(iii)(c), 2(iv), 2(v) or 2(vi)), the Company will issue either any Shares or any securities convertible into Shares or any rights to acquire or subscribe for Shares and in any such case the Total Effective Consideration per Share (as defined below) is less than ninety per centum (90%) of the average of the Last Dealt Prices on the Market Days comprised in the period used (such period to be determined by the Company at the Company's absolute discretion) as a basis upon which the issue price of such Shares is determined ("**Average Price**"), or as the case may be the price at which the Shares will be issued upon conversion of such securities or exercise of such rights is determined, the Exercise Price will be adjusted by multiplying it by the following fraction:

$$\frac{L + M}{L + N}$$

where:

- L = the number of Shares in issue at the close of business on the Market Day immediately preceding the date on which the relevant adjustment becomes effective;
- M = the aggregate number of Shares which the Total Effective Consideration (as defined below) would have purchased at the Average Price (exclusive of expenses); and
- N = the aggregate number of Shares so issued or in the case of securities convertible into Shares or rights to acquire or subscribe for Shares, the maximum number (assuming no adjustment of such rights) of Shares issuable upon full conversion of such securities or the exercise in full of such rights.

For the purposes of sub-paragraph 2(vii), the "**Total Effective Consideration**" will be as determined by the Directors with the concurrence of an Approved Adviser and will be:

- (a) in the case of the issue of shares, the aggregate consideration receivable by the Company on payment in full for such shares;
- (b) in the case of the issue by the Company of securities wholly or partly convertible into Shares, the aggregate consideration receivable by the Company on payment in full for such securities or such part of the securities as is convertible together with the total amount receivable by the Company upon full conversion of such securities if any; or
- (c) in the case of the issue by the Company of securities with rights to acquire or subscribe for Shares, the aggregate consideration attributable to the issue of such rights together with the total amount receivable by the Company upon full exercise of such rights;

in each case without any deduction of any commissions, discounts or expenses paid allowed or incurred in connection with the issue thereof, and the “**Total Effective Consideration per share**” will be the Total Effective Consideration divided by the number of Shares issued as aforesaid or, in the case of securities convertible into Shares or securities with rights to acquire or subscribe for Shares, by the maximum number of Shares issuable on full conversion of such securities or exercise in full of such rights.

Each such adjustment will be effective immediately after the date on which such Shares, securities or rights are listed on Bursa Securities.

- (viii) The provisions of sub-paragraphs (ii), (iii), (iv), (v), (vi) and (vii) will not apply to:
- (a) an issue of Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon exercise of any other rights including the Exercise Rights of Warrant Holders issued by the Company under the Deed Poll; or
 - (b) an issue of Shares or other securities of the Company or rights to acquire or subscribe for Shares to officers, including executive directors, or employees of the Company or any of its subsidiaries pursuant to purchase or option schemes approved by the Shareholders in general meeting; or
 - (c) an issue by the Company or any of its subsidiaries of Shares or of securities convertible into or rights to acquire or subscribe for Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business; or
 - (d) a special issue of Shares or other securities convertible into or with rights to acquire or subscribe for Shares, required by any relevant authority to Bumiputra investors which is effected to comply with Government of Malaysia policy on capital participation in industry; or
 - (e) any proposal by the Company to purchase its own shares in accordance with the relevant laws governing such transaction; or
 - (f) any issue of Shares by the Company other than convertibles or rights, aggregate issues of which in any one financial year do not exceed ten per centum (10%) of the outstanding issued share capital of the Company; or
 - (g) any special issue of shares or other securities made by the Company in compliance with any regulations made by any relevant authority.

- (ix) The foregoing provisions on adjustment of the Exercise Price will be subject to the following:-
- (a) On any such adjustment the resultant Exercise Price will be rounded up to the nearest one (1) Sen and in no event will any adjustment (otherwise that upon the consolidation of Shares into Shares of larger par value) involve an increase in the Exercise Price or reduce the number of Warrant that a Warrant Holder is already entitled to;
 - (b) No adjustment will be made to the Exercise Price in any case in which the amount by which the same would be reduced in accordance with the foregoing provisions of this paragraph 2 would be less than one (1) Sen or less than one (1) Warrant and any adjustment that would otherwise be required then to be made will not be carried forward;
 - (c) No adjustment will be made in any event whereby the Exercise Price would be reduced to below the par value of a Share and in the event that any adjustment will result in the Exercise Price be reduced below the par value of a Share, then the adjustment will be made to the par value of a Share only.
- (x) Notwithstanding this Memorandum, in any circumstances where the Directors consider that the adjustment provided under the said provisions should not be made or should be calculated on a different basis or that an adjustment should be made notwithstanding that no such adjustment is required under the said provisions, the Company must appoint an Approved Adviser to consider whether for any reason whatsoever the adjustment to be made (or the absence of an adjustment) is inequitable and, if such Approved Adviser consider this to be the case, the adjustment will be modified or nullified or an adjustment made instead of no adjustment in such manner as may be considered by such Approved Adviser to be, in its opinion, appropriate.
- (xi) Whenever there is an adjustment to the number of Warrants the Company will as soon as practicable but not later than twenty (20) Market Days after the effective date of such adjustment, notify Bursa Depository of the names of the Warrant Holders whose Securities Accounts are to be credited with the additional Warrants together with such particulars as may be required by Bursa Depository for the purpose of making appropriate entries in the Securities Account of the respective Warrant Holder, and will deliver to Bursa Depository the appropriate scrips (in such denominations as may be specified by Bursa Depository) registered in the name of Bursa Depository or its nominee company. Thereafter, the Company will cause and procure the Registrar to despatch a notice of such allotment by registered post to such Warrant Holders.
- (xii) In any circumstances where the Directors, the Approved Adviser and the Auditors are unable to agree upon any adjustment required by this Memorandum, the Directors will refer the adjustment to the decision of another Approved Adviser acting as experts and not as arbitrators and whose decision as to such adjustment as may be appropriate in terms of this Memorandum will be final and conclusive and no certification by the Auditors will be necessary.
- (xiii) Any adjustments to the Exercise Price and/or any determination or adjustment of the number of additional Warrants to be issued otherwise than in accordance with this Memorandum, should be agreed to by the Company and the Auditors or the Approved Adviser.
- (xiv) Any additional Warrants which may be issued by the Company under this Memorandum will be part of the series of Warrants constituted by the Deed Poll, and will be issued subject to and with the benefit of the Deed Poll and on such terms and conditions as set out for the Warrants.

3. NOTICE OF ADJUSTMENT

3.1 Whenever there is an adjustment as provided in this Memorandum, the Company is to give notice to Warrant Holder within twenty-one (21) days of such adjustment in accordance with Condition 9 of the Second Schedule (Part III), stating that: -

- (i) the Exercise Price and/or the number of additional Warrants to be issued have been adjusted or determined as the case may be,
- (ii) the event giving rise to the adjustment or determination;
- (iii) the Exercise Price and/or the number of Warrants in effect prior to such adjustment or determination;
- (iv) the adjusted Exercise Price and/or the adjusted number of Warrant in issue; and
- (v) the effective date of such adjustment or determination.

3.2 At all times thereafter so long as any of the Warrants remain exercisable, the Company is to make available for inspection at its registered office a signed copy of the certificate of the Auditors or the Approved Adviser certifying the adjustment to the Exercise Price and/or the number of Warrants issued and certificate signed by a director of the Company setting out the brief particulars of the event giving rise to the adjustment, the Exercise Price and/or the adjusted number of Warrants in issue and the effective date of such adjustment. On request, a copy of such certificate is to be sent by the Company to any Warrant Holder.

4. MODIFICATION OF RIGHTS ATTACHED TO SHARES OR LOAN CAPITAL

If the Company will in any way modify the rights attached to any share or loan capital so as to convert or make convertible such share or loan capital into, or attach thereto any rights to acquire or subscribe for Shares, the Company is to appoint an Approved Adviser to consider whether any adjustment is appropriate and if such Approved Adviser with the approval of the Directors is to certify that any adjustment is appropriate, the Exercise Price or the number of Warrants held by each Warrant Holder will be adjusted accordingly.

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STATUTORY AND GENERAL INFORMATION

1. Share Capital

- 1.1 Save for the new Shares to be issued pursuant to the exercise of the Warrants, no securities shall be allotted or issued on the basis of this Abridged Prospectus later than 12 months from the date hereof.
- 1.2 As at the date of this Abridged Prospectus, we only have one (1) class of shares, namely ordinary shares of RM0.50 each, all of which rank pari passu with one another.
- 1.3 No securities of our Company has been issued or agreed to be issued, as fully or partly paid-up otherwise than in cash, within the two (2) years immediately preceding the date of this Abridged Prospectus.
- 1.4 Save as disclosed below, no person has been, is or would be entitled to be given an option to subscribe for any securities in our Company:-
 - (a) the subscribers of the Rights Shares who will be entitled to 106,022,701 free Warrants to be issued pursuant to the Rights Issue on the basis of one (1) free Warrant for every two (2) Rights Shares subscribed. The Warrants are exercisable into 106,022,701 new Salcon Shares at the exercise price of RM0.75 per Share during the exercise period of 7 years from the date of the first issuance of the Warrants; and
 - (b) the eligible employees and Directors of our Company who are eligible to participate in the ESOS of Salcon, whom have been or will be granted options to subscribe for new Shares pursuant to our ESOS involving up to 10% of our issued and paid-up share capital at any time during the exercise period of the ESOS of 5 years from the date of commencement of the ESOS on 31 October 2003 at the exercise price of RM1.87 per Share, or any other exercise price as may be fixed from time to time prior to the offer of the said options under the ESOS.

2. Directors' Remuneration

The provisions in our Articles of Association dealing with the remuneration of our Directors are as follows:-

Article 104

The fees of the Directors shall be such fixed sum as shall from time to time be determined by an ordinary resolution of the Company and shall (unless such resolution otherwise provided) be divisible among the Directors in such proportions as they may agree, or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such fees are payable shall be entitled only to rank in such division for a proportion of the fees related to the period during which he has held office Provided Always that:-

- (a) fees payable to non-executive Directors shall be by a fixed sum, and not by a commission on or a percentage of profits or turnover;
- (b) salaries payable to executive Directors may no include a commission on or percentage of turnover;
- (c) fees payable to Directors shall not be increased except pursuant to a resolution passed at a general meeting, where notice of the proposed increase has been given in the notice covening the meeting;

- (d) any fee paid to an alternate Director shall be agreed upon between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

Article 105

- (1) The Directors shall be entitled to be reimbursed for all travelling or such reasonable expenses as may be incurred in attending and returning from meetings of the Directors or of any committee of the Directors or general meetings or otherwise howsoever in or about the business of the Company in the course of the performance of their duties as Directors.
- (2) In these Articles, if not inconsistent with the subject or context, render any special duties or services outside his ordinary duties as a Director in particular without limiting to the generality of the foregoing if any Director being willing shall be called upon to perform extra services or to make any special exertions in going or residing away from his usual place of business or residence for any of the purposes of the Company or in giving special attention to the business of the Company as a member of a committee of Directors, the Directors may pay him special remuneration, in addition to his Director's fees, and such special remuneration may be by way of a fixed sum, or otherwise as may be arranged subject always to Article 104.

Article 132

The remuneration of the Managing Director shall be subject to the terms of any agreement entered into in any particular case be by way of salary or commission or participation in profits or otherwise or by any or all of these modes but such remuneration may not include a commission on or percentage of turnover but it may be a term of their appointment that they shall receive pension, gratuity or other benefits upon their retirement.

3. Material Contracts

Save as disclosed below, there are no material contracts (not being contracts entered into in the ordinary course of our business) which have been entered into by our Company or our subsidiary companies within two (2) years preceding 18 April 2007, being the latest practicable date prior to the registration of this Abridged Prospectus:-

- (a) Underwriting Agreement dated 5 April 2007 entered into between Salcon and MIMB in respect of the underwriting of up to 127,227,241 Rights Shares with Warrants for an underwriting commission of 2.0% of the value of Rights Shares with Warrants underwritten based on the issue price of RM0.57 per Rights Share; and
- (b) Deed Poll dated 12 April 2007 constituting the Warrants executed by Salcon.

4. Material Litigation

Save as disclosed below, we are not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant and our Directors are not aware of any proceedings pending or threatened against us or of any facts likely to give rise to any proceeding which may materially or adversely affect our position or businesses or title to or possession of any of the properties of our Company or our subsidiary companies:

- (a) Salcon Engineering Berhad had on 29 September 1999 commenced legal action in the Kuala Lumpur High Court against Citramuda Sdn Bhd ("Citramuda") and Readybuilt (M) Sdn Bhd ("Readybuilt"), being parties to an unincorporated consortium ("the Consortium"), for the sum of RM2,171,488.57 due to works carried out by SEB pursuant to a subcontract agreement dated 5 November 1996.

SEB obtained judgement in default against Citramuda on 15 December 1999. Citramuda was wound up by order of the Kuantan High Court on 20 June 2000. SEB attempted to enforce the judgement by way of garnishee proceedings against Kuala Lumpur International Airport Berhad, the employer of the Consortium but was not successful.

Readybuilt had since been wound-up on 6 February 2004. Subsequently, SEB had filed its Proof of Debts to the Official Receiver on 28 June 2004 and had proceeded with the filing of its Supporting Affidavit on 1 March 2005 in accordance with Section 226(3) of the Companies Act, 1965 in order to obtain judgement. SEB had filed the Forms of Summons (General) dated 24 May 2005 with the Kuala Lumpur High Court on 25 May 2005 for leave to continue with SEB's civil suit against Readybuilt.

On 9 January 2006, the Kuala Lumpur High Court Judge was notified that the Winding-Up Court has allowed SEB's application for leave to proceed the suit against Readybuilt on 8 December 2005. On 6 March 2006, the Court was notified that the Order granting leave to proceed against Readybuilt is being obtained from the Court Registry. The official receiver attended the mention date on 3 October 2006 and the full trial date was on 7 December 2006. Matter has been fixed for decision on 8 January 2007.

No decision was given on 8 January 2007 by the High Court Judge as she required time to read the Written Submission and Authorities. Accordingly, the Court has fixed the matter for decision on 6 March 2007.

On 6 March 2007, the Court awarded judgment in favour of SEB against Readybuilt for the sum of RM2,171,508.89 together with the interest at 8% per annum on the judgment sum commencing from 28 October 1999 until the date of full settlement with costs to SEB.

- (b) SEB had on 20 February 2006 filed a Writ of Summons in Kuala Lumpur High Court ("KLHC") against Zamani bin Shamsuddin ("Zamani"), the sole proprietor of Fatih Enterprise Sdn. Bhd., for the sum of RM254,726.65 being the excess money mistakenly paid to Zamani by SEB.

As the Writ of Summons was not able to be served by way of ordinary service, SEB has thenceforth applied to KLHC for substituted service and extension of time for the Writ of Summons. Both applications have been granted by KLHC on 17 October 2006. The Writ of Summons has been served by way of substituted service on Zamani on 23 January 2007, 27 January 2007 and 29 January 2007 respectively. Zamani has failed to enter appearance. On 8 March 2007, SEB's solicitors has filed affidavit of service and judgment in default of appearance has been entered against Zamani. The sealed judgment in default is currently pending extraction from KLHC.

- (c) Advance Power Trade Sdn. Bhd. ("APT") had on 20 September 2005 commenced legal action in the Shah Alam High Court ("SAHC") against SEB seeking for court orders including:-
- (i) an injunction against SEB from enforcing a bank guarantee given by APT to SEB in connection with the supply of pumps and motors ("the Goods") by APT to SEB;
 - (ii) declaration that SEB has breached the warranty of the Goods and therefore the said bank guarantee should be cancelled; and
 - (iii) claim for the sum of RM178,398.00 for loss and damages suffered by APT by providing labour services towards the Goods.

SEB denied and defended the claim and further counterclaimed against APT that there existed defects in the Goods rendering the Goods unfit for the purposes the Goods were designed for and/or the life span of the same is much less than its original life span and the defects were caused by APT in breach of the terms in the Purchase Order and also being negligent themselves. APT's action in this matter has allegedly caused SEB to suffer monetary loss, reputation and goodwill. SEB also counterclaimed for a sum of RM1,222.86 against APT for taking into account of the realisation of the bank guarantee and for a replacement of the Goods of which the full costs and expenses are to be borne by APT.

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

- (d) Envitech Sdn. Bhd. ("Envitech") had commenced a legal suit in Shah Alam Session Court against Kulim Techno-City Sdn. Bhd. ("Kulim") for the sum of RM226,410.00 being the outstanding fee failed to be paid by Kulim to Envitech for the completed work of design and construction of two (2) intermediate sewage pumping stations inclusive of the ancillary pipe works for the proposed development on Lot 1001, Mukim Padang Cina, Kulim, Kedah.

Kulim has applied to transfer the matter to the Court in Kedah due to problem of the location. A hearing for the aforesaid application has been fixed on 13 December 2006. The decision of the hearing was fixed on 2 February 2007. However, due to the absence of the judge on 2 February 2007, the date for the decision has been postponed to 3 April 2007. The Court has dismissed Kulim's application to transfer the matter to Court in Kedah with costs. A hearing for Envitech's application for summary judgment has been fixed on 25 May 2007.

- (e) Envitech had commenced a legal suit against SAP Air Hitam Properties Sdn. Bhd. ("SAP") for the sum of RM370,564.00 being the outstanding payment failed to be paid by SAP to Envitech for the completed works of construction and completion of sewage force main and 3 nos. pump station and related works for the proposed residential, commercial and recreational development (phase 1) Lestari Perdana, Mukim Petaling, Daerah Petaling, Selangor Darul Ehsan. The writ of summons was filed in the High Court of Malaya at Shah Alam on 3 April 2007 which is currently pending extraction for service on SAP.

5. General

- 5.1 The nature of our Company's business and the names of the corporations which by virtue of Section 6 of the Act are deemed to be related to us, are set out in Appendix II of this Abridged Prospectus.
- 5.2 The estimated expenses of the Rights Issue amount to RM2.0 million, all of which will be borne by us. Included in the estimated expenses is the underwriting commission which is payable to the Underwriter at the rate of 2.0% of the value of Rights Shares underwritten by MIMB based on the issue price of RM0.57 per Rights Share.
- 5.3 Save for the underwriting commission in paragraph 5.2 above, no amount has been paid or has become payable within the 2 preceding years as commission for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions for any share or debenture in our Company and our subsidiary companies and no Directors, promoters or expert are entitled to receive any such commission.

- 5.4 Save as disclosed in this Abridged Prospectus and to the best of the knowledge of our Directors, the financial performance, position and operations of our Group are not likely to be affected adversely and materially by any of the following:-
- (a) known trends, demands, commitments, events or uncertainties that will result in or that is reasonably likely to result in our Group's liquidity increasing or decreasing in any material way;
 - (b) material commitments for capital expenditure;
 - (c) unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from our operations; and
 - (d) known trends or uncertainties that have had or that we reasonably expect will have a material favourable or unfavourable impact on our revenues or operating income.
- 5.5 Save as disclosed in this Abridged Prospectus, we are not aware of any material information including trade factors or risks which are unlikely to be known or anticipated by the general public and which could materially affect our profits.
- 5.6 Save for the Service Contract dated 1 January 2003 with Mr. Jagjit Singh a/l Tara Singh, none of our Directors have any existing or proposed service contracts with our Company or our subsidiaries, excluding contracts expiring or terminable by the employing company without payment or compensation (other than statutory compensation) within one (1) year.
- 6. Consents**
- 6.1 The written consents of the Adviser, Underwriter, Principal Bankers, Share Registrar, Company Secretaries and Solicitors to the inclusion in this Abridged Prospectus of their names in the form and context in which they appear have been given before the issue of this Abridged Prospectus and have not subsequently been withdrawn.
- 6.2 The written consent of the Auditors and Reporting Accountants to the inclusion in this Abridged Prospectus of their name, the Auditors' Report on our audited financial statements for the financial year ended 31 December 2006 and the Reporting Accountants' letter relating to our proforma consolidated balance sheets as at 31 December 2006 in the form and context in which they appear have been given before the issue of this Abridged Prospectus and have not subsequently been withdrawn.
- 7. Documents for Inspection**
- 7.1 Copies of the following documents are available for inspection during normal working hours from Monday and Friday (except for public holidays) at our Registered Office at 15th Floor Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan, for a period of 12 months from the date of this Abridged Prospectus:-
- (a) Memorandum and Articles of Association of our Company;
 - (b) Irrevocable undertaking letters from our shareholder as referred to in Section 11.1 of this Abridged Prospectus;
 - (c) the audited financial statements of our Group for the last two (2) financial years ended 31 December 2005 and 2006;
 - (d) our proforma consolidated balance sheets as at 31 December 2006 and the Reporting Accountants' letter thereon;

- (e) the letters of consent referred to under paragraph 6 of this appendix;
- (f) the Directors' Report referred to in Appendix V of this Abridged Prospectus;
- (g) the Circular to Shareholders of Salcon dated 15 March 2007;
- (h) the material contracts referred to in paragraph 3 of this appendix;
- (i) the relevant cause papers referred to in paragraph 4 of this appendix;
- (j) the Deed Poll; and
- (k) the Service Contract referred to in paragraph 5.6 of this appendix.

8. Responsibility Statements

- 8.1 This Abridged Prospectus has been seen and approved by our Directors and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries, and to the best of their knowledge and belief, there are no false or misleading statements or other facts the omission of which would make any statement herein false or misleading.
- 8.2 MIMB, being the Adviser for the Rights Issue with Warrants, acknowledges that to the best of its knowledge and belief, this Abridged Prospectus constitutes a full and true disclosure of all material facts about the Rights Issue with Warrants.

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