



SALCON BERHAD (Company No: 593796-T)
(Incorporated in Malaysia)

**UNAUDITED QUARTERLY REPORT ENDED 31 DECEMBER 2005
CONDENSED CONSOLIDATED BALANCE SHEETS**

	31/12/2005 RM'000	31/07/2004 RM'000
Property, plant and equipment	32,558	26,194
Investment in associates	62,056	62,567
Investment properties	2,318	-
Other investments	11,079	11,093
Goodwill	6,484	3,309
Deferred tax assets	77	-
	<u>114,572</u>	<u>103,163</u>
Current assets		
Inventories	756	1,337
Trade and other receivables	106,283	151,788
Tax recoverable	6,200	3,605
Cash and cash equivalents	29,858	37,625
	<u>143,097</u>	<u>194,355</u>
Current liabilities		
Trade and other payables	67,521	94,603
Borrowings	13,362	16,587
Dividend payable	202	-
Taxation	37	59
	<u>81,122</u>	<u>111,249</u>
Net Current assets	<u>61,975</u>	<u>83,106</u>
	<u>176,547</u>	<u>186,269</u>
Financed by :-		
Capital and reserves		
Share capital	106,023	96,384
Reserves	2,098	34,485
	<u>108,121</u>	<u>130,869</u>
Minority shareholders' interests	21,057	7,482
Long term and deferred liabilities		
Borrowings	47,369	47,709
Deferred tax liabilities	-	209
	<u>47,369</u>	<u>47,918</u>
	<u>176,547</u>	<u>186,269</u>
 Net assets per share (RM)	 0.61	 0.72

The Condensed Consolidated Balance Sheets should be read in conjunction with the Annual Financial Statements for the year ended 31 July 2004.



SALCON BERHAD (Company No: 593796-T)
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UNAUDITED QUARTERLY REPORT ENDED 31 DECEMBER 2005
CONDENSED CONSOLIDATED INCOME STATEMENTS

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To date	Preceding Year Corresponding Period
	31/12/2005 RM'000	31/12/2004 RM'000	31/12/2005 RM'000	31/12/2004 RM'000
Revenue	26,195	N/A	162,379	N/A
Operating expenses	(42,305)	N/A	(177,476)	N/A
Other operating expenses	(12,825)	N/A	(12,968)	N/A
Other operating income	366	N/A	624	N/A
Operating loss	(28,569)	N/A	(27,441)	N/A
Interest expense	(967)	N/A	(5,062)	N/A
Interest income	75	N/A	542	N/A
Share of profit of jointly controlled entity	1	N/A	95	N/A
Share of profit of associates	1,191	N/A	8,963	N/A
Loss before tax	(28,269)	N/A	(22,903)	N/A
Tax expense	(21)	N/A	(3,203)	N/A
Loss after tax	(28,290)	N/A	(26,106)	N/A
Less: Minority interests	178	N/A	(1,406)	N/A
Net loss for the period	(28,112)	N/A	(27,512)	N/A
Basic loss per ordinary share (sen)	(13.258)	N/A	(14.020)	N/A
Diluted earnings per ordinary share (sen)	-	N/A	-	N/A

Note:

The comparative figures are not applicable due to the change of financial year as detailed in Note A1.
The current quarter announcement is for the 3 month period, from 1 October 2005 to 31 December 2005.
The current year to-date figures are for the 17 month period ended 31 December 2005.

The Condensed Consolidated Income Statements should be read in conjunction with the Annual Financial Statements for the year ended 31 July 2004.



SALCON BERHAD (Company No: 593796-T)
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UNAUDITED QUARTERLY REPORT ENDED 31 DECEMBER 2005
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	← Non – distributable →			Distributable Retained Profits/ (Accumulated losses) RM'000	Total RM'000
	Share Capital RM'000	Share Premium RM'000	Exchange Equalisation RM'000		
At 1 August 2004	96,384	18,891	97	15,497	130,869
Net loss for the period	-	-	-	(27,512)	(27,512)
Issue of shares					
- Private Placement	9,639	193			9,832
Listing expenses		(73)			(73)
Exchange differences on translation of the financial statements of foreign subsidiaries	-	-	17	-	17
Dividends					
- 2004 Final	-	-	-	(5,012)	(5,012)
At 31 December 2005	106,023	19,011	114	(17,027)	108,121

Note:

The comparative figures are not applicable due to the change of financial year as detailed in Note A1.

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The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Financial Statements for the year ended 31 July 2004.



SALCON BERHAD (Company No: 593796-T)
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UNAUDITED QUARTERLY REPORT ENDED 31 DECEMBER 2005
CONDENSED CONSOLIDATED CASHFLOW STATEMENT

	17 months Ended 31/12/2005 RM'000	17 months Ended 31/12/2004 RM'000
<u>Cash flows from operating activities</u>		
Loss before tax	(22,903)	N/A
Adjustments for :		
- Non-cash items	(3,893)	N/A
- Non-operating items	4,520	N/A
Operating profit before working capital changes	<u>(22,276)</u>	N/A
Changes in working capital	<u>28,736</u>	N/A
Cash generated from operations	6,460	N/A
Income taxes paid	(5,163)	N/A
Interest paid	<u>(5,062)</u>	N/A
Net cash used in operating activities	<u><u>(3,765)</u></u>	N/A
<u>Cash flows from investing activities</u>		
- Investments in subsidiary / associate	(5,321)	N/A
- Proceed from disposal of associate co.	292	N/A
- Proceed from sale of fixed assets	467	N/A
- Purchase of fixed assets	(6,281)	N/A
- Interest received	542	N/A
Net cash generating from investing activities	<u><u>(10,301)</u></u>	N/A
<u>Cash flows from financing activities</u>		
- Redemption of preference shares from associates co.	6,600	N/A
- Proceeds from issuance of share capital	9,832	N/A
- Listing expenses	(73)	N/A
- Proceeds from bank borrowings	21,955	N/A
- Repayments of bank borrowings	(24,576)	N/A
- Dividends paid to shareholders of Salcon Berhad	(5,012)	N/A
- Dividends paid to minority shareholders	(1,278)	N/A
- Payment of hire purchase liabilities	(780)	N/A
Net cash generated from financing activities	<u><u>6,668</u></u>	N/A
Net decrease in cash and cash equivalents	(7,398)	N/A
Effects of exchange rate changes	16	N/A
Cash and cash equivalents at beginning of period	<u>37,197</u>	N/A
Cash and cash equivalents at end of period	<u><u>29,815</u></u>	N/A



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The cash and cash equivalents comprise the following balance sheet amounts :

	17 months Ended 31/12/2005 RM'000	17 months Ended 31/12/2004 RM'000
Cash and bank balances	18,043	N/A
Deposits placed with licensed banks	11,815	N/A
Bank overdrafts	(43)	N/A
	29,815	N/A
Fixed deposits pledged to banks	-	N/A
	29,815	N/A

Note:

The comparative figures are not applicable due to the change of financial year as detailed in Note A1.

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The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Annual Financial Statements for the year ended 31 July 2004.



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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTERLY ENDED 31 DECEMBER 2005

A. DISCLOSURE REQUIREMENTS AS PER FRS 134 – Interim Financial Reporting (formerly known as MASB 26)

1. Basis of Accounting and Accounting Policies

The interim financial statements have been prepared in accordance with FRS 134 – Interim Financial Reporting (formerly known as MASB 26) and Chapter 9 Part K of the Listing Requirements of Bursa Malaysia Securities Berhad (BMSB).

The interim financial report should be read in conjunction with the annual financial statements of the Group for the financial year ended 31 July 2004.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the annual financial statements for the financial year ended 31 July 2004.

As announced on 28 June 2005, the Company has changed its financial year-end from the then existing 31 July to 31 December. The comparative figures are not applicable for the current financial period due to the change of financial year end.

Due to the above-mentioned change of the financial year end, the current quarter announcement is for the 3 month period, that is, from 1 October 2005 to 31 December 2005.

2. Preceding Annual Financial Statement

The audit report of the Group's annual financial statements for the year ended 31 July 2004 was not subject to any qualification.

3. Seasonal or Cyclical Factors

The principal activities of the Group are not subject to any seasonal or cyclical changes.

4. Unusual Items that Affect the Financial Statements

There were no unusual items affecting the assets, liabilities, equity, net income or cashflows of the Group for the 17 month period ended 31 December 2005.

5. Material Changes in Estimates

There were no changes in the estimates of amounts reported in prior interim periods of the current financial period or changes in estimates of amounts reported in prior financial years that have a material effect in the current interim period.



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6. Debt and Equity Securities

There were no issuance and repayment of debt securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the 17 month period ended 31 December 2005 except as follows:

- (i) On 29 September 2005, 19,276,800 new ordinary shares of RM0.50 each were issued at RM0.51 per share, pursuant to the Private Placement.

7. Dividends Paid

The dividend paid for the 17 month period ended 31 December 2005 is as follows:-

**17 months
Ended
31/12/05
RM'000**

First and final dividend of 2.60 sen tax exempt in respect of the financial year ended 31 July 2004 was paid on 28 February 2005

5,012

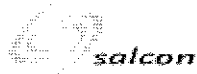
8. Segmental Reporting

The segmental revenue and results of the Group for the 17 month period ended 31 December 2005 are as follows:-

	Water & Concessions	Wastewater	Trading Services	Others	Inter-segment Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External	109,211	42,394	10,774	-	-	162,379
Inter segment	-	-	643	750	(1,393)	-
	<u>109,211</u>	<u>42,394</u>	<u>11,417</u>	<u>750</u>	<u>(1,393)</u>	<u>162,379</u>
Results						
Profit from operations	(17,210)	1,656	508	(64)	0	(15,110)
Share of profits of associates and jointly controlled entity	5,717	0	0	3,341	0	9,058
	<u>(11,493)</u>	<u>1,656</u>	<u>508</u>	<u>3,277</u>	<u>-</u>	<u>(6,052)</u>
Unallocated corporate expense						(12,331)
Net financing costs						(4,520)
Loss before taxation						<u>(22,903)</u>

9. Valuations of Property, Plant and Equipment

There was no revaluation of property, plant and equipment during the 17 month period ended 31 December 2005. The valuation of land and buildings have been brought forward without amendment from the previous annual audited report.



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10. Material Events Subsequent to the End of the Interim Period

There were no material events subsequent to the end of the interim period up to 22 February 2006 (being the last practicable date which is not earlier than 7 days from the date of issue of this quarterly report), that have not been reflected in the financial statement for the interim period.

11. Effect of Changes in the Composition of the Group

The changes in the composition of the Group during the 3 month period ended 31 December 2005 were as follows:-

- (i) On 3 October 2005, Salcon Engineering Berhad, a wholly owned subsidiary of Salcon Berhad had disposed of its investment in Tricol Engineering Sdn. Bhd. ("TESB") of 200,000 Ordinary Shares of RM1.00 each representing the entire 40% of the total issued and paid up share capital of TESB for a total cash consideration of RM292,000.00. Consequent to this divestment, TESB ceased to be an Associated Company of the Group.
- (ii) Salcon Linyi (HK) Ltd., a wholly owned subsidiary of Salcon Berhad had on 23 November 2005 injected USD4.444 million into Linyi Salcon Water Co. Ltd. ("LSW"), a company incorporated in the People's Republic of China to acquire 60% registered capital of LSW. This resulted in LSW becoming a subsidiary company of the Group.
- (iii) Salcon Water (HK) Limited, a wholly-owned subsidiary of Salcon Berhad had on 21 December 2005 acquired the remaining 25% registered capital of Shandong Changle Salcon Water Co. Ltd ("SCSW"), a company incorporated in the People's Republic of China for a total cash purchase consideration of RMB 3.89 million. This acquisition resulted in SCSW becoming a wholly owned subsidiary of the Group.

12. Changes in Contingent Liabilities/Contingent Assets

The changes in contingent liabilities since the last annual balance sheet date as at 31 July 2004 to 22 February 2006 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report) are as follows:-

	Increase/ (Decrease) RM'000
Bank guarantees given to third parties relating to performance, tenders and advance payment bonds	<u>(40,942)</u>



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13. Trade and other receivables

Trade and other receivables consist of the following:-

	RM'000
Trade receivables	61,210
Less: Allowance for doubtful debts	<u>(15,112)</u>
	46,098
Amount due from contract customers	28,037
Associates	3,991
Other receivables, deposits and prepayment	<u>28,157</u>
	<u><u>106,283</u></u>

14. Trade and other payables

Trade and other payables consist of the following:-

	RM'000
Trade payables	47,587
Other payables and accruals	11,298
Associates	8,083
Amount due to contract customers	<u>553</u>
	<u><u>67,521</u></u>

15. Net assets (NA) per share

The NA per share is derived as follows:-

	RM'000
Shareholders funds	108,121
Add: Minority interest	<u>21,057</u>
NA	<u>129,178</u>
No. of shares	<u>212,046</u>
NA per share (RM)	<u><u>0.61</u></u>



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ADDITIONAL DISCLOSURE PURSUANT TO CHAPTER 9, PART K OF THE LISTING REQUIREMENTS OF THE BURSA MALAYSIA SECURITIES BERHAD

1. Taxation

The breakdown of tax charge is as follows:-

	Current Quarter Ended 31/12/05 RM'000	17 Months Ended 31/12/05 RM'000
Current tax expense	298	(2,114)
Prior year tax expense	(487)	(432)
Deferred tax expense	286	286
Share of associated companies' taxation	(118)	(943)
	<u>(21)</u>	<u>(3,203)</u>

For the current and the 17 month period ended 31 December 2005, the Group's taxation charges were largely in respect of tax provisions made by certain subsidiaries in the current period and share of associated companies' taxation charges.

Group reliefs for losses incurred by certain subsidiaries were not available to be set off within the Group.

2. Sale of Unquoted Investments and/or Properties

There were no disposals of unquoted investments or properties during the 17 month period ended 31 December 2005.

3. Purchase or Disposal of Quoted Investments

There were no purchases or disposals of quoted investments during the 17 month period ended 31 December 2005. Total investments in quoted securities as at 31 December 2005 are as follows:

	RM'000
At cost	175
At book value	18
At market value	18

4. Status of Corporate Proposals

- (i) On 13 April 2005, Salcon Engineering Berhad, a wholly owned subsidiary of the Company, has entered into a conditional share sale agreement with M. D. Construction Sdn. Bhd for the proposed acquisition of 760,000 ordinary shares of RM1.00 each in Wawasan R & R Builders Sdn. Bhd. (R & R), representing 100% equity interest in R & R for a total cash consideration of RM15,000,000.

The completion of the proposed acquisition is subject to satisfactory completion of the due diligence exercise on R & R and the approval of the Foreign Investment Committee (FIC).



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FIC approval was obtained on 17 June 2005 and the due diligence exercise is still currently being carried out.

The latest timeline for the completion of the proposed acquisition has since lapsed on 12 January 2006. However, both parties to the proposal have on 12 January 2006 mutually agreed to further extend the timeline for another 3 months to 11 April 2006.

- (ii) Shandong Changle Salcon Water Co. Ltd. a wholly owned subsidiary of Salcon Water (HK) Limited ("SWHK") had on 1 January 2006 acquired the Changle sewage treatment plant and related facilities, for a total cash consideration of RMB18.0 million.

SWHK is a wholly owned subsidiary of Salcon Berhad

- (iii) The Private Placement as announced by Salcon Berhad on 7 July 2005 has been completed. A total of 19,276,860 new ordinary shares of RM0.50 each was placed at RM0.51 per share and the shares were granted listing and quotation on the Main Board of Bursa Malaysia Securities Berhad on 10 October 2005.

The status of the utilisation of the proceeds as at 22 February 2006 is as follows: (being the last practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

	Approved RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Payment of operating and general administrative expenses	5,927	(6,039)	(112)
Repayment of short term loans	2,209	(2,209)	-
Repayment of interest on Collateralised Loan Obligation	1,545	(1,510)	35
Payment of expenses relating to the Proposed Private Placement	150	(73)	77
	<u>9,831</u>	<u>(9,831)</u>	<u>-</u>

- (iv) Salcon Linyi (HK) Ltd., ("SLHK") a wholly owned subsidiary of the Company via its Concessionaire, Linyi Salcon Water Co. Ltd. ("LSW") has on 11 November 2005 signed the Concession Agreement with The People's Government of Linyi City, China, for the management, operation and maintenance of the entire water supply system in Linyi city.

The Water Project will involve:-

- (i) Taking over the existing 150MLD plant and its supply area;
- (ii) Construction of the reticulation trunk main and sub-reticulation pipelines within the Concession Area; and
- (iii) A 30 years concession for the Concessionaire to operate and collect the water tariff from the users.

SLHK has on 23 November 2005 injected USD4.444 million into LSW to acquire 60% registered capital of LSW.

As at 1 January 2006, LSW has taken over the management, operation and maintenance of the entire water supply system in Linyi city.



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5. Group Borrowings and Debt Securities

Total Group borrowings as at 31 December 2005 are as follows:

	RM'000	RM'000	RM'000
<u>Long Term Borrowings</u>			
Term loan	-	47,187	47,187
Hire purchase liabilities	182	-	182
	<u>182</u>	<u>47,187</u>	<u>47,369</u>
<u>Short Term Borrowings</u>			
Bank overdrafts	-	43	43
Revolving credits	-	7,880	7,880
Bankers acceptances	-	5,279	5,279
Hire purchase liabilities	160	-	160
	<u>160</u>	<u>13,202</u>	<u>13,362</u>
Total Group Borrowings	<u>342</u>	<u>60,389</u>	<u>60,731</u>

Included in the above Group borrowings are the following loans denominated in Chinese Renminbi (RMB) :

	Foreign currency RMB'000	Equivalent RM'000
Long Term Borrowings (Unsecured)	<u>4,703</u>	<u>2,187</u>

6. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off balance sheet risk as at 22 February 2006 (being the last practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

7. Changes in Material Litigation

The material litigations as at 22 February 2006 (being the last practicable date which is not earlier than 7 days from the date of issue of this quarterly report) are as follows:

- (i) Salcon Engineering Berhad ("SEB") 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



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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. The next mention date is on 6 March 2006.

- (ii) MQS Engineering Sdn Bhd ("MQS") instituted legal proceedings in Shah Alam High Court against SEB for an amount of RM4,745,035 pursuant to a Novation Agreement and Settlement Agreement both dated 23 November 2000. In response, SEB has successfully applied to amend the Defence and to include a Counter-Claim of RM1,780,004.00 in the suit.

At the case management held on 16 September 2005, the Court was informed that all matters pertaining to the parties claims have been complied with and accordingly the Court fixed the full trial hearing for the Claim and Counter-Claim on 10 May to 12 May 2006.

8. Material Changes in the Results of the Current Quarter compared to that of the Preceding Quarter

Compared to the preceding quarter of 3 months from 1 July 2005 to 30 September 2005, the Group's revenue for this three month period increased by RM2.7 million whereas its profit before tax decreased by RM29.2 million (a loss before tax of RM28.3 million in the current quarter) largely due to provisions for doubtful debts and higher material costs recognised during the current quarter.

9. Review of Performance of the Company and its Principal Subsidiaries

For the quarter under review, the Group recorded revenue and loss before tax of RM26.2 million and RM28.3 million respectively. No comparison was made against the previous corresponding quarter as the Group has changed its financial year-end from the existing 31 July to 31 December as detailed in Note A1.

For the 17 month period to date, the Group recorded revenue and loss before tax of RM162.4 million and RM22.9 million respectively. No comparison was made against the previous corresponding period as the Group has changed its financial year-end from the existing 31 July to 31 December as detailed in Note A1.

These results reflect the slowdown in domestic water infrastructure projects. Meanwhile, the China water concessions secured during the period are in early implementation stages and do not currently contribute significantly to the revenue.

10. Prospects for the Current / Next Financial Year

During the coming financial year and pending implementation of the 9th Malaysia Plan, the Group will focus on overseas business opportunities and non revenue water projects.

Building upon Salcon's success in securing water and waste water concessions, the Group will continue to seek more investment opportunities in China.

In addition, the Group expects the various international tenders it has participated in Vietnam, India and Sri Lanka to materialize.



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11. Variance of Profit Forecast / Profit Guarantee

Not applicable to the Group.

12. Proposed Dividend

No dividend has been declared nor recommended for the 17 month period ended 31 December 2005.

13. Earnings/(Loss) Per Share

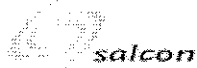
The basic and diluted earnings/(loss) per share have been calculated based on the consolidated net profit attributable to ordinary shareholders for the period and the weighted average number of ordinary shares outstanding during the period as follows:

Basic earnings/(loss) per share

	Current Quarter Ended 31/12/05	Comparative Quarter Ended 31/12/04	Cumulative Quarter To-date	
			31/12/05	31/12/04
Net loss attributable to ordinary shareholders (RM'000)	<u>(28,112)</u>	<u>N/A</u>	<u>(27,512)</u>	<u>N/A</u>
<u>Weighted average number of ordinary shares</u>				
Issued ordinary shares at beginning of period ('000)	212,045	N/A	192,769	N/A
Effect of shares issued during the period ('000)	<u>-</u>	<u>N/A</u>	<u>3,461</u>	<u>N/A</u>
Weighted average number of ordinary shares ('000)	<u>212,045</u>	<u>N/A</u>	<u>196,230</u>	<u>N/A</u>
Basic loss per share (sen)	(13.258)	N/A	(14.020)	N/A

Note:

The comparative figures are not applicable due to the change of financial year as detailed in Note A1.



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Diluted earnings/(loss) per share

For the diluted earnings per share calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares are in respect of options over ordinary shares granted to employees.

Since the exercise price of options over ordinary shares are above the fair value of the Company's ordinary shares as at the end of the financial quarter to date, the options over ordinary shares are non-dilutive. Accordingly, diluted earnings per share information is not presented in the financial statements.

14. Comparative figures

The comparative figures are not applicable due to the change of financial year as detailed in Note A1.

ON BEHALF OF THE BOARD

DATO' LIM SEE TEOK
Chief Executive Officer/ Director

Selangor Darul Ehsan
24 February 2006