



ANNUAL REPORT 2004





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# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Second Annual General Meeting of the Company will be held at Ballroom 1, Level 5, The Summit Hotel, Subang USJ, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan on Thursday, 13 January 2005 at 10.00 a.m.

## AGENDA:

1. To receive and adopt the Audited Financial Statements for the year ended 31 July 2004 together with the Directors' and Auditors' Reports thereon.
2. To declare a first and final tax-exempt dividend of 2.60 sen per share for the year ended 31 July 2004.
3. To approve the payment of Directors' fee of RM146,000.
4. To re-elect the following Directors who are retiring in accordance with Article 96 of the Company's Articles of Association:-
  - (a) Mr. Teoh Seng Kian
  - (b) Dato' (Dr.) Teoh Seng Foo
  - (c) Dato' Seri Megat Najmuddin Bin Datuk Seri Dr Hj Megat Khas
5. To re-appoint Messrs KPMG as Auditors of the Company and authorise the Directors to determine their remuneration.
6. To transact any other business appropriate to an Annual General Meeting.
7. To consider as **SPECIAL BUSINESS**, and if thought fit, to pass the following resolutions :-

### ORDINARY RESOLUTION NO. 1

#### AUTHORITY TO ALLOT AND ISSUE SHARES PURSUANT TO THE EMPLOYEES' SHARE OPTION SCHEME (ESOS)

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

### ORDINARY RESOLUTION NO. 2

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

"That, subject to the Companies Act, 1965 and the Articles of Association of the Company and approvals from the Securities Commission and Bursa Malaysia Securities Berhad and other relevant governmental or regulatory authorities, the Directors be and are hereby empowered pursuant to Section 132D of the Companies Act, 1965 to allot and issue shares in the capital of the Company from time to time upon such terms and conditions and for such purposes as the Directors may in their discretion deem fit provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

### BY ORDER OF THE BOARD

TAI SIEW MAY  
Secretary

Subang Jaya, Selangor  
21 December 2004

#### Notes :

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. A proxy need not be a member of the Company and Section 149(1) of the Act shall not apply.
2. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
3. In the case of a corporate body, the proxy appointed must be in accordance with the Memorandum and Articles of Association, and the instrument appointing a proxy shall be given under the Company's Common Seal or under the hand of an officer or attorney duly authorised.
4. The Form of Proxy must be deposited at 17th Floor, Menara Summit, Persiaran Kewajipan USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.
5. Any alteration in the form of proxy must be initialled.

#### EXPLANATORY NOTES TO SPECIAL BUSINESS

##### 1) ORDINARY RESOLUTION NO. 1

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

##### 2) ORDINARY RESOLUTION NO. 2

The proposed Ordinary Resolution, if passed, will give the Directors of the Company the power to issue shares in the Company up to an amount not exceeding in total 10% of the issued share capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This would avoid any delay and cost involved in convening a general meeting to specifically approve such an issue of shares. This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting of the Company.



## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

### 1. Directors standing for re-election

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

- 1.1 Mr. Teoh Seng Kian
- 1.2 Dato' (Dr.) Teoh Seng Foo
- 1.3 Dato' Seri Megat Najmuddin Bin Datuk Seri Dr Hj Megat Khas

The profiles of the above Directors are set out in the Section entitled "Profile of Directors". Their shareholdings in the Company and subsidiary companies are set out in the Section entitled "Directors' Report" on page 33.

### 2. Attendance of Board Meetings

There were five (5) Board Meetings held during the financial year ended 31 July 2004. The details of attendance of the Directors are set out on page 20 on the Statement of Corporate Governance in the Annual Report.

### 3. Second Annual General Meeting

Place : Ballroom 1, Level 5, The Summit Hotel, Subang USJ,  
Persiaran Kewajipan, USJ1, 47600 UEP Subang Jaya,  
Selangor Darul Ehsan.

Date : Thursday, 13 January 2005

Time : 10:00 a.m.

## CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Tan Sri Razali Ismail**

Chairman, Non-Independent Non-Executive Director

**Dato' (Dr.) Teoh Seng Foo**

Vice Chairman, Non-Independent Non-Executive Director

**Dato' Lim See Teok**

Chief Executive Officer, Executive Director

**Jaggit Singh a/l Tara Singh**

Executive Director

**Teoh Seng Kian**

Director

**Foo San Kan**

Independent Non-Executive Director

**Dato' Dr Freezailah bin Che Yeom**

Independent Non-Executive Director

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

Independent Non-Executive Director

## AUDIT COMMITTEE

Foo San Kan (Chairman)

Dato' Dr Freezailah bin Che Yeom

Dato' Lim See Teok

## COMPANY SECRETARY

Tai Siew May

## REGISTERED OFFICE

17th Floor, Menara Summit

Persiaran Kewajipan, USJ 1

47600 UEP Subang Jaya

Selangor Darul Ehsan.

Tel: 03-8024 8899 Fax: 03-8024 8998

## HEAD OFFICE

15th Floor, Menara Summit

Persiaran Kewajipan, USJ 1

47600 UEP Subang Jaya

Selangor Darul Ehsan

Tel: 03-8024 8822 Fax: 03-8024 8811

E-mail: salconen@tm.net.my

Website: <http://www.salcon.com.my>

## AUDITOR

KPMG

Chartered Accountants

Wisma KPMG, Jalan Dungun

Damansara Heights

50490 Kuala Lumpur

## PRINCIPAL BANKERS

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

## REGISTRAR

PFA Registration Services Sdn Bhd

Level 13, Uptown 1, No. 1, Jalan SS 21/58

Damansara Uptown, 47400 Petaling Jaya

Selangor Darul Ehsan.

Tel: 03-7725 4888 Fax: 03-7722 2311

## STOCK EXCHANGE LISTING

Main Board of Bursa Malaysia Securities Berhad

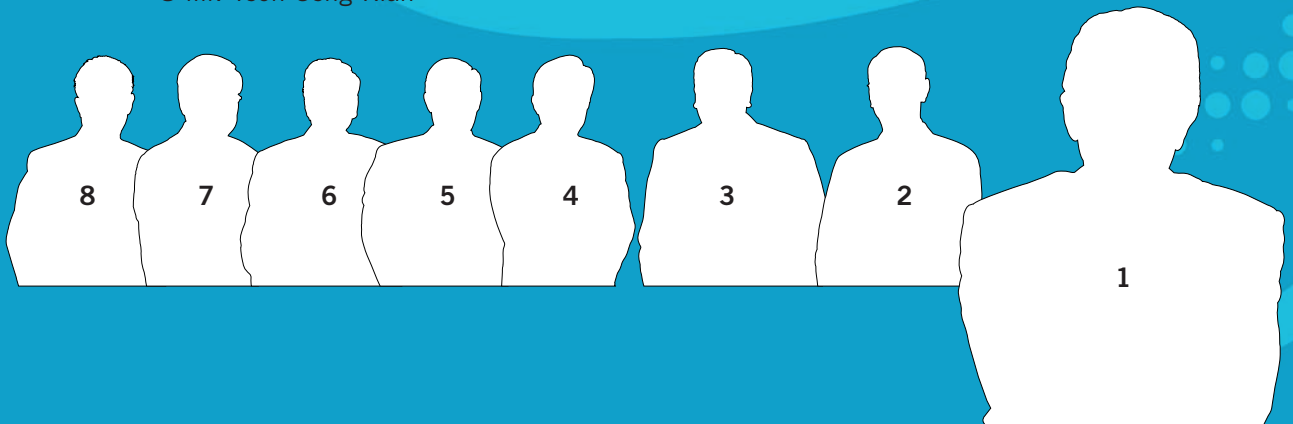
# CORPORATE STRUCTURE



# BOARD OF DIRECTORS



- 1 Tan Sri Razali Ismail
- 2 Dato' Lim See Teok
- 3 Mr Jaggit Singh a/l Tara Singh
- 4 Dato' (Dr.) Teoh Seng Foo
- 5 Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas
- 6 Dato' Dr Freezailah bin Che Yeom
- 7 Mr Foo San Kan
- 8 Mr. Teoh Seng Kian









## PROFILE OF DIRECTORS

### TAN SRI RAZALI ISMAIL

Chairman, Non-Independent Non-Executive Director  
Malaysian

Tan Sri Razali Ismail, aged 65, was appointed to the Board on 21 July 2003, holds a Bachelor of Arts (Honours) from University of Malaya.

Tan Sri is the United Nation's Secretary-General's Special Envoy for Myanmar since April 2000, Chairman of Yayasan Salam (the Malaysian Peace Corps) since its inception which was launched in July 1997. He is Chairman of the Malaysian Wetlands Foundation, Paya Indah Wetlands Sanctuary. He is an Honorary Fellow of the Institute for Environment and Development, National University of Malaysia and was appointed a Pro-Chancellor of Universiti Sains Malaysia for the term July 2001 to July 2006. He is a Founding Member of the Governing Council of WSP-International based in Geneva in April 2000. He was appointed President of World Wide Fund Malaysia for a 5-year term with effect from 1 July 2003.

Tan Sri joined the Ministry of Foreign Affairs in 1962 and held various offices in India (1963-1966), France (1966-1968), the United Kingdom (1970-1972) and Laos (1974-1976). He was appointed Ambassador to Poland in 1978 with concurrent accreditation to the then German Democratic Republic, Czechoslovakia and Hungary before serving as the High Commissioner to India in 1982. He was Deputy Secretary-General of Political Affairs in the Ministry of Foreign Affairs in 1985.

As the Permanent Representative of Malaysia to the United Nations from 1988 to 1998, and concurrent Ambassador to Cuba, Jamaica, Saint Lucia, Barbados, Trinidad and Tobago, Tan Sri served in various capacities in the World Body and was actively involved in several bodies both within and outside the United Nations system especially those dealing with development, the environment, human rights and reform of the United Nations. From 1989 to 1990, he headed the Malaysian delegation to the UN Security Council and served twice as its President in June 1989 and again in July 1990. In 1989, he was Chairman of the Group of 77. He was elected Chairman of the Commission on Sustainable Development in 1993. Tan Sri was President of the Fifty-First Session of the United Nations General Assembly in 1996-1997.

He received the first Elizabeth Haub Prize for Environmental Diplomacy by Pace University, New York on 11 May 1999 and was conferred a Fellow of INTAN on 15 May 1999. He was conferred the "Ordre National du Merite" (National Order of Merit) by the French Government in November 2000 and Honorary Doctorate of Law by Universiti Kebangsaan Sarawak in August 2002.

Presently, he holds board positions in the following public listed companies:

Allianz General Insurance Malaysia Berhad  
IRIS Corporation Berhad  
Leader Universal Holdings Berhad  
Plus Expressways Berhad

He is a member of the Remuneration Committee.

He is a substantial shareholder of the Company by virtue of his indirect substantial shareholding in Mampu Alam Sdn. Bhd. Apart from the above, he has no family relationship with any other Director and/or major shareholder of the Company. He has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company nor any convictions for offences within the past 10 years.

## DATO' (DR.) TEOH SENG FOO

Vice Chairman, Non-Independent Non-Executive Director  
Malaysian

Dato' (Dr.) Teoh Seng Foo, aged 48, was appointed to the Board on 21 July 2003. An accountant by profession, Dato' is a Chartered Accountant of the Malaysian Institute of Accountants and a Chartered Management Accountants/ Fellow Member of the Chartered Institute of Management Accountants, United Kingdom. Dato' also holds a Diploma in Commerce from Tunku Abdul Rahman College and was conferred the Honorary Doctorate in Business Administration by the University of Abertay, Dundee, United Kingdom.

Dato' has wide experience in commerce and industry, having held senior management positions in multi-nationals such as Intel Technology, Woodward & Dickerson Inc and PricewaterhouseCoopers. Presently, Dato' holds board positions in the following public listed company:-

|                       |                                |
|-----------------------|--------------------------------|
| Kumpulan Emas Berhad  | - Executive Chairman           |
| Meda Inc. Berhad      | - President/Executive Director |
| SEG International Bhd | - President/Executive Director |

Dato' is also the Chairman of the Remuneration, Nominating, Risk Management, Executive and ESOS Committees of the Company.

Dato' has direct and indirect interest in 4,587,400 and 69,551,960 ordinary shares of RM0.50 each respectively in the Company. He is deemed to have an interest in all the shares held by the Company in the subsidiaries by virtue of his substantial interest in shares in the Company.

Dato' is a brother to Teoh Seng Kian, a Director and substantial shareholder of the Company. Aside from this, he has no other family relationship with any other Director and/or major shareholders of the Company and has no convictions for offences within the past 10 years.

Dato' has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company, other than those disclosed in Note 24 in the accompanying financial statements.

## DATO' LIM SEE TEOK

Chief Executive Officer, Executive Director  
Malaysian

Dato' Lim See Teok, aged 47, was appointed to the Board on 21 July 2003. An accountant by profession, Dato' obtained his Master in Business Administration (General Management) from the University of Bath, United Kingdom in 1991. Prior to joining Salcon Engineering Berhad (SEB), his experience included many solid years in General Management, International Marketing as well as Finance and Operations with multi-national organisations and Malaysian conglomerates.

Since joining SEB in 1997, Dato's business strategy for the Group has been to generate value for the shareholders by transforming the Company from an M&E specialist in water treatment into a regional, service-driven organisation with a steady inflow of income and revenues. Today, as a Total Solutions Provider in the water and wastewater sector, the Group is able to offer end to end solutions to its clients by providing clients system integration in civil, structural, mechanical, electrical and instrumentation work as well as after sales services and maintenance.

Under his adept leadership, Salcon Berhad was successfully listed on the Main Board of the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia Securities Berhad) on 3 September 2003 and is set to scale greater heights.

He is the Chairman of Tender Committee and also a member of the Audit, Risk Management, ESOS and Executive Committees of the Company.

He has no family relationship with any other Director and/or major shareholder of the Company. He has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company nor any convictions for offences within the past 10 years.

**MR. JAGGIT SINGH A/L TARA SINGH**

Executive Director  
Malaysian

Mr. Jaggit Singh, aged 57, was appointed to the Board on 21 July 2003. He is a qualified Mechanical Engineer by profession. He started his career as a lecturer and subsequently proceeded to be a project engineer. To date he has more than 26 years of experience in the design and execution of water treatment and pumping projects for the public sector. He joined Salcon Engineering Berhad (SEB) in 1980 and currently heads Water and Environmental Division.

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

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

He is a member of the Risk Management, ESOS and Tender Committees of the Company.

He has no family relationship with any other Director and/or major shareholder of the Company. He has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company nor any convictions for offences within the past 10 years.

**MR. TEOH SENG KIAN**

Director  
Malaysian

Teoh Seng Kian, aged 44, was appointed to the Board on 1 April 2004. He graduated with a Bachelor of Engineering (Mechanical) degree from the University of Sydney, Australia in 1984.

He started his career with an Australian company specializing in manufacturing of building materials. Upon returning to Malaysia, he served as a director in a company involved in quarrying and infrastructure construction. He has been with Meda Inc. Group since 1993 upon his appointment as the Group Project Director.

Presently, he holds board position in the following public listed companies :

Kumpulan Emas Berhad  
Meda Inc. Berhad

He is a member of the Executive and Tender Committees of the Company.

He is a substantial shareholder of the Company by virtue of his indirect substantial shareholding in Kumpulan Emas Berhad.

He is a brother to Dato' (Dr.) Teoh Seng Foo, a Director and substantial shareholder of the Company. Aside from this, he has no other family relationship with any other Director and/or major shareholders of the Company nor any convictions for offences within the past 10 years.

He has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company, other than those disclosed in Note 24 in the accompanying financial statements.

**MR. FOO SAN KAN**

Independent Non-Executive Director  
Malaysian

Foo San Kan, aged 56, was appointed to the Board on 21 July 2003. An accountant by profession, he is a Chartered Accountant of the Malaysian Institute of Accountants. He is also a member of the Malaysian Institute of Certified Public Accountants, a fellow of the Institute of Chartered Accountants in England and Wales as well as the Malaysian Institute of Taxation.

Prior to his retirement at the end of 2002, he was the Managing Partner of Ernst & Young in Malaysia and its related firms from 1997 to 2002. He has 34 years of experience in the profession and has spent the last 29 years in various positions in the firm. During the course of his career, he was involved in various industrial sectors including financial services, energy, utilities, plantations, property, construction, communications and entertainment. His professional experience covers almost all aspects of the accounting profession, including but not limited to audit, receivership, liquidation, taxation, secretarial, corporate advisory and management consultancy and all services related to the Labuan Offshore Financial Services Authority.

He is currently a director of Symphony House Berhad and OSK Ventures International Berhad, both listed on the MESDAQ Board of Bursa Malaysia Securities Berhad, OSK-Signet Trustees Berhad and several other private limited companies in Malaysia.

He is the Chairman of the Audit Committee and a member of the Remuneration and Nominating Committees of the Company.

He has no family relationship with any other Director and/or major shareholder of the Company. He has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company nor any convictions for offences within the past 10 years.

**DATO' DR. FREEZAILAH BIN CHE YEOM**

Independent Non-Executive Director  
Malaysian

Dato' Dr. Freezailah Bin Che Yeom, aged 65, was appointed to the Board on 21 July 2003, holds a First Class Honours degree in Forestry and a Doctor of Philosophy in Ecology from Edinburgh University, United Kingdom.

Dato' has more than 40 years of experience in various fields of the forestry sector including holding several senior management positions. In 1987 he was elected to serve as the founding Executive Director of the UN-Sponsored International Tropical Timber Organisation (ITTO) based in Yokohama, Japan with the rank of Assistant Secretary-General on the UN-Scale. He provided leadership to the 57-member-country ITTO and nurtured its growth and development into a respected global body to promote the conservation, sustainable management and utilisation of the world's tropical forests. In recognition of his contributions to the forestry sector, the ITTO created the "Freezailah Fellowship Fund" on his retirement in 1999 and was conferred "Award of Excellence" by the Commonwealth Forestry Association and the Government of Japan among others. Dato' is a Fellow of the Institute of Foresters Malaysia and Honorary Member of the Society of American Foresters. He has also addressed many important forestry fora.

Dato' is currently Chairman of the Malaysian Timber Certification Council. He is active in various national and international organisations and initiatives dealing with forestry, conservation, environmental issues and related technological advances.

He is a member of the Audit and Nominating Committees of the Company.

He has no family relationship with any other Director and/or major shareholder of the Company. He has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company nor any convictions for offences within the past 10 years.

**DATO' SERI MEGAT NAJMUDDIN BIN DATUK SERI DR HJ MEGAT KHAS**

Independent Non-Executive Director  
Malaysian

Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas was appointed to the Board on 21 July 2003.

He holds an Honours Degree in Law from the University of Singapore. He is prominent in the corporate sector and holds several important posts. He is the President of both the Federation of Public Listed Companies Berhad ("FPLC") and the Malaysian Institute of Corporate Governance ("MICG").

He currently sits as the Non-Executive Chairman of 4 public listed companies, ie. Tradewinds Corporation Berhad (formerly known as Pernas International Holdings Berhad), Asian Pac Holdings Berhad, My-Infotech (M) Berhad, and Century Bond Berhad. He sits as an independent non-executive director on the Board of Dialog Group Berhad and SEG International Berhad. He was a member of the High Level Finance Committee of the Ministry of Finance and Capital Market Advisory Council of the Securities Commission ("CMAC"). He was a member of the 2nd National Economic Consultative Council ("NECC2") and Corporate Debt Restructuring Committee ("CDRC"). He now sits on UMNO Malaysia's Disciplinary Committee. He is also active in the Institute of Integrity Malaysia ("IIM").

He has no family relationship with any other Director and/or major shareholder of the Company. He has not entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company nor any convictions for offences within the past 10 years.

## CHAIRMAN'S STATEMENT

# Dear Shareholders

On behalf of the Board of Directors, it is my pleasure to present the Annual Report and Financial Statements for the year ended 31 July 2004.



## CORPORATE MILESTONE

Last year was a watershed year for Salcon Berhad as we were successfully listed on the Main Board of Kuala Lumpur Stock Exchange (now known as Bursa Malaysia Securities Berhad). Trading of Salcon shares commenced on 3 September 2003.

## FINANCIAL PERFORMANCE

For the financial year under review, the Group registered a revenue of RM147million and a corresponding profit before and after taxation of RM14 million and RM 11 million respectively. As a result, the basic earnings per share as at 31 July 2004 stood at RM0.49.

During the period under review, structural changes in the Malaysian water and wastewater industry resulted in the Group experiencing a sudden deferment of projects implemented. Hence the Group's financial performance fell short of our Prospectus projection. However, we are confident of achieving the targeted results once projects are release for implementation by the new Ministry of Energy, Water and Communications.

## DIVIDEND

In continuation of Salcon Engineering Berhad good dividend payment record, the Board is recommending a final tax-exempt dividend of 2.6 cents per share for the financial year ended 31 July 2004, subject to the approval of the shareholders at the Annual General Meeting amounting to total dividend payout of RM5.0 million.



Opening ceremony of Shandong Changle Salcon Water Co. Ltd. in April 2004.

*Board is optimistic that the Group will perform satisfactorily in the financial year ahead and the outlook for the Group for the next few years remains strong*

## CORPORATE DEVELOPMENT

During the financial year under review, the Securities Commission approved the Company's Employees' Share Option Scheme (ESOS) involving the issuance of option to subscribe for shares in Salcon to eligible employees and Directors of the Group.

On 22 December 2003, the Group through its wholly owned subsidiary, Salcon Water (HK) Limited, invested USD1.44 million (RM5.472 million) in Shandong Changle Salcon Water Company Limited (SCSWCL), a foreign investment enterprise in the People's Republic of China (PRC). The investment supports our growth strategy in the rapidly developing market in PRC. The Group holds a 75% interest in SCSWCL which is involved in construction, downstream water distribution, billing and collection services for 50 years. SCSWCL commenced operations on 1 January 2004.

As part of our strategy to focus on our water and wastewater activities, the Group transferred the Agro-Industrial Division business to our associate company, Tricol Engineering Sdn Bhd of which Salcon Engineering Berhad holds 40% equity.



Minister of Energy, Water and Communications, Dato' Seri Dr Lim Keng Yaik during his visit to Salcon's booth at the Asiwater 2004 Exhibition in the MINES, Kuala Lumpur.

## INDUSTRY OUTLOOK

Under the Eighth Malaysian Plan (8MP), which covers 2001 to 2005, an allocation of RM3.9 billion is channeled towards the development of the country's water resources. As demand for water for domestic and industrial use is expected to increase by 5.4% per annum and the national water supply coverage is expected to increase to 95%, the Government's attention is focused on long term water resource planning and development.

In line with the Government's emphasis on water as a core sector of the Malaysian economy, potable water and sewerage were placed under a new ministry for Energy, Water and Communications in March 2004. The role of the new ministry is to facilitate and regulate the growth of the energy,



Alum tanks and platform for Lancang Treatment Works and Bulk Transfer Project in Malacca.

water and communications sectors in order to ensure the availability of high quality, efficient and reliable services at a reasonable price to consumers throughout the country.

With the formation of the new Ministry, the National Water Services Commission will also be formed to act as a Regulator to ensure a balance between the various stakeholders in the water and wastewater industry.



Leakage detection team using listening stick to detect leaks.

The Government's initiatives are very much in line with Salcon's beliefs of striking a fair balance between public interest and commercial profitability. We are confident that these policies will provide ample opportunities for Salcon, given its extensive experience and ability to offer value added services in the design, construction and operation of water and wastewater treatment plants. With its good track record in Malaysia as well as overseas, Salcon's ability to provide end to end solutions in the areas of water and wastewater engineering and management services will stand in good stead.

## PROSPECTS

With the increased funding options available as a result of our IPO exercise, we have successfully executed some of our future plans and put in place our strategy to fuel future growth. Together with the Group's good management and technical track





*Signing of Head of Agreement between Salcon Berhad and the People's Government of Weifang Municipality pertaining to investment in the water supply system in Weifang Municipality, Shandong Province, China witnessed by YAB Prime Minister.*

records, we are confident of meeting the challenges arising from the ongoing structural changes carried out by the new Malaysian Ministry of Energy, Water and Communications.

The Group continues to explore offshore opportunities and has ventured into China. Our first Chinese concession is the 50-year water concession in Changle, Shandong Province. In addition, Salcon has signed several framework agreements with four counties/cities in Shandong and Kunming in Yunnan. The investment in Shandong Changle Salcon Water Company Limited allows for further opportunities to develop a firm foothold in this rapidly expanding market.

The Group will continue to implement the projects it had in hand with a residual contractual value of RM 320 million from the original portfolio of projects worth RM600 million as at 31 July 2004. Construction works from the balance of the order book should keep the Group busy for the next 2 years. More than half of the current projects involved long term operation and maintenance contracts with duration of eight years or more.

Against the backdrop of strong Malaysian macro-economic fundamentals and a broadly-balanced economic structure the Board is optimistic that the Group will perform satisfactorily in the financial year ahead and the outlook for the Group for the next few years remains strong.



*Elevated view of the Minburi Pumping Station in Bangkok, Thailand.*

## CORPORATE GOVERNANCE

Our Statement on Corporate Governance is set out on pages 20 to 25.

There were no sanctions, reprimands and/or penalties imposed on either the Company or the Group, Directors or Management by the relevant authorities during the financial year.

## ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I would like to thank the management and all employees of the Group for their strong commitment and contribution towards the growth and continued success of our Group. I would also like to take this opportunity to thank shareholders, Government regulatory authorities and agencies, associates, clients, bankers, sub-contractors and suppliers for their continuing support to the Group.

Finally, I would like to thank my fellow board members for their invaluable advice and contribution to Salcon Group. I also wish to welcome Mr Teoh Seng Kian, who was appointed to the Board on 1 April 2004. Mr Teoh has been a Director of Salcon Engineering Berhad for the last seven (7) years and we look forward to his contributions at the Group level.

**Tan Sri Razali Ismail**  
Chairman

## CEO's MESSAGE

# Message to Shareholders

*"As evidenced from our past experience, we firmly believe that Salcon is ready and strategically positioned to grasp the opportunities as they arise with our focused approach, proficient management and a strong balance sheet."*





*Signing of NRW Reduction Contract for Sandakan District, Sabah.*

After 29 years of successful operations, Salcon was listed on the Main Board of Kuala Lumpur Stock Exchange (now known as Bursa Malaysia Securities Berhad) on 3 September 2003. It was an exciting and eventful beginning, filled with expectation, arising from our newly listed status and the Malaysian government announcement of transfer of water management from the State to the Federal Government.

As the year unfolded, most water and wastewater related projects were put on hold pending the formation of the National Water Services Commission which has since been deferred from year end 2004 to second quarter of calendar year 2005.

The deferment in Government investment and expenditure, which is the main driver for the construction and development of the Malaysian water industry, and the uncertainty surrounding the structural changes in the industry in which Salcon operates, has led to a very challenging environment.

Salcon has weathered through many tough times. Most recent was during the Asian Financial crisis where all projects were virtually put on standstill for a good 18 months. However, when the freeze was lifted, projects flowed out in a gush and Salcon was a prominent beneficiary, experiencing a 3 fold increase in book orders.

As evidenced from our past experience, we firmly believe that Salcon is ready and strategically positioned to grasp the opportunities as they arise with our focused approach, proficient management and a strong balance sheet.

## TOTAL SOLUTIONS PROVIDER

In line with our vision as a total solutions provider in the water industry, Salcon's strategy is to build on our recognized expertise in our core sectors and develop new expertise in related technical fields with promising growth opportunities.

This has seen us enlarging our scope of services and venturing into the Non Revenue Water (NRW) and Operation & Maintenance of water treatment plants (O&M) segment of the water market. These markets provide exciting opportunities with good growth potential. Leveraging on our successes in penetrating these niche markets, Salcon intends to capitalize on and enhance our presence, not only in Malaysia but in the region.

Our wastewater division, Envitech Sdn Bhd contributed 35% of the Group's turnover in the current financial year as compared to 22% in the past year. Our expansion into this important market is indeed timely and opens new opportunities for growth. Taking advantage of water achievements overseas, the Group is also exploring wastewater and sewerage opportunities abroad especially in China.



*Lamella Clarifier installed at Kepong 3 Water Treatment Plant, Kuala Terengganu*

## GOING REGIONAL

The financial year ended 31 July 2004 saw the Group making great strides in accelerating its water business regionally. This coincided with the slowdown experienced on the local front which enabled the management to reallocate resources overseas.

Salcon made its mark in the rapidly expanding China market by successfully clinching a 50-year water concession in Changle, Shandong province. The concession operates as a full fledged water supply company for the Changle County and includes the construction, production, O&M, distribution, NRW reduction, billing and collection of treated water.

Several framework agreements with four counties/cities in Shandong and Kunming in Yunnan were also signed. We are working towards the commencement of construction works for some of these cities in the financial year 2004/05.



*Pipe laying works to new townships for the Changle water supply concession.*

In Thailand, Salcon successfully completed the construction of the Min Buri Water Distribution Pumping Station in Bangkok for the Metropolitan Waterworks Authority (MWA). 2 other projects are also progressing smoothly ie Supply and installation of trunk mains, Contract no. PIT 711 and the construction of Sam Lae raw water pumping station no. 4, both in Bangkok.



*Signing ceremony of The Head of Agreement between Salcon and the People's Government of Linqu County, Anqiu City, Qingzhou City and Changyi City, Weifang Municipality, Shandong Province, China pertaining to investment in the water supply systems in the above counties/cities in September 2003.*

## CORPORATE RESPONSIBILITY

The management is committed and proactive in instilling good corporate governance practices in terms of reporting, reviewing existing systems and procedures to allow us to move towards complying with the Bursa Malaysia Corporate Governance Best Practice guidelines. The management continually monitors issues such as risk management and ethics to safeguard the interest of the various stakeholders.

To foster better relations and understanding, the Company has established a structured communication program spanning from meeting regulatory and reporting requirements to regular dialogues with institutional shareholders, investors and analysts. Our website at [www.salcon.com.my](http://www.salcon.com.my) allows for latest news on development within the Group.

The Group is committed to the ISO 9001: 2000 quality standards and ISO 14001: 1996 environmental standard that was awarded to our Water and Environmental Division by the Bureau Veritas Quality International. The standards have been maintained and regularly monitored through quality audits.

Management committees on health and safety policies were formed to set policies and carry out its implementation. This is to ensure that a health and safety conscious culture is maintained throughout the company. Training and awareness programs together with regular workshops and reviews ensure the development of safer working environment.



*Leak noise correlator - equipment used in NRW control to pinpoint leaks.*



*Top view of the backwash system for Central Sugar Refinery Wastewater Treatment Plant located in Shah Alam, Selangor.*

## LOOKING FORWARD

The Group will stay focused in the water and wastewater sectors as we are confident of the significant growth in demand for water related services throughout the region. The demand for water resources is increasing due to population growth and rising consumption per person, as a result of industrialization and increasing use by individuals as income rises.

Engineering and contracting works will continue to be the prime mover of our business. The Group will participate actively in projects especially those funded by multilateral agencies such as Asian Development Bank and the World Bank. We look forward to duplicating our success in Malaysia, taking cognizance of the cultural and system differences of the respective countries we operate in.

The management will continue to focus on optimizing operation performance and further strengthen our risk management controls and enhance project implementation standards so that we can deliver on the Group's inherent potential.

The listing exercise has also provided the Group with greater flexibility and avenues to raise funding for our future endeavours.

Salcon stands ready to seize opportunities available and our well-rounded capabilities will enable us to deliver innovative solutions on a holistic and integrated manner as envisaged by the new Ministry of Energy, Water and Communications.

## IN APPRECIATION

I would like to take this opportunity to acknowledge the contribution and commitment of all Salcon employees who play such an important role in the success of our organization.

I would also like to thank all our clients for their confidence in our ability to add value to their projects, manage them efficiently and bring them to completion, on a timely basis.

Finally, I would like to thank our shareholders for your continued support and confidence.

**DATO' LIM SEE TEOK**  
Chief Executive Officer

# STATEMENT OF CORPORATE GOVERNANCE

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

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

## PRINCIPLE A – BOARD OF DIRECTORS

### Constitution of the Board and Board Balance

The Board, led by a Non-Executive Chairman is made up of eight (8) members, comprising three (3) Executive Directors and five (5) Non-Executive Directors who are independent of management and have no relationships which could interfere with the exercise of their independent judgement. The number of independent directors is in compliance with the Listing Requirements of the Bursa Malaysia Securities Berhad (BMSB), which requires one third of the Board to comprise of independent directors. The profiles of the Directors are set out in Pages 8 to 11 of this Annual Report.

The Board's composition brings together a diverse wealth of business and financial experience and expertise to effectively discharge its stewardship responsibilities in spearheading the Group's growth and future direction.

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

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

For the financial year ended 31 July 2004, the number of Board meetings held and the attendance of the Directors are listed below:

| Directors  | No. of meetings attended |
|--|--------------------------|
| Tan Sri Razali Ismail                                      | 4/5                      |
| Dato' (Dr.) Teoh Seng Foo                                  | 4/5                      |
| Dato' Lim See Teok   | 5/5                      |
| Jaggit Singh a/l Tara Singh                                | 5/5                      |
| Teoh Seng Kian (Appointed on 1.4.04)                       | 1/1                      |
| Foo San Kan  | 4/5                      |
| Dato' Dr Freezailah Bin Che Yeom                           | 5/5                      |
| Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas | 4/5                      |

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

### Access to Advice and Information

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

All Directors have access to all information within the Group and direct access to the advice and services of the Company Secretary, whether as a full Board or in their individual capacity. In addition, the Directors are also empowered to seek external and independent professional advice at the Company's expense, in order to discharge their duties and responsibilities more effectively.

### Board Committees

The Board has delegated specific responsibilities to four (4) committees, which operate within approved terms of reference, to assist in the effective discharge of its principal responsibilities. Notwithstanding the above, the ultimate responsibility for the final decision lies with the full Board. These committees are:

#### a) Nominating Committee

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

The members are as follows:

Dato' (Dr.) Teoh Seng Foo (Chairman)

Dato' Dr Freezailah Bin Che Yeom

Foo San Kan

#### b) Remuneration Committee

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

The members are as follows:

Dato' (Dr.) Teoh Seng Foo (Chairman)

Tan Sri Razali Ismail

Foo San Kan

#### c) Audit Committee

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

#### d) Risk Management Committee

The Risk Management Committee is to oversee the implementation of risk management in the Group. The Committee reports directly to the Board and assists the Board in overseeing the management of risk issues and reviews the efficacy of internal controls within the Company.

The members are as follows:

Dato' (Dr.) Teoh Seng Foo (Chairman)

Dato' Lim See Teok

Jaggit Singh a/l Tara Singh

Cheok Yeow Kwang @ Chok Ah Soi

### Re-election

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

### PRINCIPLE B - DIRECTORS' REMUNERATION

The details of the remuneration of the Directors of the Company for the financial year under review are as follows:

- Aggregate remuneration of the Directors categorised into appropriate components:

|                         | Salary (RM) | Bonus (RM) | Fees (RM) | Meeting Allowances (RM) | Benefits in Kind (RM) | Statutory Contribution (RM) | Others (RM) | Total (RM) |
|-------------------------|-------------|------------|-----------|-------------------------|-----------------------|-----------------------------|-------------|------------|
| Executive Directors     | 1,004,000   | 180,000    | –         | –                       | 78,750                | 156,525                     | 16,000      | 1,435,275  |
| Non-Executive Directors | –           | –          | 280,400   | 19,000                  | –                     | –                           | –           | 299,400    |

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

| Range of Remuneration  | Number of Directors |               |
|------------------------|---------------------|---------------|
|                        | Executive           | Non-Executive |
| Below RM50,000         | –                   | 3             |
| RM50,001 to RM100,000  | –                   | 1             |
| RM100,001 to RM150,000 | –                   | 1             |
| RM150,001 to RM200,000 | –                   | –             |
| RM200,001 to RM250,000 | –                   | –             |
| RM250,001 to RM300,000 | –                   | –             |
| RM300,001 to RM350,000 | –                   | –             |
| RM350,001 to RM400,000 | 1                   | –             |
| RM400,001 to RM450,000 | –                   | –             |
| RM450,001 to RM500,000 | 2                   | –             |

### PRINCIPLE C - RELATIONSHIP WITH SHAREHOLDERS

#### Shareholders Communication and Investors Relationship Policy

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

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

To further enhance the transparency and communication with the shareholders and all concerned, the Company set up an internet website at [www.salcon.com.my](http://www.salcon.com.my) for the timely dissemination of business related information for the benefit of all interested parties.



The Board has appointed Foo San Kan as the Senior Independent Non-Executive Director to whom shareholders' concerns may be conveyed.

#### **Annual General Meeting (AGM)**

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

### **PRINCIPLE D - ACCOUNTABILITY AND AUDIT**

#### **Financial Reporting**

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

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

#### **Internal Control**

The Statement on Internal Control furnished on Pages 29 to 30 of the Annual Report provides an overview of the state of internal controls within the Group.

#### **Relationship with Auditors**

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

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

#### **Material Contracts**

Save as disclosed in Note 24 of the Financial Statements, there were no material contracts entered into by the Company or its subsidiaries involving Directors and major shareholders for the financial year ended 31 July 2004.

#### **Utilization of Proceeds**

A total of RM35.04 million raised from the listing exercise on the Main Board of Kuala Lumpur Stock Exchange (now known as Bursa Malaysia Securities Berhad) following the completion of the reverse takeover and the transfer of listing status from Seng Hup Corporation Berhad (SHCB) on 3 September 2003 were used as follows:

- RM28.0 million was paid to SHCB's Special Administrators and / or creditors' agent for the benefit of SHCB's creditors,
- RM3.6 million was used for restructuring and listing expenses and
- RM3.44 million was utilized as working capital of the Group.

#### **Non-audit Fee**

Non-audit fees totalling RM7,500 were paid to the external auditors for professional services rendered pertaining to the proposed investment structure in China for the financial period ended 31 July 2004.

### Profit Estimate, Forecast or Projection

The comparative summary of the financial results of the Group for the year ended 31 July 2004 and forecast published in the prospectus dated 28 July 2003 is tabulated below:

| 31 July 2004                    |         |          |           |      |
|---------------------------------|---------|----------|-----------|------|
|                                 | Actual  | Forecast | Variance  |      |
|                                 | RM'000  | RM'000   | RM'000    | %    |
| Turnover                        | 146,766 | 388,575  | (241,809) | (62) |
| Pre-tax profit ("PBT") after MI | 12,539  | 42,089   | (29,550)  | (70) |
| PAT after MI                    | 9,266   | 29,890   | (20,624)  | (69) |

In the prospectus, the Group anticipated securing new contracts that would generate revenue amounting to RM238 million but this did not materialize during the year under review, due to deferral of decisions on project implementation by relevant authorities.

Since the release of the prospectus, the Malaysian Government is reviewing structural conditions in the water sector, which affect market conditions.

The Group continues to pursue most of the projects in the forecast and actively seek new opportunities both in Malaysia and overseas.

### Share buybacks

The Company did not enter into any share buyback transactions during the financial year ended 31 July 2004.

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

The Company did not sponsor any ADR or GDR programmes during the financial year ended 31 July 2004.

### Options

Other than share options issued pursuant to the Employees' Share Option Scheme, there were no warrants or convertible securities issued/exercised during the financial year ended 31 July 2004.

On 7 January 2004, the Company has granted to its eligible employees share options. The Company has been granted an exemption by the Companies Commission of Malaysia from having to disclose the names of option holders who have been granted options in aggregate of less than 120,000 options in the audited accounts for the financial year ended 31 July 2004.

The names of the option holders and the number of options granted which in aggregate are 120,000 options and above are set out below :

| Name of Option Holders         | Number of Share<br>Options as at 31 July 2004 |
|--------------------------------|---|
| Dato' Lim See Teok             | 800,000                                       |
| Teoh Seng Kian                 | 800,000                                       |
| Jaggit Singh a/l Tara Singh    | 600,000                                       |
| Cheok Yeow Kwang @ Chok Ah Soi | 400,000                                       |
| Lee Thim Loy                   | 250,000                                       |
| Low Beng Peow                  | 250,000                                       |
| Jamiluddin Amini Sulaiman      | 120,000                                       |

### Impositions of Sanctions / Penalties

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

**Profit Guarantee**

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

**Revaluation Policy on Landed Properties**

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

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

The Directors are legally required to prepare financial statements which present a true and fair view of the state of affairs of the Group and the Company and is pleased to announce that in preparing the financial statements for the year ended 31 July 2004, the Group has:

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

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

# REPORT OF AUDIT COMMITTEE

## MEMBERSHIP

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

|                                  |                                    |
|----------------------------------|------------------------------------|
| Foo San Kan (Chairman)           | Independent Non-Executive Director |
| Dato' Dr Freezailah Bin Che Yeom | Independent Non-Executive Director |
| Dato' Lim See Teok               | Non-Independent Executive Director |

## MEETINGS

During the financial year ended 31 July 2004, six (6) meetings were convened, with details on the attendance of the Directors listed below:

| Directors                        | No. of meetings attended |
|----------------------------------|--------------------------|
| Foo San Kan                      | 6/6                      |
| Dato' Dr Freezailah Bin Che Yeom | 6/6                      |
| Dato' Lim See Teok               | 6/6                      |

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

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

## Summary of Activities of the Audit Committee

The activities of the Committee include, inter alia, the following:

- Reviewed the external auditors' scope of work and audit plans for the year. Prior to the audit, representatives from the external auditors presented their audit strategy and plan.
- Reviewed with the external auditors, the results of the audit and major issues arising from the audit.
- Consideration and recommendation to the Board for approval of the audit fees payable to the external auditors as disclosed in Note 16 to the financial statements.
- Reviewed the internal audit department's resource requirements, programs and plans for the financial year under review and the annual assessment of the internal audit department's performance.
- Reviewed the internal audit reports, which highlighted the audit issues, recommendations and management's response. Members of the Audit Committee were briefed on pertinent audit issues through the circulation of the Summary of Pertinent Issues, which forms an integral part of the agenda papers. The Audit Committee also discussed management actions taken to improve the system of internal control based on improvement opportunities identified in the audit reports.
- Reviewed the Company's quarterly results and financial statements prior to submission to the Board.
- Reviewed the Company's compliance in particular the quarterly and year-end financial statements with the Listing Requirements of Bursa Malaysia Securities Berhad, MASB and other relevant legal and regulatory requirements.
- Reviewed pertinent issues of the Group which had a significant impact on the results of the Group which included enhancement and further investment in existing products and services offered, cost rationalization measures, reorganization of business units and human resource development.
- Reviewed the application of corporate governance principles and the extent of the Group's compliance with the best practices set out under the Malaysian Code on Corporate Governance for the purpose of preparing the Corporate Governance Statement and Statement of Internal Control pursuant to Bursa Malaysia Securities Berhad Listing Requirements.
- Reviewed the related party transactions entered into by the Group.

## Internal Audit Function

The internal audit department plays a key role in undertaking independent, regular and systematic reviews of risk management, internal control and governance systems to provide the Group with reasonable assurance that the said systems are operating and will continue to operate satisfactorily and effectively. It is the responsibility of the internal audit function to provide the Audit Committee with independent and objective reports on the state of risk management, control and governance processes pertaining to the various operating units within the Group, and the extent of compliance of the units with the Group's established policies, procedures and relevant statutory requirements.

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

## TERMS OF REFERENCE

### Composition

1. The Committee shall be appointed by the Board from amongst its Directors (except for alternate directors) who fulfills the following requirements:
  - a. the audit committee shall comprise of no fewer than three (3) members;
  - b. a majority of the audit committee shall be independent directors; and
  - c. at least one member of the audit committee:
    - i. must be a member of the Malaysian Institute of Accountants; or
    - ii. if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience, and:
      - (aa) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
      - (bb) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.
2. The members of the Committee shall select a chairman from among their number who shall be an independent director.
3. The Board shall within three (3) months of a vacancy occurring in the Committee which result in the number of members reduced below three (3), appoint such number of new members as may be required to make up the minimum number of three (3) members.
4. The Board shall review the term of office and performance of the Committee and each of its members at least once every three years.

### Rights

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

- a. have authority to investigate any matter within its terms of reference;
- b. have the resources, which are required to perform its duties;
- c. have full and unrestricted access to any information pertaining to the Company and Group;
- d. have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- e. be able to obtain independent professional or other advice; and
- f. be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Committee, whenever deemed necessary.

## Functions

The functions of the Committee shall include the following:

- a. to review the following and report the same to the Board
  - (i) with the external auditors, the audit plan;
  - (ii) with the external auditor, his evaluation of the system of internal controls;
  - (iii) with the external auditor, his audit report;
  - (iv) the assistance given by the employees of the Company and Group to the external auditor;
  - (v) the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
  - (vi) the internal audit program, processes, the results of the internal audit program, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
  - (vii) the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:
    - (aa) changes in or implementation of major accounting policy changes;
    - (bb) significant and unusual events; and
    - (cc) compliance with accounting standards and other legal requirements;
  - (viii) any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity.
  - (ix) Any letter of resignation from the external auditors of the Company and Group, and;
- b. to consider the nomination of a person or persons as auditors together with such other functions as may be agreed to by the Audit Committee and the Board of Directors.

## Meetings

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

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

The Chairman shall not have a casting vote.

The Company Secretary shall be the Secretary of the Committee.

## Reporting Procedures

The Secretary shall maintain minutes of the proceedings of the meetings of the Committee and circulate such minutes to all members of the Board.

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

## BOARD RESPONSIBILITIES

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

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

The Board confirms that there is a process for identifying, evaluating and managing significant risks faced by the Group, excluding associated companies, during the financial year ended 31st July 2004 up to the date of the annual report and financial statements.

## INTERNAL AUDIT FUNCTION

The Board complies with the Code, Part 2 – Best Practices in Corporate Governance Provision BB VII & VIII, through the setting up of an internal audit function. As part of its key functions, the internal audit process reports directly to the Audit Committee to provide feedback regarding the adequacy and the integrity of the Group's system of internal control. The internal audit function reviews the key activities of the Group on the basis of an annual audit plan approved by the Audit Committee.

The audit plan for the Group is prepared based on the direction given by the Audit Committee and the risk profiles of the operating entities within the Group. The Audit Committee decides on the scope of the work to be carried out and reviews the internal audit reports to ensure that the necessary level of assurance with respect to the adequacy of internal controls as required by the Board is achieved. The Audit Committee then presents its findings to the Board on a quarterly basis or as appropriate.

## OTHER RISKS AND CONTROL PROCESSES

The Water & Environment Division of Salcon continues to be certified under the ISO9001: 2000 and ISO14001: 1996 quality and environmental management systems at the corporate office and at the project levels. These systems and their associate processes are consistently monitored by the Audit & Systems Improvement Department to ensure compliance with the ISO standards and to encourage continual improvements in environmental performance as well as work processes undertaken at the project sites.

Notwithstanding the above, the Group also conforms to the Occupational Safety & Health OSHA18001 (1994) requirements, with the development of a Corporate Health & Safety Manual for implementation on project sites and the corporate office. As testimony to the Group's commitment in maintaining stringent safety work practices, a Safety & Health Policy Statement was established. These are periodically reviewed and updated by the Safety & Health Committee to continually improve the effectiveness of the Safety, Health and Management System (SHMS) adopted by the Group.

The Board has also put in place an organizational structure with formally defined lines of responsibility and delegation of authority, allowing internal checks and balances. The Group has also developed and distributed to its employees an Employee Handbook that highlights policies with respect to entitlements, benefits and conduct expected from them.

These procedures are relevant to the Group and provide continual assurance to the top management and the Board. The process is facilitated by internal audit, which provides a certain level of assurance on the operations and validity of the system of internal control.

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

#### **WEAKNESSES IN INTERNAL CONTROLS THAT RESULT IN MATERIAL LOSSES**

During the year under review, the services of three (3) staff members were terminated on disciplinary grounds. Further investigation is being pursued by management to determine the appropriate follow-up actions.

In addition, procedural and preventive control measures are being implemented to strengthen the Groups internal control processes.



# Financial Statements

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# DIRECTORS' REPORT

for the year ended 31 July 2004

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 July 2004.

## PRINCIPAL ACTIVITIES

The Company is principally an investment holding company. The principal activities of the subsidiaries are described in Note 25. There has been no significant change in the nature of these activities during the financial year.

## RESULTS

|                         | GROUP<br>RM'000 | COMPANY<br>RM'000 |
|-------------------------|-----------------|-------------------|
| Net profit for the year | 9,266           | 5,587             |

## RESERVES AND PROVISIONS

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

## DIVIDENDS

The first and final dividend recommended by the Directors in respect of the year ended 31 July 2004 is 2.60 sen tax exempt totalling to RM5,011,984, subject to the approval of the members at the forthcoming Annual General Meeting.

## DIRECTORS OF THE COMPANY

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

Tan Sri Razali Ismail  
 Dato' (Dr.) Teoh Seng Foo  
 Dato' Lim See Teok  
 Jagjit Singh A/L Tara Singh  
 Foo San Kan  
 Dato' Dr Freezailah bin Che Yeom  
 Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas  
 Teoh Seng Kian (appointed on 01.04.2004)

The holdings and deemed holdings in the ordinary shares and options of the Company and of its related corporations of those who were Directors at 31 July 2004 as recorded in the Register of Directors' Shareholdings are as follows:

|   | Number of ordinary shares of RM0.50 each  |         |            |                 |
|---|---|---------|------------|-----------------|
|   | At<br>1.8.2003/<br>Date of<br>Appointment | Bought  | Sold       | At<br>31.7.2004 |
| <b>The Company</b>  |   |         |            |                 |
| <b>Direct Interest</b>  |   |         |            |                 |
| Tan Sri Razali Ismail   | –   | 45,000  | –          | 45,000          |
| Dato' (Dr.) Teoh Seng Foo                                     | –   | 837,400 | –          | 837,400         |
| Teoh Seng Kian  | –   | 542,700 | –          | 542,700         |
| Dato' Lim See Teok  | –   | 55,000  | –          | 55,000          |
| Jaggit Singh A/L Tara Singh                                   | –   | 45,000  | –          | 45,000          |
| Foo San Kan   | –   | 45,000  | –          | 45,000          |
| Dato' Dr Freezailah bin Che Yeom                              | –   | 45,000  | 20,000     | 25,000          |
| Dato' Seri Megat Najmuddin bin<br>Datuk Seri Dr Hj Megat Khas | –   | 45,000  | –          | 45,000          |
| <b>Deemed interest</b>  |   |         |            |                 |
| Tan Sri Razali Ismail   | 48,118,800                                | –       | 24,020,200 | 24,098,600      |
| Dato' (Dr.) Teoh Seng Foo                                     | 81,801,960                                | –       | 12,250,000 | 69,551,960      |
| Teoh Seng Kian  | 69,551,960                                | –       | –          | 69,551,960      |
| Dato' Lim See Teok  | 30,475,240                                | 53,000  | 6,973,000  | 23,555,240      |
| Jaggit Singh A/L Tara Singh                                   | 30,475,240                                | 53,000  | 6,973,000  | 23,555,240      |

|                             | Number of options over ordinary shares of RM0.50 each |                |         |           |                 |
|-----------------------------|---|----------------|---------|-----------|-----------------|
|                             | Option<br>Price (RM)                                  | At<br>1.8.2003 | Granted | Exercised | At<br>31.7.2004 |
| <b>The Company</b>          |   |                |         |           |                 |
| Teoh Seng Kian              | 1.87  | –              | 800,000 | –         | 800,000         |
| Dato' Lim See Teok          | 1.87  | –              | 800,000 | –         | 800,000         |
| Jaggit Singh A/L Tara Singh | 1.87  | –              | 600,000 | –         | 600,000         |

Dato' (Dr.) Teoh Seng Foo and Teoh Seng Kian, are deemed to have an interest in the shares of all the subsidiaries to the extent that the Company has an interest.

Other than Integrated Water Services (M) Sdn. Bhd. Dato' Lim See Teok and Jaggit Singh A/L Tara Singh do not have any interest in shares in all the related corporations.

Other than disclosed above, none of the other Directors holding office at 31 July 2004 has any interest in shares in all the related corporations.

#### **DIRECTORS' BENEFITS**

There are some business transactions between the Group and a company in which Dato' (Dr.) Teoh Seng Foo and Teoh Seng Kian have interests, as disclosed in Note 24 to the financial statements.

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

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the issue of the Employees' Share Option Scheme.

### ISSUE OF SHARES

During the financial year, the issued and paid-up capital of the Company was increased from 162,062,502 ordinary shares of RM0.50 each in the Company to 192,768,602 ordinary shares by the issuance of:

- (i) 29,200,000 ordinary shares of RM0.50 each pursuant to the Public Issue at an issue price of RM1.20 per share; and
- (ii) 1,506,100 ordinary shares of RM0.50 each pursuant to the exercise of options granted made under the Employees' Share Option Scheme ("ESOS") at the option price of RM1.87 per share.

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

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

### OPTIONS GRANTED OVER UNISSUED SHARES

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

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

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

| Date of offer | Option Price | Number of options over ordinary shares of RM0.50 each |           |             |           | Balance at 31.7.2004 |
|---------------|--------------|---|-----------|-------------|-----------|----------------------|
|               |              | Balance at 1.8.2003                                   | Granted   | Exercised   | Lapsed    |                      |
| 07.01.2004    | RM1.87       | –   | 6,793,000 | (1,506,100) | (112,000) | 5,174,900            |

The external auditors have verified the allocation of options granted during the financial year.

The salient features of the ESOS are as follows:

- (i) The maximum number of ordinary shares to be offered shall not exceed 10% of the issued and paid-up share capital of the Company at any point of time during the existence of the ESOS
- (ii) Eligible employees are confirmed staff with at least one year service as at the date of offer including Executive Directors of any company comprised in the Group and employees under a fixed term employment contract for at least three years as at the date of offer.
- (iii) The options granted may be exercised in full or lesser number of ordinary shares provided that the number shall be in multiples of 100 shares.
- (iv) The option price for ordinary shares of RM0.50 each shall be a discount of not more than 10% from the five day weighted average market price of the shares immediately preceding the offer date of the option or at the par value, whichever is higher.

- (v) The scheme shall be in force for duration of five years to 30 October 2008 and it can be extended to another five years at the discretion of the Directors and the option committee.
- (vi) As at the date of offer, employees must not participate or have not been offered option(s) under any other ESOS implemented by any other member of the Salcon Group, which is in force for the time being.

#### **OTHER STATUTORY INFORMATION**

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

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

At the date of this report, the Directors are not aware of any circumstances:

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 July 2004 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

#### **AUDITORS**

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

Signed in accordance with a resolution of the Directors:

**DATO' LIM SEE TEOK**

**JAGGIT SINGH A/L TARA SINGH**

Subang Jaya,

Date: 24 November 2004

# STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 39 to 73 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 July 2004 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

**Dato' Lim See Teok**

**Jaggit Singh A/L Tara Singh**

Subang Jaya,

Date: 24 November 2004

## STATUTORY DECLARATION

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

I, **Dato' Lim See Teok**, the Director primarily responsible for the financial management of Salcon Berhad, do solemnly and sincerely declare that the financial statements set out on pages 39 to 73 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Subang Jaya on 24 November 2004

**Dato' Lim See Teok**

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

# REPORT OF THE AUDITORS

to the members of Salcon Berhad

We have audited the financial statements set out on pages 39 to 73. The preparation of the financial statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
  - i) the state of affairs of the Group and of the Company at 31 July 2004 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 subsidiary in respect of which we have not acted as auditors are identified in Note 25 to the financial statements and we have considered their financial statements and the auditors' reports thereon.

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

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

**KPMG**

Firm Number: AF 0758  
Chartered Accountants

**HEW LEE LAM SANG**

Partner  
Approval Number: 1862/10/05(J)

Kuala Lumpur,

Date: 24 November 2004



# BALANCE SHEETS

at 31 July 2004

|   | Note | Group          |                | Company        |                 |
|---|------|----------------|----------------|----------------|-----------------|
|   |      | 2004<br>RM'000 | 2003<br>RM'000 | 2004<br>RM'000 | 2003<br>RM'000  |
| <b>Property, plant and equipment</b>      | 2    | 26,194         | 16,939         | –              | –               |
| <b>Investments in subsidiaries</b>        | 3    | –              | –              | 87,048         | 80,198          |
| <b>Investments in associates</b>          | 4    | 62,567         | 61,370         | –              | –               |
| <b>Other investments</b>                  | 6    | 11,093         | 6,790          | 4,500          | –               |
| <b>Goodwill</b>                           | 7    | 3,309          | 3,506          | –              | –               |
|   |      | <u>103,163</u> | <u>88,605</u>  | <u>91,548</u>  | <u>80,198</u>   |
| <b>Current assets</b>                     |      |                |                |                |                 |
| Inventories                               |      | 1,337          | 393            | –              | –               |
| Trade and other receivables               | 8    | 151,788        | 222,622        | 45,382         | 1,244           |
| Tax recoverable                           |      | 3,605          | –              | –              | –               |
| Cash and cash equivalents                 | 9    | 37,625         | 34,303         | 1,017          | 24,617          |
|   |      | <u>194,355</u> | <u>257,318</u> | <u>46,399</u>  | <u>25,861</u>   |
| <b>Current liabilities</b>                |      |                |                |                |                 |
| Trade and other payables                  | 10   | 94,603         | 191,700        | 922            | 53,866          |
| Borrowings                                | 11   | 16,587         | 56,752         | –              | –               |
| Taxation                                  |      | 59             | 3,314          | 1              | –               |
| Dividend payable                          |      | –              | 1,500          | –              | –               |
|   |      | <u>111,249</u> | <u>253,266</u> | <u>923</u>     | <u>53,866</u>   |
| <b>Net current assets/(liabilities)</b>   |      | <u>83,106</u>  | <u>4,052</u>   | <u>45,476</u>  | <u>(28,005)</u> |
|   |      | <u>186,269</u> | <u>92,657</u>  | <u>137,024</u> | <u>52,193</u>   |
| <b>Financed by:</b>                       |      |                |                |                |                 |
| <b>Capital and reserves</b>               |      |                |                |                |                 |
| Share capital                             | 12   | 96,384         | 81,031         | 96,384         | 81,031          |
| Reserves                                  |      | 34,485         | 6,231          | (4,360)        | (28,838)        |
|   |      | <u>130,869</u> | <u>87,262</u>  | <u>92,024</u>  | <u>52,193</u>   |
| <b>Minority shareholders' interests</b>   | 13   | 7,482          | 4,370          | –              | –               |
| <b>Long term and deferred liabilities</b> |      |                |                |                |                 |
| Borrowings                                | 11   | 47,709         | 903            | 45,000         | –               |
| Deferred tax liabilities                  | 14   | 209            | 122            | –              | –               |
|   |      | <u>186,269</u> | <u>92,657</u>  | <u>137,024</u> | <u>52,193</u>   |

The financial statements were approved and authorised for issue by the Board of Directors on 24 November 2004.

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

# INCOME STATEMENTS

for the year ended 31 July 2004

|   | Note | Group          |                                     | Company        |                                     |
|---|------|----------------|-------------------------------------|----------------|-------------------------------------|
|   |      | 2004<br>RM'000 | 25.9.2002 to<br>31.7.2003<br>RM'000 | 2004<br>RM'000 | 25.9.2002 to<br>31.7.2003<br>RM'000 |
| <b>Revenue</b>  | 16   | 146,766        | 7,510                               | 5,861          | –                                   |
| <b>Operating profit/(loss)</b>                        | 16   | 10,961         | 2,153                               | 5,544          | (11)                                |
| Interest expense                                      |      | (2,409)        | (70)                                | –              | –                                   |
| Interest income                                       |      | 745            | 58                                  | 61             | 6                                   |
| Share of profit of associates                         |      | 5,547          | 272                                 | –              | –                                   |
| Share of (loss)/profit of jointly controlled entities |      | (497)          | 745                                 | –              | –                                   |
| Exceptional items                                     | 18   | 14,347         | 3,158                               | 5,605          | (5)                                 |
|   |      | –              | 3,945                               | –              | (28,833)                            |
| <b>Profit/(Loss) before taxation</b>                  |      | 14,347         | 7,103                               | 5,605          | (28,838)                            |
| Tax expense   | 19   | (3,273)        | (865)                               | (18)           | –                                   |
| <b>Profit/(Loss) after taxation</b>                   |      | 11,074         | 6,238                               | 5,587          | (28,838)                            |
| Less: Minority interests                              |      | (1,808)        | (7)                                 | –              | –                                   |
| <b>Net profit/(loss) for the year/period</b>          |      | 9,266          | 6,231                               | 5,587          | (28,838)                            |
| Basic earnings per ordinary share (sen)               | 20   | 4.86           | 108.66                              |                |                                     |
| Diluted earnings per ordinary share (sen)             | 20   | –              | 12.94                               |                |                                     |

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

# STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 July 2004

| Group  | Share capital<br>RM'000 | Non-distributable       |                               | Distributable              |                 |
|--|-------------------------|-------------------------|-------------------------------|----------------------------|-----------------|
|  |                         | Share premium<br>RM'000 | Translation reserve<br>RM'000 | Retained profits<br>RM'000 | Total<br>RM'000 |
| <b>At date of incorporation</b>  | – *                     | –                       | –                             | –                          | –               |
| Issue of shares  | 81,031                  | –                       | –                             | –                          | 81,031          |
| Net profit for the period  | –                       | –                       | –                             | 6,231                      | 6,231           |
| <b>At 31 July 2003</b>   | 81,031                  | –                       | –                             | 6,231                      | 87,262          |
| Issue of shares  | 15,353                  | 18,891                  | –                             | –                          | 34,244          |
| Net profit for the year  | –                       | –                       | –                             | 9,266                      | 9,266           |
| Exchange differences on translations of the financial statements of foreign entities | –                       | –                       | 97                            | –                          | 97              |
| <b>At 31 July 2004</b>   | 96,384                  | 18,891                  | 97                            | 15,497                     | 130,869         |

Note 12

| Company                         | Share capital<br>RM'000 | Non Distributable       |                         | Accumulated losses<br>RM'000 | Total<br>RM'000 |
|---------------------------------|-------------------------|-------------------------|-------------------------|------------------------------|-----------------|
|                                 |                         | Share premium<br>RM'000 | Share premium<br>RM'000 |                              |                 |
| <b>At date of incorporation</b> | – *                     | –                       | –                       | –                            | –               |
| Issue of shares                 | 81,031                  | –                       | –                       | –                            | 81,031          |
| Net loss for the period         | –                       | –                       | –                       | (28,838)**                   | (28,838)        |
| <b>At 31 July 2003</b>          | 81,031                  | –                       | –                       | (28,838)                     | 52,193          |
| Issue of shares                 | 15,353                  | 18,891                  | –                       | –                            | 34,244          |
| Net profit for the year         | –                       | –                       | –                       | 5,587                        | 5,587           |
| <b>At 31 July 2004</b>          | 96,384                  | 18,891                  | –                       | (23,251)                     | 92,024          |

Note 12

\* 2 ordinary shares of RM0.50 each

\*\* The net loss arose mainly from the costs of the acquisition of Seng Hup Corporation Berhad ("SHCB") pursuant to the restructuring exercise of SHCB incurred for the period.

# CASH FLOW STATEMENTS

for the year ended 31 July 2004

|   | Group          |                                     | Company        |                                     |
|---|----------------|-------------------------------------|----------------|-------------------------------------|
|   | 2004<br>RM'000 | 25.9.2002 to<br>31.7.2003<br>RM'000 | 2004<br>RM'000 | 25.9.2002 to<br>31.7.2003<br>RM'000 |
| <b>Cash flows from operating activities</b>                     |                |                                     |                |                                     |
| Profit/(Loss) before taxation                                   | 14,347         | 7,103                               | 5,605          | (28,838)                            |
| Adjustments for:  |                |                                     |                |                                     |
| Allowance for diminution on value of investments                | 197            | -                                   | -              | -                                   |
| Amortisation of goodwill  | 1,382          | 46                                  | -              | -                                   |
| Depreciation  | 1,947          | 45                                  | -              | -                                   |
| Dividend income   | -              | -                                   | (5,861)        | -                                   |
| Exceptional items   | -              | (3,945)                             | -              | 28,833                              |
| Gain on disposal of property, plant and equipment               | (192)          | -                                   | -              | -                                   |
| Interest expense  | 2,409          | 70                                  | -              | -                                   |
| Interest income   | (745)          | (58)                                | (61)           | (6)                                 |
| Share of profit of associates                                   | (5,547)        | (272)                               | -              | -                                   |
| Share of (profit)/loss of jointly controlled entities           | 497            | (745)                               | -              | -                                   |
| Property, plant and equipment written off                       | 8              | -                                   | -              | -                                   |
|   | <hr/>          | <hr/>                               | <hr/>          | <hr/>                               |
| Operating profit/(loss) before working capital changes          | 14,303         | 2,244                               | (317)          | (11)                                |
| Changes in working capital:                                     |                |                                     |                |                                     |
| Inventories   | (944)          | (75)                                | -              | -                                   |
| Trade and other receivables                                     | 70,629         | 6,878                               | (38,481)       | -                                   |
| Trade and other payables  | (52,052)       | (11,008)                            | (28,322)       | 10                                  |
|   | <hr/>          | <hr/>                               | <hr/>          | <hr/>                               |
| Cash generated from / (used in) operations                      | 31,936         | (1,961)                             | (67,130)       | (1)                                 |
| Interest paid   | (2,409)        | (70)                                | -              | -                                   |
| Income taxes paid   | (10,075)       | (69)                                | (17)           | -                                   |
|   | <hr/>          | <hr/>                               | <hr/>          | <hr/>                               |
| <b>Net cash generated from / (used in) operating activities</b> | 19,452         | (2,100)                             | (67,147)       | (1)                                 |
|   | <hr/>          | <hr/>                               | <hr/>          | <hr/>                               |

# CASH FLOW STATEMENTS

for the year ended 31 July 2004  
(continued)

|   | Group           |                                     | Company         |                                     |
|---|-----------------|-------------------------------------|-----------------|-------------------------------------|
|   | 2004<br>RM'000  | 25.9.2002 to<br>31.7.2003<br>RM'000 | 2004<br>RM'000  | 25.9.2002 to<br>31.7.2003<br>RM'000 |
| <b>Cash flows from investing activities</b>   |                 |                                     |                 |                                     |
| Acquisition of associate  | (206)           | –                                   | –               | –                                   |
| Acquisition of a subsidiary, net of cash<br>acquired (Note 26)  | –               | 10,076                              | (6,082)         | –                                   |
| Decrease in pledge deposits   | 597             | –                                   | –               | –                                   |
| Debt settlement to creditors pursuant to the<br>restructuring exercise of Seng Hup Corporation Berhad | (28,000)        | –                                   | –               | –                                   |
| Dividend received   | –               | –                                   | 561             | –                                   |
| Interest received   | 745             | 58                                  | 61              | 6                                   |
| Proceeds from disposal of property, plant and<br>equipment  | 278             | –                                   | –               | –                                   |
| Purchase of property, plant and equipment   | (2,233)         | –                                   | –               | –                                   |
| <b>Net cash generated from/(used in)<br/>investing activities</b>                                     | <b>(28,819)</b> | <b>10,134</b>                       | <b>(5,460)</b>  | <b>6</b>                            |
| <b>Cash flows from financing activities</b>   |                 |                                     |                 |                                     |
| Net proceeds from issue of shares   | 6,816           | –                                   | 6,816           | –                                   |
| Proceeds from exercise of option  | 2,816           | –                                   | 2,816           | –                                   |
| Deposits received from private placements   | –               | 24,612                              | –               | 24,612                              |
| Dividends paid to minority shareholders   | (539)           | (1,038)                             | –               | –                                   |
| Dividends paid to shareholders  | (1,500)         | –                                   | –               | –                                   |
| Proceeds from borrowings  | 122,828         | 1,557                               | 39,375          | –                                   |
| Proceeds from redemption of preference shares   | 3,400           | –                                   | –               | –                                   |
| Payment of hire purchase liabilities  | (423)           | (32)                                | –               | –                                   |
| Repayment of borrowings   | (120,010)       | –                                   | –               | –                                   |
| <b>Net cash generated from financing activities</b>   | <b>13,388</b>   | <b>25,099</b>                       | <b>49,007</b>   | <b>24,612</b>                       |
| Exchange differences on translation of the<br>financial statement of foreign entities                 | 43              | –                                   | –               | –                                   |
| <b>Net increase/(decrease) in cash and cash<br/>equivalents</b>                                       | <b>4,064</b>    | <b>33,133</b>                       | <b>(23,600)</b> | <b>24,617</b>                       |
| <b>Cash and cash equivalents at beginning of<br/>year/date of incorporation</b>                       | <b>33,133</b>   | <b>–</b>                            | <b>24,617</b>   | <b>–</b>                            |
| <b>Cash and cash equivalents at end of year/period</b>  | <b>37,197</b>   | <b>33,133</b>                       | <b>1,017</b>    | <b>24,617</b>                       |

# CASH FLOW STATEMENTS

for the year ended 31 July 2004  
(continued)

## i) Cash and cash equivalents

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

|                                     | Group         |               | Company      |               |
|-------------------------------------|---------------|---------------|--------------|---------------|
|                                     | 2004          | 25.9.2002 to  | 2004         | 25.9.2002 to  |
|                                     | RM'000        | 31.7.2003     | RM'000       | 31.7.2003     |
|                                     |               | RM'000        |              | RM'000        |
| Cash and bank balances              | 8,563         | 33,646        | 1,017        | 24,617        |
| Deposits placed with licensed banks | 29,062        | 657           | –            | –             |
| Bank overdrafts                     | (428)         | (573)         | –            | –             |
|                                     | <u>37,197</u> | <u>33,730</u> | <u>1,017</u> | <u>24,617</u> |
| Less: Fixed deposits pledged        | –             | (597)         | –            | –             |
|                                     | <u>37,197</u> | <u>33,133</u> | <u>1,017</u> | <u>24,617</u> |

## ii) Associates

During the current financial year, 3,400 preference shares of RM1 each held by the Company were redeemed by Emas Utilities Corporation at a premium of RM999 per share via a contra with the amount due to the associate company. Apart from that, expenses incurred in the subscription of 40% equity interest in Tricol Engineering Sdn Bhd approximating RM6,000 was capitalised as part of the investment cost.

## iii) Purchase of property, plant and equipment

Included in the aggregate cost of acquisition of property, plant and equipment of the Company is deposits amounting to RM205,000, which was paid in the financial year ended 31 July 2002.

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies are adopted by the Group and by the Company and are consistent with those adopted in previous period except for the adoption of the MASB 29, Employee Benefits which is applied retrospectively. Apart from the new policy and extended disclosures where required by the new standard, there is no effect on these financial statements.

### (a) Basis of accounting

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

### (b) Basis of consolidation

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

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

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

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

### (c) Associates

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

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

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

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

**(d) Joint venture**

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

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

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

**(e) Property, plant and equipment****i) Owned assets**

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

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

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

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

**ii) Assets under hire purchase**

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

**Depreciation**

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

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

**(f) Investments**

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

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



**(g) Intangible asset*****Goodwill***

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

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

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

**(h) Inventories**

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

**(i) Trade and other receivables**

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

**(j) Amount due from contract customers**

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

**(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 and pledged deposits.

**(l) Impairment**

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

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

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

**(l) Impairment (continued)**

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

**(m) Liabilities**

Borrowings and trade and other payables are stated at cost.

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

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

**(ii) Defined contribution plan**

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

**(iii) Equity compensation benefits**

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

**(o) Income tax**

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

**(p) Foreign currency transactions****(i) Foreign currency transactions**

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

**(ii) Financial statements of foreign operations**

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

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

|      |        |             |         |
|------|--------|-------------|---------|
| 1USD | RM3.80 | (2003: 1USD | RM3.80) |
| 1SGD | RM2.24 | (2003: 1SGD | RM2.18) |
| 1IDR | RM0.04 | (2003: 1IDR | RM0.04) |
| 1Rs  | RM0.08 | (2003: 1Rs  | RM0.08) |
| 1THB | RM0.09 | (2003: 1THB | RM0.09) |
| 1RMB | RM0.47 | (2003: 1RMB | RM0.46) |

**(q) Revenue****i) Good sold**

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

**ii) Construction contracts**

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

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

An expected loss on a contract is recognised immediately in the income statement.

**iii) Dividend income**

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

**iv) Interest income**

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

**(r) Financing costs**

Financing costs comprise interest payable on borrowings.

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

**(s) Affiliated company**

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

## 2. PROPERTY, PLANT AND EQUIPMENT

| <b>Group<br/>Cost/Valuation</b>                       | <b>Freehold<br/>land<br/>RM'000</b> | <b>Freehold<br/>buildings<br/>RM'000</b> | <b>Long term<br/>leasehold<br/>property<br/>RM'000</b> | <b>Plant and<br/>machinery<br/>RM'000</b> | <b>Motor<br/>vehicles<br/>RM'000</b> | <b>Office<br/>equipment,<br/>furniture<br/>and fittings<br/>RM'000</b> | <b>Capital<br/>work-in-<br/>progress<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|---|-------------------------------------|--|--|---|--------------------------------------|--|---|-------------------------|
| Opening balance                                       | 816                                 | 12,343                                   | 411  | 764                                       | 5,904                                | 2,601  | –   | 22,839                  |
| Additions   | 5                                   | –  | 18   | 1,279                                     | 334                                  | 662  | 140   | 2,438                   |
| Disposals   | –                                   | –  | –  | (321)                                     | (603)                                | (184)  | –   | (1,108)                 |
| Acquisition of subsidiary                             | –                                   | –  | 4,165  | 4,469                                     | 142                                  | –  | –   | 8,776                   |
| Exchange differences                                  | –                                   | –  | 39   | 42  | 1                                    | –  | –   | 82                      |
| Closing balance                                       | 821                                 | 12,343                                   | 4,633  | 6,233                                     | 5,778                                | 3,079  | 140   | 33,027                  |
| Representing items at:                                |                                     |  |  |   |                                      |  |   |                         |
| Cost  | 330                                 | 934                                      | 4,222  | 6,233                                     | 5,778                                | 3,079  | 140   | 20,716                  |
| Directors' valuation                                  | 491                                 | 11,409                                   | 411  | –   | –                                    | –  | –   | 12,311                  |
| Closing balance                                       | 821                                 | 12,343                                   | 4,633  | 6,233                                     | 5,778                                | 3,079  | 140   | 33,027                  |
| <b>Accumulated depreciation</b>                       |                                     |  |  |   |                                      |  |   |                         |
| Opening balance                                       | –                                   | 911                                      | 19   | 719                                       | 2,750                                | 1,501  | –   | 5,900                   |
| Depreciation charge for the year                      | –                                   | 231                                      | 122  | 384                                       | 817                                  | 393  | –   | 1,947                   |
| Disposals   | –                                   | –  | –  | (318)                                     | (522)                                | (174)  | –   | (1,014)                 |
| Closing balance                                       | –                                   | 1,142                                    | 141  | 785                                       | 3,045                                | 1,720  | –   | 6,833                   |
| <b>Net book value</b>                                 |                                     |  |  |   |                                      |  |   |                         |
| At 31 July 2004                                       | 821                                 | 11,201                                   | 4,492  | 5,448                                     | 2,733                                | 1,359  | 140   | 26,194                  |
| At 31 July 2003                                       | 816                                 | 11,432                                   | 392  | 45  | 3,154                                | 1,100  | –   | 16,939                  |
| Depreciation charge for the period ended 31 July 2003 | –                                   | 7  | –  | 1   | 27                                   | 10   | –   | 45                      |

### Revaluation

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

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

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

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

|                              | Group          |                |
|------------------------------|----------------|----------------|
|                              | 2004<br>RM'000 | 2003<br>RM'000 |
| Freehold land and buildings  | 10,328         | 10,558         |
| Long term leasehold property | 679            | 687            |
|                              | 11,007         | 11,245         |
|                              | 11,007         | 11,245         |

The title to certain freehold land and building with net book value of RM305,000 (2003 - RM305,000) is in the process of being transferred to the Group.

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

#### ***Assets under hire purchase***

Included in property, plant and equipment of the Group are motor vehicles acquired under hire purchase agreements with net book value of RM1,328,000 (2003 - RM1,755,500).

### **3. INVESTMENTS IN SUBSIDIARIES**

|                                     | Company        |                |
|-------------------------------------|----------------|----------------|
|                                     | 2004<br>RM'000 | 2003<br>RM'000 |
| Unquoted shares, at cost            | 80,246         | 80,198         |
| Unquoted preference shares, at cost | 6,802          | -              |
|                                     | 87,048         | 80,198         |
|                                     | 87,048         | 80,198         |

Details of the subsidiaries are shown in Note 25.

During the financial year, the Company subscribed for 1,790 preference shares of USD1 each at premium of USD999 per share in Salcon Water (HK) Limited, a subsidiary of the Company.

#### 4. INVESTMENT IN ASSOCIATES

|  | Group          |                |
|--|----------------|----------------|
|  | 2004<br>RM'000 | 2003<br>RM'000 |
| Unquoted shares - at cost  | 17,201         | 16,995         |
| - at valuation   | 11,800         | 11,800         |
| Unquoted preference shares, at cost  | 16,600         | 20,000         |
| Share of post-acquisition profits  | 16,966         | 12,575         |
|  | 62,567         | 61,370         |
|  | 62,567         | 61,370         |
| Represented by:  |                |                |
| Group's share of net assets other than goodwill  | 38,137         | 35,700         |
| Group's share of goodwill in associates' own consolidated financial statements less amortisation | 982            | 1,047          |
| Goodwill on acquisition, less amortisation of RM3,793,000 (2003 - RM2,608,000)                   | 23,448         | 24,623         |
|  | 62,567         | 61,370         |
|  | 62,567         | 61,370         |

Details of the associates are shown in Note 25.

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

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

During the financial year, 3,400 preference shares of RM1 each held by the Group were redeemed by Emas Utilities Corporation at a premium of RM999 per share via a contra with the amount due to the associate.

During the financial year, the Group subscribed 40% equity interest in Tricol Engineering Sdn. Bhd. for a cash consideration of RM206,000. Included in that investment in an associate is the capitalisation of expenses related to the acquisition of RM6,000.

During the previous financial period, the Group acquired 49% equity interest in Cross Continental Investments for a cash consideration of RM16,636,000. Included in that investment in an associate is the capitalisation of expenses related to the acquisition of RM262,000.

## 5. 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          |                |
|-----------------------|----------------|----------------|
|                       | 2004<br>RM'000 | 2003<br>RM'000 |
| Long term assets      | 432            | 118            |
| Current assets        | 5,196          | 6,491          |
| Long-term liabilities | –              | (179)          |
| Current liabilities   | (5,628)        | (6,430)        |
|                       | <u>–</u>       | <u>–</u>       |
| Income                | 14,807         | 745            |
| Expenses              | (15,304)       | –              |
|                       | <u>(497)</u>   | <u>745</u>     |

Details of jointly controlled entities are as follows:

|                                 | Principal activities   | Proportion of<br>ownership interest |      |
|---------------------------------|--|-------------------------------------|------|
|                                 |  | 2004                                | 2003 |
| 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 - SKV Consortium         | Supply and installation of trunk mains - Contract No. PIT - 711                  | –                                   | 60%  |
| Salcon - WHS Joint Venture      | Undertaking projects in water development in the State of Sabah                  | 60%                                 | 60%  |

The Group entered into a joint venture with Hydrotek Company Limited and S.P.K. Construction Company Limited, both companies incorporated in Thailand, on 17 December 2001. The share of results is based on the audited financial statements of the joint venture for the financial year ended 31 July 2004.

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 Sahakarn Wisavakarm Co. Ltd., a company incorporated in Thailand, on 25 December 2002. The joint venture has commenced operations on 27 May 2003. During the financial year, the Group has entered into an agreement with Sahakarn Wisavakarm Co. Ltd. to undertake full responsibility of the project under this joint venture. Accordingly, the joint venture for the project has ceased 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 July 2004.

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

## 6. OTHER INVESTMENTS

|                                   | Group          |                | Company        |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | 2004<br>RM'000 | 2003<br>RM'000 | 2004<br>RM'000 | 2003<br>RM'000 |
| <b>At cost</b>                    |                |                |                |                |
| Quoted shares in Malaysia         | 175            | 175            | –              | –              |
| Unquoted shares                   | 6,475          | 6,475          | –              | –              |
| Other investment                  | 4,640          | 140            | 4,500          | –              |
|                                   | <u>11,290</u>  | <u>6,790</u>   | <u>4,500</u>   | <u>–</u>       |
| Allowance for diminution in value |                |                |                |                |
| - Quoted shares in Malaysia       | (143)          | –              | –              | –              |
| - Other investments               | (54)           | –              | –              | –              |
|                                   | <u>11,093</u>  | <u>6,790</u>   | <u>4,500</u>   | <u>–</u>       |

The market value of the quoted investments is shown in Note 27.

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

During the previous financial period, Salcon Engineering Berhad subscribed 813,502 number of 6% Cumulative Redeemable Preference Shares in Palm Tech India Ltd., a company incorporated in India, at par of Rs100 per share or RM7.96 per share.

## 7. GOODWILL

|  | Group          |                |
|--|----------------|----------------|
|  | 2004<br>RM'000 | 2003<br>RM'000 |
| <b>Cost</b>                              |                |                |
| Opening balance/At date of incorporation | 3,937          | –              |
| Acquisition of a subsidiary              | –              | 3,937          |
|  | <u>3,937</u>   | <u>3,937</u>   |
| Closing balance                          | <u>3,937</u>   | <u>3,937</u>   |
| <b>Accumulated amortisation</b>          |                |                |
| Opening balance/At date of incorporation | 431            | –              |
| Acquisition of a subsidiary              | –              | 425            |
| Amortisation charge for the year/period  | 197            | 6              |
|  | <u>628</u>     | <u>431</u>     |
| Closing balance                          | <u>628</u>     | <u>431</u>     |
| Net book value                           | <u>3,309</u>   | <u>3,506</u>   |



## 8. TRADE AND OTHER RECEIVABLES

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2004<br>RM'000 | 2003<br>RM'000 | 2004<br>RM'000 | 2003<br>RM'000 |
| Trade receivables                           | 107,905        | 112,420        | -              | -              |
| Less: Allowance for doubtful debts          | (3,107)        | (3,102)        | -              | -              |
|   | <u>104,798</u> | <u>109,318</u> | <u>-</u>       | <u>-</u>       |
| Amount due from contract customers          | 34,937         | 85,317         | -              | -              |
| Affiliated company                          |                |                |                |                |
| - loan                                      | -              | 6,509          | -              | -              |
| - current account                           | 126            | 13,528         | -              | -              |
| Associates                                  | 4,067          | 4,425          | -              | -              |
| Subsidiary                                  | -              | -              | 44,280         | -              |
| Other receivables, deposits and prepayments | 7,860          | 3,525          | 1,102          | 1,244          |
|   | <u>151,788</u> | <u>222,622</u> | <u>45,382</u>  | <u>1,244</u>   |

|   | Group          |                |
|---|----------------|----------------|
|   | 2004<br>RM'000 | 2003<br>RM'000 |
| <b>Amount due from contract customers</b>               |                |                |
| Aggregate costs incurred to date                        | 490,970        | 446,907        |
| Add: Attributable profit                                | 98,587         | 78,529         |
|   | <u>589,557</u> | <u>525,436</u> |
| Less: Progress billings                                 | (555,214)      | (443,921)      |
|   | <u>34,343</u>  | <u>81,515</u>  |
| Amount due to contract customers reclassified (Note 10) | 594            | 3,802          |
|   | <u>34,937</u>  | <u>85,317</u>  |

Included in trade receivables of the Group are retentions and amounts receivable from related parties amounting to approximately RM10,226,000 (2003 - RM8,457,000) and RM2,111 (2003 - RM2,389), respectively.

Included in trade receivables of the Group are amounts receivable from the subsidiaries of affiliated company amounting to RM500,000 (2003 - RM3,869,000).

The amounts due from affiliated company of previous financial period were unsecured and bore interest at rates of 4.8% to 9.9% per annum. The amounts have been fully repaid within 14 days from the day when the Company was listed on the Main Board of the Bursa Malaysia Securities Berhad ("BMSB") on 3 September 2004. The amount due from the affiliated company during the year is unsecured, interest free and has no fixed terms of repayment.

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

Included in the amount due from subsidiary is an advance given to a subsidiary amounting to RM39,370,000. The amount is part of the Collateralised Loan Obligation (CLO) obtained during the financial year. The advance is unsecured, subject to interest at 6.85% per annum, payable bi-annually and repayable within 5 years from the effective drawdown date of 3 June 2004. The remaining amount due from subsidiary is unsecured, interest free and has no fixed terms of repayment.

Included in other receivables, deposits and prepayments of the Group and of the Company of previous financial period were expenses amounting to RM1,244,000 incurred in relation to the Restructuring Scheme of Seng Hup Corporation Berhad. During the financial year, these expenses were deducted from share premium upon listing of the Company on the Main Board of the BMSB.

**9. CASH AND CASH EQUIVALENTS**

|                                     | Group          |                | Company        |                |
|-------------------------------------|----------------|----------------|----------------|----------------|
|                                     | 2004<br>RM'000 | 2003<br>RM'000 | 2004<br>RM'000 | 2003<br>RM'000 |
| Deposits placed with licensed banks | 29,062         | 657            | –              | –              |
| Cash and bank balances              | 8,563          | 33,646         | 1,017          | 24,617         |
|                                     | <u>37,625</u>  | <u>34,303</u>  | <u>1,017</u>   | <u>24,617</u>  |

Included in the Group's fixed deposits of the previous financial period was an amount of RM597,000 pledged for bank borrowings granted to a subsidiary.

**10. TRADE AND OTHER PAYABLES**

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2004<br>RM'000 | 2003<br>RM'000 | 2004<br>RM'000 | 2003<br>RM'000 |
| Trade payables                               | 64,359         | 115,854        | –              | –              |
| Amount due to contract<br>customers (Note 8) | 594            | 3,802          | –              | –              |
| Other payables and accrued expenses          | 23,058         | 68,664         | 164            | 52,622         |
| Associates                                   | 6,534          | 3,380          | –              | –              |
| Subsidiary                                   | –              | –              | 758            | 1,244          |
| Affiliated company                           | 58             | –              | –              | –              |
|  | <u>94,603</u>  | <u>191,700</u> | <u>922</u>     | <u>53,866</u>  |

Included in trade and other payables of the Group are amounts payable to related parties amounting to RM51,000 (2003 - RM97,000).

Included in other payables of the Group are amounts payable to the subsidiaries of affiliated company amounting to RM404,000 (2003 - Nil).

Included in other payables and accrued expenses of the Group and of the Company of the previous financial period were funds of RM24,612,000 received from private placements, which were temporarily treated as other payables until the Company is listed on the Main Board of the Bursa Malaysia Securities Berhad ("BMSB") and RM28 million payable to Seng Hup Corporation Berhad's creditors. Also included in other payables and accrued expenses of the Group is advances received from contract customers amounting to RM12,417,000 (2003 - RM6,473,000).

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

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

## 11. BORROWINGS

|                                  | Group          |                | Company        |                |
|----------------------------------|----------------|----------------|----------------|----------------|
|                                  | 2004<br>RM'000 | 2003<br>RM'000 | 2004<br>RM'000 | 2003<br>RM'000 |
| Current                          |                |                |                |                |
| Bank overdrafts (unsecured)      | 428            | 573            | -              | -              |
| Bankers' acceptances (unsecured) | 15,734         | 32,208         | -              | -              |
| Revolving credits (unsecured)    | -              | 23,550         | -              | -              |
| Hire purchase creditors          | 425            | 421            | -              | -              |
|                                  | <u>16,587</u>  | <u>56,752</u>  | <u>-</u>       | <u>-</u>       |
| Non-current                      |                |                |                |                |
| Hire purchase creditors          | 476            | 903            | -              | -              |
| Term loan (unsecured)            | 47,233         | -              | 45,000         | -              |
|                                  | <u>47,709</u>  | <u>903</u>     | <u>45,000</u>  | <u>-</u>       |

### *Term and debt repayment schedule*

The unsecured overdrafts, bankers' acceptances and revolving credits are subject to interest at 7.00% to 8.50% (2003 - 7.00% to 8.50%), 3.70% to 4.13% (2003 - 3.27% to 4.17%) and Nil (2003 - 5.00% to 7.55%), respectively.

The hire purchase creditors and unsecured long term loan are subject to a fixed interest rate at 3.87% (2003 - 3.87%) and 6.83% (2003 - Nil) respectively, and the unsecured long term loan is payable bi-annually.

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

The above facilities are guaranteed by the Company.

### *Hire purchase creditors*

Hire purchase creditors are payable as follows:

| Group                      | Gross          | Interest       | Principal      | Gross          | Interest       | Principal      |
|----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                            | 2004<br>RM'000 | 2004<br>RM'000 | 2004<br>RM'000 | 2003<br>RM'000 | 2003<br>RM'000 | 2003<br>RM'000 |
| Less than one year         | 474            | (49)           | 425            | 503            | (82)           | 421            |
| Between one and five years | 508            | (32)           | 476            | 983            | (80)           | 903            |
|                            | <u>982</u>     | <u>(81)</u>    | <u>901</u>     | <u>1,486</u>   | <u>(162)</u>   | <u>1,324</u>   |

**12. SHARE CAPITAL**

|   | <b>Group and Company</b> |                |
|---|--------------------------|----------------|
|   | <b>2004</b>              | <b>2003</b>    |
|   | <b>RM'000</b>            | <b>RM'000</b>  |
| Authorised:                               |                          |                |
| Ordinary shares of RM0.50 each            |                          |                |
| Opening balance/At date of incorporation  | 500,000                  | 100            |
| Increase during the financial year/period | –                        | 499,900        |
|   | <u>500,000</u>           | <u>500,000</u> |
| Closing balance                           | <u>500,000</u>           | <u>500,000</u> |
| Issued and fully paid                     |                          |                |
| Ordinary shares of RM0.50 each            |                          |                |
| Opening balance/At date of incorporation  | 81,031                   | – *            |
| Issued during the financial year/period   | 15,353                   | 81,031         |
|   | <u>96,384</u>            | <u>81,031</u>  |
| Closing balance                           | <u>96,384</u>            | <u>81,031</u>  |

\* 2 ordinary shares of RM0.50 each

During the financial year, the Company issued 29,200,000 ordinary shares of RM0.50 each for public issue at an issue price of RM1.20 per share and 1,506,100 ordinary shares of RM0.50 each arising from the exercise of employees' share options at the option price of RM1.87 per share.

**13. MINORITY SHAREHOLDERS' INTERESTS**

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

**14. DEFERRED TAX LIABILITIES**

The recognised deferred tax liabilities are as follows:

|                               | <b>Group</b>  |               |
|-------------------------------|---------------|---------------|
|                               | <b>2004</b>   | <b>2003</b>   |
|                               | <b>RM'000</b> | <b>RM'000</b> |
| Property, plant and equipment | 209           | 122           |
|                               | <u>209</u>    | <u>122</u>    |

No deferred tax has been recognised for the following items:

|                                  | <b>Group</b>   |                | <b>Company</b> |               |
|----------------------------------|----------------|----------------|----------------|---------------|
|                                  | <b>2004</b>    | <b>2003</b>    | <b>2004</b>    | <b>2003</b>   |
|                                  | <b>RM'000</b>  | <b>RM'000</b>  | <b>RM'000</b>  | <b>RM'000</b> |
| Deductible temporary differences | (713)          | (1,473)        | –              | –             |
| Unabsorbed capital allowance     | (822)          | (793)          | –              | –             |
| Unutilised tax losses            | (2,665)        | (2,661)        | –              | (5)           |
|                                  | <u>(4,200)</u> | <u>(4,927)</u> | <u>–</u>       | <u>(5)</u>    |

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

## 15. EMPLOYEE BENEFITS

### *Equity compensation benefits*

#### Share option plan

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

|                                | <b>Group and Company</b> |             |
|--------------------------------|--------------------------|-------------|
|                                | <b>2004</b>              | <b>2003</b> |
| Outstanding at 1 August ('000) | –                        | –           |
| Issued ('000)                  | 6,793                    | –           |
| Exercised ('000)               | (1,506)                  | –           |
| Lapsed ('000)                  | (112)                    | –           |
|                                | <hr/>                    | <hr/>       |
| Outstanding at 31 July ('000)  | 5,175                    | –           |
|                                | <hr/> <hr/>              | <hr/> <hr/> |

|   | <b>Group and Company</b> |             |
|---|--------------------------|-------------|
|   | <b>2004</b>              | <b>2003</b> |
| Details of share options granted during the year: |                          |             |
| Expiry date                                       | 30/10/08                 | –           |
| Exercise price per ordinary share (RM)            | 1.87                     | –           |
| Aggregate proceeds if shares are issued (RM'000)  | 12,703                   | –           |

|   |          |   |
|---|----------|---|
| Details of share options exercised during the year: |          |   |
| Expiry date   | 30/10/08 | – |
| Exercise price per ordinary share (RM)              | 1.87     | – |
| Aggregate issue proceeds (RM'000)                   | 2,816    | – |
| Fair value at date of issue (RM'000)                | 3,702    | – |

Terms of the options outstanding at 31 August 2004:

| <b>Expiry date</b> | <b>Exercise price</b> | <b>Number</b> |
|--------------------|-----------------------|---------------|
| 30 Oct 2008        | RM1.87                | 5,174,900     |
|                    |                       | <hr/> <hr/>   |

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

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

|   | <b>Group and Company</b> |               |
|---|--------------------------|---------------|
|   | <b>2004</b>              | <b>2003</b>   |
| <b>Number of ordinary shares</b>                            |                          |               |
| Held at 1 August ('000)                                     | –                        | –             |
| Issued to the plan ('000)                                   | 6,793                    | –             |
| Held at 31 July ('000)                                      | 5,175                    | –             |
| Distributed by equity compensation plan to employees ('000) | (1,506)                  | –             |
|   | <hr/>                    | <hr/>         |
|   | <b>RM'000</b>            | <b>RM'000</b> |
| <b>Fair value</b>   |                          |               |
| At 1 January  | –                        | –             |
| Issued to the plan  | 9,306                    | –             |
| Outstanding at 31 July                                      | 7,090                    | –             |

## 16. OPERATING PROFIT/(LOSS)

|   | Group                             |  | Company                           |  |
|---|-----------------------------------|--|-----------------------------------|--|
|   | Year ended<br>31.7.2004<br>RM'000 | 25.9.2002<br>to<br>31.7.2003<br>RM'000 | Year ended<br>31.7.2004<br>RM'000 | 25.9.2002<br>to<br>31.7.2003<br>RM'000 |
| Revenue   |                                   |  |                                   |  |
| - Contract revenue  | 142,763                           | 7,360                                  | -                                 | -                                      |
| - Invoiced sales  | 4,003                             | 150                                    | -                                 | -                                      |
| - Dividends   | -                                 | -                                      | 5,861                             | -                                      |
|   | <u>146,766</u>                    | <u>7,510</u>                           | <u>5,861</u>                      | <u>-</u>                               |
| Contract cost recognised as an expense                        | (109,083)                         | (4,477)                                | -                                 | -                                      |
| Cost of sales   | (3,311)                           | (181)                                  | -                                 | -                                      |
|   | <u>(112,394)</u>                  | <u>(4,658)</u>                         | <u>-</u>                          | <u>-</u>                               |
| Gross profit  | 34,372                            | 2,852                                  | 5,861                             | -                                      |
| Administrative expenses                                       | (19,534)                          | (617)                                  | (317)                             | (11)                                   |
| Distribution costs  | (2,558)                           | (58)                                   | -                                 | -                                      |
| Other operating expenses                                      | (1,578)                           | (59)                                   | -                                 | -                                      |
| Other operating income  | 259                               | 35                                     | -                                 | -                                      |
|   | <u>10,961</u>                     | <u>2,153</u>                           | <u>5,544</u>                      | <u>(11)</u>                            |
| <b>Operating profit/(loss) is arrived at after crediting:</b> |                                   |  |                                   |  |
| Dividend income from unquoted shares of subsidiaries          | -                                 | -                                      | 5,861                             | -                                      |
| Gain on disposal of property, plant and equipment             | 192                               | -                                      | -                                 | -                                      |
| Realised gain on foreign exchange                             | 5                                 | -                                      | -                                 | -                                      |
|   | <u>197</u>                        | <u>-</u>                               | <u>5,861</u>                      | <u>-</u>                               |
| <b>and after charging:</b>                                    |                                   |  |                                   |  |
| Allowance for doubtful debts                                  | 5                                 | -                                      | -                                 | -                                      |
| Allowance for diminution in value of investments              | 197                               | -                                      | -                                 | -                                      |
| Amortisation of goodwill                                      | 1,382                             | 46                                     | -                                 | -                                      |
| Auditors' remuneration  |                                   |  |                                   |  |
| - Holding company auditors                                    | 85                                | 12                                     | 10                                | 10                                     |
| - Other auditors  | 35                                | -                                      | -                                 | -                                      |
| Company's Directors   |                                   |  |                                   |  |
| - Remuneration  | 1,733                             | 43                                     | -                                 | -                                      |
| - Fees  | 280                               | -                                      | 146                               | -                                      |
| Depreciation  | 1,947                             | 45                                     | -                                 | -                                      |
| Rental of premises  | 147                               | 12                                     | -                                 | -                                      |
| Realised loss on foreign exchange                             | 4                                 | -                                      | -                                 | -                                      |
|   | <u>4,028</u>                      | <u>101</u>                             | <u>146</u>                        | <u>-</u>                               |

The estimated monetary value of Directors' benefits-in-kind is RM78,750 (2003 - RM3,110).

**17. EMPLOYEE INFORMATION**

|             | Year<br>ended<br>31.7.2004<br>RM'000 | Group<br>25.9.2002<br>to<br>31.7.2003<br>RM'000 |
|-------------|--------------------------------------|---|
| Staff costs | 14,919                               | 467   |

Staff costs include contributions to the Employee's Provident Fund of RM1,518,000 (2003 - RM1,313,000) and other defined contribution plans.

The number of employees of the Group (including Directors) at the end of the year/period was 349 (2003 - 247).

**18. EXCEPTIONAL ITEMS**

|   | Year<br>ended<br>31.7.2004<br>RM'000 | Group<br>25.9.2002<br>to<br>31.7.2003<br>RM'000 | Year<br>ended<br>31.7.2004<br>RM'000 | Company<br>25.9.2002<br>to<br>31.7.2003<br>RM'000 |
|---|--------------------------------------|---|--------------------------------------|---|
| Cost arising from the acquisition of Seng Hup Corporation Berhad ("SHCB) pursuant to the restructuring exercise of SHCB | -                                    | (28,833)  | -                                    | (28,833)  |
| Negative goodwill arising from the acquisition of a subsidiary pursuant to the restructuring exercise of SHCB           | -                                    | 32,778  | -                                    | -   |
|   | -                                    | 3,945   | -                                    | (28,833)  |

The negative goodwill in previous financial period was recognised in the income statement in accordance with the International Accounting Standard ("IAS") No. 22 (revised 1998) - Business Combination in line with the requirement of MASB 21, Business Combinations, which prescribe the recognition of goodwill in accordance with generally accepted accounting principles.

## 19. TAX EXPENSE

|  | Group                             |  | Company                           |  |
|--|-----------------------------------|--|-----------------------------------|--|
|  | Year ended<br>31.7.2004<br>RM'000 | 25.9.2002<br>to<br>31.7.2003<br>RM'000 | Year ended<br>31.7.2004<br>RM'000 | 25.9.2002<br>to<br>31.7.2003<br>RM'000 |
| <b>Current tax expense</b>                             |                                   |  |                                   |  |
| Malaysian - current                                    | 2,978                             | 932                                    | 16                                | -                                      |
| - prior year   | 215                               | -                                      | 2                                 | -                                      |
| Overseas - current                                     | 21                                | -                                      | -                                 | -                                      |
|  | <u>3,214</u>                      | <u>932</u>                             | <u>18</u>                         | <u>-</u>                               |
| <b>Deferred tax expense</b>                            |                                   |  |                                   |  |
| Origination and reversal of temporary differences      | 87                                | -                                      | -                                 | -                                      |
|  | <u>87</u>                         | <u>-</u>                               | <u>-</u>                          | <u>-</u>                               |
| <b>Tax expense on share of profit of an associates</b> |                                   |  |                                   |  |
| Income tax expense                                     | (28)                              | 3                                      | -                                 | -                                      |
| Deferred tax income                                    | -                                 | (70)                                   | -                                 | -                                      |
|  | <u>(28)</u>                       | <u>(67)</u>                            | <u>-</u>                          | <u>-</u>                               |
| <b>Total</b>   | <u>3,273</u>                      | <u>865</u>                             | <u>18</u>                         | <u>-</u>                               |

*Reconciliation of effective tax rate/expense*

| Group   | Year ended<br>31.7.2004 |              | 25.9.2002<br>to<br>31.7.2003 |            |
|---|-------------------------|--------------|------------------------------|------------|
|   | %                       | RM'000       | %                            | RM'000     |
| Profit/(Loss) before taxation                         | 100                     | 14,347       | 100                          | 7,103      |
| Income tax using Malaysian tax rates                  |                         |              |                              |            |
| - income taxable at 20%                               | 1                       | 219          | -                            | -          |
| - income taxable at 28%                               | 26                      | 3,713        | 28                           | 1,989      |
| Effect of different tax rates in foreign jurisdiction | (2)                     | (254)        | -                            | -          |
| Non-deductible expenses                               | 11                      | 1,513        | 2                            | 146        |
| Tax exempt income                                     | (9)                     | (1,365)      | (3)                          | (207)      |
| Exceptional items not subject to income tax           | -                       | -            | (15)                         | (1,105)    |
| Losses not available for set-off                      | -                       | 39           | -                            | -          |
| Effect of deferred tax assets recognised              | (5)                     | (680)        | -                            | -          |
| Other items   | (1)                     | (127)        | -                            | 42         |
|   | <u>21</u>               | <u>3,058</u> | <u>12</u>                    | <u>865</u> |
| Under provision in prior years                        |                         | <u>215</u>   |                              | <u>-</u>   |
|   |                         | <u>3,273</u> |                              | <u>865</u> |



**19. TAX EXPENSE (CONTINUED)**

| Company  | Year ended<br>31.7.2004 |         | 25.9.2002<br>to<br>31.7.2003 |          |
|--|-------------------------|---------|------------------------------|----------|
|  | %                       | RM'000  | %                            | RM'000   |
| Profit/(Loss) before taxation                  | 100                     | 5,605   | 100                          | (28,838) |
| Income tax using Malaysian tax rates           | 28                      | 1,569   | (28)                         | (8,074)  |
| Non-deductible expenses                        | 1                       | 88      | -                            | -        |
| Tax exempt income                              | (29)                    | (1,641) | -                            | -        |
| Exceptional items not subject to<br>income tax | -                       | -       | 28                           | 8,073    |
| Other items                                    | -                       | -       | -                            | 1        |
|  | -                       | 16      | -                            | -        |
| Under provision in prior years                 |                         | 2       |                              | -        |
|  |                         | 18      |                              | -        |

**20. EARNINGS PER ORDINARY SHARE - GROUP*****Basic earnings per share***

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of RM9,266,000 (2003 - RM6,231,000) and the weighted average number of ordinary shares outstanding during the financial year/period of 190,479,000 (2003 - 5,734,000).

***Weighted average number of ordinary shares***

|   | 2004<br>'000 | 2003<br>'000 |
|---|--------------|--------------|
| Issued ordinary shares at beginning of the year/<br>date of incorporation | 162,062      | - *          |
| Effect of shares issued   | 28,417       | 5,734        |
| Weighted average number of ordinary shares                                | 190,479      | 5,734        |

\* 2 ordinary shares of RM0.50 each

During the financial year, the diluted earnings per share results in increased earnings per share and are therefore not shown.

## 21. SEGMENTAL INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

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

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

### ***Business segments***

The Group comprises the following main business segments:

- |  |   |
|--|---|
| Water and Environmental Division ("WED") | – 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 Division ("TSD") water and palm oil industries.  |

### ***Geographical segments***

WED segment is mainly operated in Malaysia, Vietnam, Thailand and 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.

## 21. SEGMENTAL INFORMATION (continued)

| 2004<br><i>Business segments</i>                | WED<br>RM'000         | WWD<br>RM'000         | AID<br>RM'000         | BSD<br>RM'000         | TSD<br>RM'000         | Others<br>RM'000         | Eliminations<br>RM'000         | Consolidated<br>RM'000         |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|--------------------------|--------------------------------|--------------------------------|
| Revenue from external customers                 | 88,779                | 51,524                | –                     | 272                   | 6,191                 | –                        | –                              | 146,766                        |
| Inter segment revenue                           | –                     | –                     | –                     | –                     | 230                   | 794                      | (1,024)                        | –                              |
| <b>Total revenue</b>                            | <b>88,779</b>         | <b>51,524</b>         | <b>–</b>              | <b>272</b>            | <b>6,421</b>          | <b>794</b>               | <b>(1,024)</b>                 | <b>146,766</b>                 |
| <b>Segment result</b>                           | <b>6,379</b>          | <b>4,201</b>          | <b>–</b>              | <b>(21)</b>           | <b>174</b>            | <b>228</b>               | <b>–</b>                       | <b>10,961</b>                  |
| Operating profit                                |                       |                       |                       |                       |                       |                          |                                | 10,961                         |
| Interest expense                                |                       |                       |                       |                       |                       |                          |                                | (2,409)                        |
| Interest income                                 |                       |                       |                       |                       |                       |                          |                                | 745                            |
| Share of profit of associates and joint venture |                       |                       |                       |                       |                       |                          |                                | 5,050                          |
| Exceptional items                               |                       |                       |                       |                       |                       |                          |                                | –                              |
| Profit before taxation                          |                       |                       |                       |                       |                       |                          |                                | 14,347                         |
| Tax expense                                     |                       |                       |                       |                       |                       |                          |                                | (3,273)                        |
| Minority interests                              |                       |                       |                       |                       |                       |                          |                                | (1,808)                        |
| <b>Net profit for the year</b>                  |                       |                       |                       |                       |                       |                          |                                | <b>9,266</b>                   |
| <b>Segment assets</b>                           | <b>178,681</b>        | <b>32,347</b>         | <b>6,137</b>          | <b>2,116</b>          | <b>4,922</b>          | <b>10,748</b>            | <b>–</b>                       | <b>234,951</b>                 |
| Investment in associates                        | 44,907                | –                     | 17,660                | –                     | –                     | –                        | –                              | 62,567                         |
| <b>Total assets</b>                             | <b>223,588</b>        | <b>32,347</b>         | <b>23,797</b>         | <b>2,116</b>          | <b>4,922</b>          | <b>10,748</b>            | <b>–</b>                       | <b>297,518</b>                 |
| <b>Segment liabilities</b>                      | <b>133,504</b>        | <b>18,202</b>         | <b>274</b>            | <b>5,942</b>          | <b>1,243</b>          | <b>2</b>                 | <b>–</b>                       | <b>159,167</b>                 |
| Capital expenditure                             | 2,124                 | 313                   | –                     | –                     | 1                     | –                        | –                              | 2,438                          |
| Depreciation                                    | 1,252                 | 387                   | –                     | –                     | 44                    | 264                      | –                              | 1,947                          |
| <b>2003<br/><i>Business segments</i></b>        | <b>WED<br/>RM'000</b> | <b>WWD<br/>RM'000</b> | <b>AID<br/>RM'000</b> | <b>BSD<br/>RM'000</b> | <b>TSD<br/>RM'000</b> | <b>Others<br/>RM'000</b> | <b>Eliminations<br/>RM'000</b> | <b>Consolidated<br/>RM'000</b> |
| Revenue from external customers                 | 4,977                 | 1,441                 | –                     | 867                   | 225                   | –                        | –                              | 7,510                          |
| Inter segment revenue                           | 586                   | –                     | –                     | –                     | 255                   | 24                       | (865)                          | –                              |
| <b>Total revenue</b>                            | <b>5,563</b>          | <b>1,441</b>          | <b>–</b>              | <b>867</b>            | <b>480</b>            | <b>24</b>                | <b>(865)</b>                   | <b>7,510</b>                   |
| <b>Segment result</b>                           | <b>1,444</b>          | <b>50</b>             | <b>–</b>              | <b>579</b>            | <b>74</b>             | <b>6</b>                 | <b>–</b>                       | <b>2,153</b>                   |
| Operating profit                                |                       |                       |                       |                       |                       |                          |                                | 2,153                          |
| Interest expense                                |                       |                       |                       |                       |                       |                          |                                | (70)                           |
| Interest income                                 |                       |                       |                       |                       |                       |                          |                                | 58                             |
| Share of profit of associates and joint venture |                       |                       |                       |                       |                       |                          |                                | 1,017                          |
| Exceptional items                               |                       |                       |                       |                       |                       |                          |                                | 3,945                          |
| Profit before taxation                          |                       |                       |                       |                       |                       |                          |                                | 7,103                          |
| Tax expense                                     |                       |                       |                       |                       |                       |                          |                                | (865)                          |
| Minority interests                              |                       |                       |                       |                       |                       |                          |                                | (7)                            |
| <b>Net profit for the period</b>                |                       |                       |                       |                       |                       |                          |                                | <b>6,231</b>                   |
| <b>Segment assets</b>                           | <b>213,607</b>        | <b>34,118</b>         | <b>6,964</b>          | <b>11,211</b>         | <b>7,467</b>          | <b>11,186</b>            | <b>–</b>                       | <b>284,553</b>                 |
| Investment in associates                        | 44,454                | –                     | 16,916                | –                     | –                     | –                        | –                              | 61,370                         |
| <b>Total assets</b>                             | <b>258,061</b>        | <b>34,118</b>         | <b>23,880</b>         | <b>11,211</b>         | <b>7,467</b>          | <b>11,186</b>            | <b>–</b>                       | <b>345,923</b>                 |
| <b>Segment liabilities</b>                      | <b>214,991</b>        | <b>22,036</b>         | <b>112</b>            | <b>13,507</b>         | <b>2,522</b>          | <b>98</b>                | <b>–</b>                       | <b>253,266</b>                 |
| Depreciation                                    | 25                    | 12                    | –                     | –                     | –                     | 8                        | –                              | 45                             |

**21. SEGMENTAL INFORMATION (continued)**

| <b>2004</b><br><i>Geographical segments</i> | Malaysia<br>RM'000 | Vietnam<br>RM'000 | Indonesia<br>RM'000 | Thailand<br>RM'000 | India<br>RM'000 | Solomon<br>Islands<br>RM'000 | China<br>RM'000 | Others<br>RM'000 | Eliminations<br>RM'000 | Consolidated<br>RM'000 |
|---|--------------------|-------------------|---------------------|--------------------|-----------------|------------------------------|-----------------|------------------|------------------------|------------------------|
| Revenue from external customers             | 132,745            | 1,406             | 1,274               | 9,339              | -               | -                            | 1,747           | 255              | -                      | 146,766                |
| Inter segment revenue                       | -                  | -                 | -                   | -                  | -               | -                            | -               | -                | -                      | -                      |
| <b>Total revenue</b>                        | <b>132,745</b>     | <b>1,406</b>      | <b>1,274</b>        | <b>9,339</b>       | <b>-</b>        | <b>-</b>                     | <b>1,747</b>    | <b>255</b>       | <b>-</b>               | <b>146,766</b>         |
| Segment assets                              | 203,749            | 137               | 531                 | 11,713             | 4,015           | -                            | 14,806          | -                | -                      | 234,951                |
| Investment in associates                    | 108                | 44,906            | -                   | -                  | 17,553          | -                            | -               | -                | -                      | 62,567                 |
| <b>Total assets</b>                         | <b>203,857</b>     | <b>45,043</b>     | <b>531</b>          | <b>11,713</b>      | <b>21,568</b>   | <b>-</b>                     | <b>14,806</b>   | <b>-</b>         | <b>-</b>               | <b>297,518</b>         |
| <b>2003</b><br><i>Geographical segments</i> |                    |                   |                     |                    |                 |                              |                 |                  |                        |                        |
| Revenue from external customers             |                    | 7,287             | 41                  | 182                | -               | -                            | -               | -                | -                      | 7,510                  |
| Inter segment revenue                       |                    | 865               | -                   | -                  | -               | -                            | -               | -                | (865)                  | -                      |
| <b>Total revenue</b>                        |                    | <b>8,152</b>      | <b>41</b>           | <b>182</b>         | <b>-</b>        | <b>-</b>                     | <b>-</b>        | <b>-</b>         | <b>(865)</b>           | <b>7,510</b>           |
| Segment assets                              | 270,339            | 478               | 1,592               | 1,762              | 6,475           | 3,869                        | 38              | -                | -                      | 284,553                |
| Investment in associates                    | -                  | 44,454            | -                   | -                  | 16,916          | -                            | -               | -                | -                      | 61,370                 |
| <b>Total assets</b>                         | <b>270,339</b>     | <b>44,932</b>     | <b>1,592</b>        | <b>1,762</b>       | <b>23,391</b>   | <b>3,869</b>                 | <b>38</b>       | <b>-</b>         | <b>-</b>               | <b>345,923</b>         |

**22. CONTINGENT LIABILITIES (UNSECURED)**

|   | <b>Group</b>          |                       |
|---|-----------------------|-----------------------|
|   | <b>2004</b><br>RM'000 | <b>2003</b><br>RM'000 |
| Guarantees and contingencies relating to borrowings of associates                               | -                     | 13,680                |
| Bank guarantee given to third parties relating to performance, tender and advance payment bonds |                       |                       |
| - unsecured   | 82,226                | 49,565                |
| - secured   | -                     | 4,350                 |
|   | <b>82,226</b>         | <b>67,595</b>         |

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

The Group had successfully applied to amend the Defence and to include a Counter-claim of RM1,780,000 in the suit. The full trial is fixed on 21, 22, and 23 February 2005.

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

**23. COMMITMENTS**

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2004<br>RM'000 | 2003<br>RM'000 | 2004<br>RM'000 | 2003<br>RM'000 |
| Investment in subsidiary<br>Contracted but not provided for<br>in the financial statements | –              | 4,900          | –              | 4,900          |

**24. RELATED PARTIES**

Controlling related party relationships are those with its subsidiaries as disclosed in Note 25.

| <i>Transactions</i>   | Group          |                |
|---|----------------|----------------|
|   | 2004<br>RM'000 | 2003<br>RM'000 |
| Company in which Dato' (Dr.) Teoh Seng Foo and<br>Teoh Seng Kian, Directors, have interest: |                |                |
| Meda Complex Management Sdn. Bhd.<br>Maintenance charges                                    | (16)           | (8)            |
| The Summit Hotel<br>Accommodation expenses  | (122)          | –              |
| Affiliated company  |                |                |
| Kumpulan Emas Berhad  |                |                |
| Interest receivable   | 454            | 49             |
| Insurance premium payable   | (3)            | –              |
| Subsidiaries of affiliated company  |                |                |
| KE Management Services Sdn. Bhd.<br>Management fees payable                                 | (111)          | (5)            |

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

**25. SUBSIDIARIES AND ASSOCIATES**

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

| Name of Company  | Group's effective<br>interest |      | Principal activities  |
|--|-------------------------------|------|---|
|  | 2004                          | 2003 |   |
| Salcon Engineering Berhad  | 100%                          | 100% | <ul style="list-style-type: none"> <li>- Design, construction, operation and maintenance of municipal potable water, sewerage and waste water facilities;</li> <li>- Design, construction and commissioning of palm oil mills;</li> <li>- Provision of mechanical and electrical engineering services for general industries; and</li> <li>- Investment holding.</li> </ul> |
| Integrated Water Services (M)<br>Sdn. Bhd<br>(previously was a subsidiary of<br>Salcon Engineering Berhad) | 51%                           | 51%  | Operation and maintenance of<br>a water treatment plant   |

**25. SUBSIDIARIES AND ASSOCIATES (continued)**

| Name of Company  | Group's effective interest |      | Principal activities   |
|--|----------------------------|------|--|
|  | 2004                       | 2003 |  |
| Salcon Water (HK) Limited<br>(Incorporated in Hong Kong;<br>previously was a wholly owned<br>subsidiary of Salcon Engineering Berhad) ^              | 100%                       | 100% | Investment holding company<br>involve in water supply<br>projects in China via its<br>subsidiary                                       |
| Subsidiaries of Salcon Engineering Berhad:<br>Salcon-Centrimax Engineering Sdn. Bhd.   | 100%                       | 100% | Marketing, sales and servicing<br>of equipment for water and<br>palm oil industries  |
| Precise Metal. Sdn. Bhd.   | 100%                       | 100% | Dormant  |
| Salcon Agro Sdn. Bhd.  | 100%                       | 100% | Dormant  |
| Salcon Resources Sdn. Bhd.   | 100%                       | 100% | Property investment  |
| Bumi Tiga Enterprise Sdn. Bhd.   | 100%                       | 100% | Investment holding   |
| Salcon (Sarawak) Sdn. Bhd.   | 100%                       | 100% | Dormant  |
| Salcon Environmental Services Sdn. Bhd.  | 100%                       | 100% | Operation and maintenance<br>of water treatment plants   |
| Envitech Sdn. Bhd.   | 60%                        | 60%  | Design, building, operation and<br>maintenance of waste-water and<br>sewerage treatment plants   |
| Salcon Corporation Sdn. Bhd.   | 100%                       | 100% | Dormant  |
| Subsidiaries of Bumi Tiga Enterprise Sdn. Bhd.:<br>Skeel Engineering Sdn. Bhd  | 100%                       | 100% | Dormant  |
| Salcon Building Services Sdn. Bhd.   | 100%                       | 100% | Provision of engineering<br>services for general industries  |
| Eagle Metalizing & Coatings<br>Company Sdn. Bhd.   | 60%                        | 60%  | Dormant  |
| Subsidiary of Salcon Water (HK) Limited:<br>Shandong Changle Salcon Water<br>Company Limited^<br>(Incorporated in the People's<br>Republic of China) | 75%                        | –    | Construction, management<br>and operation of water<br>production, and distribution<br>of water in Changle<br>County, Shandong Province |

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

**25. SUBSIDIARIES AND ASSOCIATES (continued)**

| Name of Company   | Group's effective interest |      | Principal activities  |
|---|----------------------------|------|---|
|   | 2004                       | 2003 |   |
| Emas Utilities Corporation Sdn. Bhd.                                    | 40%                        | 40%  | Investment holding company in respect of a water supply project in Vietnam                          |
| Binh An Water Corporation Ltd. (Incorporated in Vietnam)+*              | 36%                        | 36%  | Production and supply of treated water to Ho Chi Minh City, Vietnam                                 |
| Cross Continental Investments * (Incorporated in Republic of Mauritius) | 49%                        | 49%  | Investment holding  |
| Palm Tech India Ltd ^@ (Incorporated in India)                          | 46%                        | 46%  | Oil palm plantation and development and manufacture and sale of crude palm oil and related products |
| Tricol Engineering Sdn. Bhd.^   | 40%                        | –    | Construction and installation of plant for palm oil industries                                      |

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

\* Audited by overseas KPMG firm.

^ Audited by other firm of accountants.

@ Cross Continental Investments hold 94.8% of this company.

**26. ACQUISITION OF SUBSIDIARIES**

On 21 July 2003, the Company acquired the entire equity interest in Salcon Engineering Berhad (“SEB”), a company incorporated in Malaysia, by way of issuance of 160,396,000 ordinary shares of RM0.50 each at par. For the 11 days ended 31 July 2003, the subsidiary contributed a net profit of RM2,291,000 to the consolidated net profit for the period.

On 13 May 2003, the Group through SEB incorporated a subsidiary, Salcon Water (HK) Limited (“SWHK”), a company incorporated in Hong Kong, with a paid-up share capital of 2 shares of HK1.00 each. Subsequently 1 share was transfer to Salcon Berhad.

On 7 January 2004, SWHK increased its paid-up capital by 77,998 shares at HK1.00 each which were subscribed by Salcon Berhad and SEB of 77,219 shares and 779 shares, respectively. Subsequent to the subscription of these new shares, the authorised and paid-up capital of SWHK were converted to USD1.00 each. Salcon Berhad subscribed the total shares of 77,998 for a consideration of RM37,620 via contra with amount due from SWHK. Accordingly, SWHK became a subsidiary of Salcon Berhad.

On 22 December 2003, the Group through SWHK acquired 75% equity interest in Shandong Changle Salcon Water Company Limited, a company incorporated in the People's Republic of China, for a consideration of RM5,472,000 satisfied by cash.

**26. ACQUISITION OF SUBSIDIARIES (continued)**

On 6 May 2004, the Company acquired all shares in Intergrated Water Services (M) Sdn. Bhd. held by SEB for a consideration of RM10,200 via a contra with the amount due from SEB. No gain or loss was incurred from the acquisition.

The acquisitions were accounted for using the acquisition method of accounting.

***Effect of acquisition***

The acquisition had the following effect on the Group's assets and liabilities as at 31 July 2004:

|   | <b>At date of acquisition</b> |               |
|---|-------------------------------|---------------|
|   | <b>2004</b>                   | <b>2003</b>   |
|   | <b>RM'000</b>                 | <b>RM'000</b> |
| Non - current assets  |                               |               |
| Property, plant and equipment   | 8,776                         | 16,984        |
| Investments   | –                             | 67,862        |
| Goodwill  | –                             | 3,512         |
|   | <hr/>                         | <hr/>         |
|   | 8,776                         | 88,358        |
| Current assets  | –                             | 240,319       |
| Current liabilities   | (6,933)                       | (209,243)     |
| Minority interest   | (1,843)                       | (5,401)       |
| Long term liabilities   | –                             | (1,057)       |
|   | <hr/>                         | <hr/>         |
| Fair value of net assets acquired   | –                             | 112,976       |
| Negative goodwill   | –                             | (32,778)      |
|   | <hr/>                         | <hr/>         |
| Purchase consideration  | –                             | 80,198        |
| Satisfied by issuance of 160,396,000 ordinary shares of RM0.50 each           | –                             | (80,198)      |
| Satisfied by cash   | (5,472)                       | –             |
|   | <hr/>                         | <hr/>         |
|   | (5,472)                       | –             |
| Cash and cash equivalents (net of fixed deposits pledged and bank overdrafts) | 5,472                         | 10,076        |
|   | <hr/>                         | <hr/>         |
| Cash inflow on acquisition  | –                             | 10,076        |
|   | <hr/> <hr/>                   | <hr/> <hr/>   |



## 27. FINANCIAL INSTRUMENTS

### Financial risk management objectives and policies

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

#### Credit risk

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

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

#### Foreign currency risk

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

#### Liquidity risk

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

#### Interest rate risk

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

**27. FINANCIAL INSTRUMENTS (continued)**

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

***Effective interest rates and repricing analysis***

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

| <b>Group</b>                   | <b>Effective interest rate %</b> | <b>Total RM'000</b> | <b>Within 1 year RM'000</b> |
|--------------------------------|----------------------------------|---------------------|-----------------------------|
| <b>2004</b>                    |                                  |                     |                             |
| <b>Financial assets</b>        |                                  |                     |                             |
| Fixed deposits                 | 2.69                             | 29,062              | 29,062                      |
| <b>Financial liabilities</b>   |                                  |                     |                             |
| Unsecured bank overdrafts      | 7.40                             | 428                 | 428                         |
| Unsecured bankers' acceptances | 3.88                             | 15,734              | 15,734                      |
| Unsecured term loan            | 6.83                             | 47,233              | 47,233                      |
| <b>2003</b>                    |                                  |                     |                             |
| <b>Financial assets</b>        |                                  |                     |                             |
| Fixed deposits                 | 3.00                             | 657                 | 657                         |
| <b>Financial liabilities</b>   |                                  |                     |                             |
| Unsecured bank overdrafts      | 7.80                             | 573                 | 573                         |
| Unsecured bankers' acceptances | 3.85                             | 32,208              | 32,208                      |
| Unsecured revolving credits    | 5.73                             | 23,550              | 23,550                      |
| <b>Company</b>                 |                                  |                     |                             |
| <b>2004</b>                    |                                  |                     |                             |
| <b>Financial liabilities</b>   |                                  |                     |                             |
| Unsecured term loan            | 6.83                             | 45,000              | 45,000                      |
| <b>2003</b>                    |                                  |                     |                             |
| <b>Financial liabilities</b>   |                                  |                     |                             |
| Unsecured term loan            | —                                | —                   | —                           |

## 27. FINANCIAL INSTRUMENTS (continued)

### Fair values

#### Recognised financial instruments

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

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

| Group                     | 2004<br>Carrying<br>amount<br>RM'000 | 2004<br>Fair<br>value<br>RM'000 | 2003<br>Carrying<br>amount<br>RM'000 | 2003<br>Fair<br>value<br>RM'000 |
|---------------------------|--------------------------------------|---------------------------------|--------------------------------------|---------------------------------|
| <b>Financial assets</b>   |                                      |                                 |                                      |                                 |
| Quoted shares - long term | 32                                   | 32                              | 175                                  | 48                              |
| Unquoted shares           | 6,475                                | 6,475                           | 6,475                                | 6,475                           |
| Other investment          | 4,586                                | 4,586                           | 140                                  | 90                              |

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.

# PARTICULARS OF GROUP PROPERTIES

The properties of the Group at 31 July 2004 and their net book values ("NBV") are indicated below:

## FREEHOLD LAND AND BUILDING

| Company                  | Location/Address   | Size & Usage  | Approximate age of building | Date of Acquisition/Revaluation | NBV RM'000 |
|--------------------------|--|---|-----------------------------|---------------------------------|------------|
| Salcon Resources Sdn Bhd | Geran 39929, PT No. 42695, Mukim Damansara, Daerah Petaling/15th Floor Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan        | 1,300.5 sq. metres of office space  | 5 years                     | 30.07.2001                      | 5,246      |
| Salcon Resources Sdn Bhd | Geran 39930, PT No. 42696, Mukim Damansara, Daerah Petaling/16th Floor Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan        | 1,300.5 sq. metres of office space  | 5 years                     | 30.07.2001                      | 5,258      |
| Envitech Sdn Bhd         | HS(D) 102104, PT No. 15914, Pekan Damansara, Daerah Petaling/No. 64, Jalan Penyair U1/44, Temasya Industrial Park, Seksyen U1, 40150 Shah Alam, Selangor Darul Ehsan | 149 sq. metres of intermediate unit 1 <sup>1</sup> / <sub>2</sub> storey terraced factory | 8 years                     | 14.03.2002                      | 196        |
| Envitech Sdn Bhd         | HS(D) 3422, Lot No. 3988, Mukim Damansara, Daerah Petaling, Selangor/No. 67, Jalan SS15/5A, 47500 Subang Jaya, Selangor Darul Ehsan                                  | 164 sq. metres of intermediate unit 3 storey terraced shop-office                         | 25 years                    | 15.03.2002                      | 687        |
| Envitech Sdn Bhd         | Plot Nos 1-176 of H.S. (D) 47860 P.T. No 770, Mukim Beranang, Daerah Hulu Langat   | 1,114.8 sq. metres of vacant bungalow lot   | –                           | 26.10.2002                      | 330        |
| Envitech Sdn Bhd         | Lot No: 810 Zone 6, Lestari Perdana, Puchong, Selangor Darul Ehsan   | 296 sq. metres of double storey terrace house (corner lot)                                | 2 years                     | 01.04.2003                      | 305        |
|                          |  |   |                             |                                 | 12,022     |

## LONG-TERM LEASEHOLD PROPERTIES

| Company                                | Location/Address  | Description/<br>Existing Use            | Approximate<br>age of<br>building         | Date of<br>Acquisition/<br>Revaluation | NBV<br>RM'000 |
|--|---|---|---|--|---------------|
| Salcon Engineering Berhad              | HS(D) 216, Plot No. 144, Mukim Ayer Panas, Daerah Jasin, Melaka                       | 1,474 sq. metres of vacant bungalow lot | 99 years leasehold expiring on 20.02.2077 | 31.07.2001                             | 130           |
| Salcon Engineering Berhad              | HS(D) 216, Plot No. 145, Mukim Ayer Panas, Daerah Jasin, Melaka                       | 1,087 sq. metres of vacant bungalow lot | 99 years leasehold expiring on 20.02.2077 | 31.07.2001                             | 129           |
| Salcon Engineering Berhad              | HS(D) 216, Plot No. 154, Mukim Ayer Panas, Daerah Jasin, Melaka                       | 1,115 sq. metres of vacant bungalow lot | 99 years leasehold expiring on 20.02.2077 | 31.07.2001                             | 129           |
| Shandong Changle Salcon Water Co. Ltd. | LeGuoYong2003, CL640 No. B003, Changle County Nanliu Village, Shandong Province China | 10,872 sq. metres of industrial lot     | 50 years leasehold expiring on 19.01.2053 | 16.11.2003                             | 2,570         |
| Shandong Changle Salcon Water Co. Ltd. | LeGuoYong2003, CL641 No. B005, Changle County Nanliu Village, Shandong Province China | 4,082 sq. metres of industrial lot      | 50 years leasehold expiring on 19.01.2053 | 16.11.2003                             | 1,534         |
|  |   |   |   |  | 4,492         |

# STATISTICAL REPORT OF SHAREHOLDERS

as at 18 November 2004

|  |                                  |
|--|----------------------------------|
| Class of Securities                    | : Ordinary shares of RM0.50 each |
| Authorised Share Capital               | : RM500,000,000                  |
| Issued and Fully Paid-up Share Capital | : RM96,384,301                   |
| No. of Shareholders                    | : 5,829                          |

## ANALYSIS OF SHAREHOLDINGS

| Holdings            | No. of Holders | Total Holdings     | Percentage    |
|---------------------|----------------|--------------------|---------------|
| 1 - 99              | 1,756          | 94,709             | 0.05          |
| 100 - 1,000         | 1,483          | 988,254            | 0.51          |
| 1,001 - 10,000      | 2,081          | 9,146,694          | 4.74          |
| 10,001 - 100,000    | 412            | 12,113,615         | 6.28          |
| 100,001 - 9,638,429 | 95             | 126,198,330        | 65.47         |
| 9,638,430 and above | 2              | 44,227,000         | 22.94         |
| <b>Total</b>        | <b>5,829</b>   | <b>192,768,602</b> | <b>100.00</b> |

## LIST OF THIRTY LARGEST REGISTERED SHAREHOLDINGS

| No. | Name  | No. of Shares Held | Percentage |
|-----|---|--------------------|------------|
| 1.  | Mayban Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Kumpulan Emas Berhad<br>(014011308091) | 33,300,000         | 17.27      |
| 2.  | Employees Provident Fund Board  | 10,927,000         | 5.67       |
| 3.  | Lembaga Tabung Angkatan Tentera   | 8,444,200          | 4.38       |
| 4.  | Eminent Triumph Sdn. Bhd.   | 7,697,920          | 3.99       |
| 5.  | AMMB Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Kumpulan Emas Berhad<br>(BK 6/334-4)     | 7,500,000          | 3.89       |
| 6.  | Warisan Harta Sabah Sdn. Bhd.   | 7,087,800          | 3.68       |
| 7.  | Urban Vantage Sdn. Bhd.   | 6,852,100          | 3.55       |
| 8.  | AMMB Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Mampu Alam Sdn. Bhd.<br>(BK 6/327-1)     | 6,550,000          | 3.40       |
| 9.  | PAB Nominee (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Mampu Alam Sdn. Bhd. (Teoh Seng Foo)       | 5,200,000          | 2.70       |
| 10. | Alliancegroup Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Mampu Alam Sdn. Bhd.            | 5,000,000          | 2.59       |
| 11. | Mayban Nominees (Tempatan) Sdn. Bhd.<br>Aseambankers Malaysia Berhad for Kumpulan Emas Berhad (240403)        | 4,834,334          | 2.51       |
| 12. | AMSEC Nominees (Tempatan) Sdn. Bhd.<br>AMBank Berhad for Kumpulan Emad Berhad                                 | 4,236,000          | 2.20       |

**LIST OF THIRTY LARGEST REGISTERED SHAREHOLDINGS (continued)**

| <u>No.</u> | <u>Name</u>   | <u>No. of Shares Held</u> | <u>Percentage</u> |
|------------|---|---------------------------|-------------------|
| 13.        | CIMSEC Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Kumpulan Emas Berhad (MM0769)        | 3,800,000                 | 1.97              |
| 14.        | HSBC Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Teoh Seng Foo                          | 3,755,000                 | 1.95              |
| 15.        | TA Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Kumpulan Emas Berhad                     | 3,630,000                 | 1.88              |
| 16.        | Kumpulan Emas Berhad  | 3,533,366                 | 1.83              |
| 17.        | Inter-Pacific Equity Nominees (Tempatan) Sdn. Bhd.<br>Pancaran Abadi Sdn. Bhd for Kumpulan Emas Berhad      | 2,725,424                 | 1.41              |
| 18.        | Universal Trustee (Malaysia) Berhad<br>Mayban Balanced Trust Fund   | 2,686,300                 | 1.39              |
| 19.        | A.A. Assets Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Kumpulan Emas Berhad            | 2,498,300                 | 1.30              |
| 20.        | Tan Pek Son   | 2,164,220                 | 1.12              |
| 21.        | HSBC Nominees (Asing) Sdn. Bhd.<br>DZ Bank Intl for UNI EM Fernost Treuhandkonto, Luxembourg                | 2,000,000                 | 1.04              |
| 22.        | EB Nominees (Tempatan) Sendirian Berhad<br>Pledged Securities Account for Eminent Triumph Sdn. Bhd. (BB)    | 1,792,000                 | 0.93              |
| 23.        | AMMB Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Eminent Triumph Sdn. Bhd. (BK 6/332-8) | 1,600,000                 | 0.83              |
| 24.        | Bank Kerjasama Rakyat Malaysia Berhad<br>Pledged Securities Account for Kumpulan Emas Berhad                | 1,600,000                 | 0.83              |
| 25.        | Bernas Bermutu Sdn. Bhd.  | 1,500,000                 | 0.78              |
| 26.        | HSBC Nominees (Asing) Sdn. Bhd.<br>Banca Intesa for Carifondo Paesi Emergenti (Fondigest SPA)               | 1,446,300                 | 0.75              |
| 27.        | HLB Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Teoh Seng Aun                           | 1,100,000                 | 0.57              |
| 28.        | Mampu Alam Sdn. Bhd.  | 1,098,600                 | 0.57              |
| 29.        | Mayfin Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Kumpulan Emas Berhad (SBJS)          | 1,009,000                 | 0.52              |
| 30.        | Amanah Raya Nominees (Tempatan) Sdn. Bhd.<br>Mayban Dana Yakin  | 1,000,000                 | 0.52              |
|            | Total   | 146,567,864               | 76.03             |

## SUBSTANTIAL SHAREHOLDERS

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

| Name of Substantial Shareholders | Direct Interest (%)<br>(A) | Indirect Interest (%)<br>(B)   | Total Interest (%)<br>(A+B) |
|----------------------------------|----------------------------|--------------------------------|-----------------------------|
| Kumpulan Emas Berhad             | 69,551,960 (36.08)         | –                              | 69,551,960 (36.08)          |
| Mampu Alam Sdn. Bhd.             | 17,848,600 (9.26)          | –                              | 17,848,600 (9.26)           |
| Employees Provident Fund Board   | 12,048,700 (6.25)          | –                              | 12,048,700 (6.25)           |
| Eminent Triumph Sdn. Bhd.        | 11,089,920 (5.75)          | –                              | 11,089,920 (5.75)           |
| Tan Sri Razali Ismail            | 45,000 (0.02)              | <sup>1</sup> 17,848,600 (9.26) | 17,893,600 (9.28)           |
| Abdul Nasir Bin Adnan            | –                          | <sup>1</sup> 17,848,600 (9.26) | 17,848,600 (9.26)           |
| Dato' (Dr.) Teoh Seng Foo        | 4,587,400 (2.38)           | <sup>2</sup> 69,551,960(36.08) | 74,139,360 (38.46)          |
| Teoh Seng Kian                   | 992,700 (0.51)             | <sup>3</sup> 69,551,960(36.08) | 70,544,660 (36.59)          |
| Dato' Lim See Teok               | 55,000 (0.03)              | <sup>3</sup> 11,089,920 (5.75) | 11,144,920 (5.78)           |
| Jaggit Singh a/l Tara Singh      | 45,000 (0.02)              | <sup>3</sup> 11,089,920 (5.75) | 11,089,920 (5.77)           |

Notes :

- (1) Deemed interest by virtue of their substantial shareholdings in Mampu Alam Sdn. Bhd.
- (2) Deemed interest by virtue of his substantial shareholdings in Kumpulan Emas Berhad.
- (3) Deemed interest by virtue of their substantial shareholdings in Eminent Triumph Sdn. Bhd.

## STATEMENT ON DIRECTORS' INTERESTS IN THE COMPANY AND RELATED CORPORATIONS

| Name  | No. of shares held<br>Direct (%)<br>(A) | No. of shares held<br>Indirect (%)<br>(B) | Total Interest(%)<br>(A+B) |
|---|---|---|----------------------------|
| Tan Sri Razali Ismail   | 45,000 (0.02)                           | *17,848,600 (9.26)                        | 17,893,600 (9.28)          |
| Dato' (Dr.) Teoh Seng Foo                                     | 4,587,400 (2.38)                        | ^69,551,960(36.08)                        | 74,139,360 (38.46)         |
| Teoh Seng Kian  | 992,700 (0.51)                          | ^69,551,960(36.08)                        | 70,544,660 (36.59)         |
| Dato' Lim See Teok  | 55,000 (0.03)                           | #11,089,920 (5.75)                        | 11,144,920 (5.78)          |
| Jaggit Singh a/l Tara Singh                                   | 45,000 (0.02)                           | #11,089,920 (5.75)                        | 11,089,920 (5.77)          |
| Foo San Kan   | 45,000 (0.02)                           | –   | 45,000 (0.02)              |
| Dato' Dr Freezailah Bin Che Yeom                              | 25,000 (0.01)                           | –   | 25,000 (0.01)              |
| Dato' Seri Megat Najmuddin bin<br>Datuk Seri Dr Hj Megat Khas | 45,000 (0.02)                           | –   | 45,000 (0.02)              |

\* Indirect interest held through Mampu Alam Sdn. Bhd.

^ Indirect interest held through Kumpulan Emas Berhad

# Indirect interest held through Eminent Triumph Sdn. Bhd.

Dato' (Dr.) Teoh Seng Foo and Teoh Seng Kian, are deemed to have an interest in all the shares of all the subsidiaries to the extent that the Company has an interest.

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

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



# PROXY FORM



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

of .....  
(ADDRESS)

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

.....  
(FULL NAME IN BLOCK LETTERS)

of .....

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Ballroom 1, Level 5, The Summit Hotel, Subang USJ, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor on Thursday, 13 January 2005 at 10:00 a.m. or at any adjournment thereof.

| Resolutions relating to :                                      | *FOR | *AGAINST |
|--|------|----------|
| 1. The adoption of Audited Financial Statements                |      |          |
| 2. The declaration of a First and Final Dividend               |      |          |
| 3. Payment of Directors' fee of RM146,000                      |      |          |
| 4. The re-election of Directors :                              |      |          |
| (a) Mr. Teoh Seng Kian   |      |          |
| (b) Dato' (Dr.) Teoh Seng Foo                                  |      |          |
| (c) Dato' Seri Megat Najmuddin Bin Datuk Seri Dr Hj Megat Khas |      |          |
| 5. Appointment of Auditors                                     |      |          |
| 6. Ordinary Resolution no. 1                                   |      |          |
| 7. Ordinary Resolution no. 2                                   |      |          |

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

|                       |
|-----------------------|
| Number of shares held |
|                       |

Dated this ..... day of ..... 2005

.....  
Signature of Shareholder(s)

### Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two(2) proxies to attend and vote in his stead. A proxy need not be a member of the Company and Section 149(1) of the Companies Act, 1965 shall not apply.
2. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.
3. In the case of a corporate body, the proxy appointed must be in accordance with the Memorandum and Articles of Association, and the instrument appointing a proxy shall be given under the Company's Common Seal or under the hand of an officer or attorney duly authorised.
4. The Form of Proxy must be deposited at the Company's Registered Office at 17th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.
5. Any alteration in the form of proxy must be initialled.

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STAMP

**SALCON BERHAD** (593796-T)  
17th Floor, Menara Summit  
Persiaran Kewajipan, USJ 1  
47600 UEP Subang Jaya  
Selangor Darul Ehsan  
Malaysia

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