Building Better Tomorrows

salcon

2010

annual report

SALCON BERHAD (593796-T)


creating delightful
possibilities

VISION

to be a world leader
in water and sanitation
services

MISSION

to provide quality water and
sanitation services through innovation
and capable human resources whilst
upholding our corporate
responsibilities

COVER RATIONALE:

As Malaysians, we have grown together and enriched each other's lives to make our nation a better place for all. This cover design depicting four young chidren in playful mode, epitomizes the energy, the vibrance and the carefree spirit of the young generation. The image of a healthy, green forestry environment epitomises Salcon's role in 'building better tomorrows' for the future generations. As we contribute in our own inimitable way towards this objective, we are proud to be associated with the celebration of life and the human spirit.

responsibilities

CORE VALUES

TEAMWORK
we believe that mutual accountability and unified efforts bring about greater synergy and productivity in our pursuit for excellence.

COMMITMENT
we are committed to delivering consistent and high quality products and services through the most efficient and optimum use of available resources.

RESPECT
we respect our employees regardless of gender, race or religion and inspire them to be the best they can be.

PROFESSIONALISM
we believe in the highest level of competence, integrity and throughness in achieving distinction in all aspects of our work.

RESULTS
we strive towards maximising stakeholders' values and returns.

Contents

Notice of Annual General Meeting

8th

NOTICE IS HEREBY GIVEN THAT the Eighth Annual General Meeting of the Company will be held at Classics Ballroom 2, Level 3, Holiday Villa Hotel & Suites Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Thursday, 23 June 2011 at 10.30 a.m. for the following purposes:-

Agenda

1. To receive the Audited Financial Statements for the financial year ended 31 December 2010 together with the Reports of the Directors and Auditors thereon.
   (SEE NOTE 2)

2. To approve the payment of the first and final single tier tax exempt dividend of 1.5 sen per ordinary share in respect of the financial year ended 31 December 2010.
   (Resolution 1)

3. To approve payment of Directors' fees for the financial year ended 31 December 2010.
   (Resolution 2)

4. To re-elect Mr. Ho Tet Shin who retires pursuant to Article 96 of the Company's Articles of Association.
   (Resolution 3)

5. To re-elect Dato' Choong Moh Kheng who retires pursuant to Article 103 of the Company's Articles of Association.
   (Resolution 4)

6. To re-appoint the following Directors who retire pursuant to Section 129(6) of the Companies Act, 1965, to hold office until the next Annual General Meeting:-
   (SEE NOTE 3)

   a) Dato' Seri (Dr.) Goh Eng Toon
   (Resolution 5)

   b) Dato' Dr Freezailah Bin Che Yeom
   (Resolution 6)

7. To re-appoint Messrs KPMG as Auditors of the Company and authorise the Directors to fix their remuneration.
   (Resolution 7)

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following Ordinary Resolution:

8. **Ordinary Resolution**
   Authority to Allot and Issue Shares in General Pursuant to Section 132D of the Companies Act, 1965
   (SEE NOTE 4)

   "THAT, subject always to the Companies Act, 1965, the Articles of Association of the Company and the approval of any relevant governmental and/or regulatory authorities, where such approval is required, the Directors be and are hereby authorised and empowered pursuant to Section 132D of the Companies Act, 1965 to allot and issue shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed ten (10) per centum of the issued and paid-up share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad and that authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."
   (Resolution 8)

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

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS HEREBY GIVEN that subject to the approval of the shareholders at the Eighth Annual General Meeting to be held on 23 June 2011, a first and final single tier tax exempt dividend of 1.5 sen per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2010 will be paid on 22 July 2011.

The entitlement date for the dividend is 30 June 2011.

A depositor shall qualify for entitlement to the dividend only in respect of:-

(a) Shares transferred into the Depositor's Securities Account before 4:00 p.m. on 30 June 2011 in respect of transfers; and

(b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

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

Kuala Lumpur
Date: 1 June 2011

NOTES:-

1. APPOINTMENT OF PROXY

(a) 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/her stead. A proxy need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply.

(b) Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.

(c) The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.

(d) The instrument appointing a proxy must be deposited at the Registered Office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.

2. **AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

The Audited Financial Statements in Agenda 1 is meant for discussion only as an approval from shareholders is not required pursuant to the provision of Section 169(1) of the Companies Act, 1965. Hence, this Agenda is not put forward for voting by shareholders of the Company.

3. **RE-APPOINTMENT OF DIRECTORS PURSUANT TO SECTION 129(6) OF THE COMPANIES ACT, 1965**

The Resolution 5 and Resolution 6, if passed, will authorise the continuity in office of the Directors (who are over the age of 70 years) until the next Annual General Meeting.

4. EXPLANATORY NOTES TO SPECIAL BUSINESS:

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

The proposed Resolution 8 is the renewal of the mandate obtained from the members at the last Annual General Meeting ("the previous mandate"). The previous mandate was not utilised and accordingly no proceeds were raised.

The proposed Resolution 8, if passed, would provide flexibility to the Directors to undertake fund raising activities, including but not limited to placement of shares for the purpose of funding the Company's future investment project(s), working capital and/or acquisition(s), by the issuance of shares in the Company to such persons at any time as the Directors may deem fit provided that the aggregate number of shares issued pursuant to the mandate does not exceed 10% of the issued and paid-up share capital of the Company for the time being, without having to convene a general meeting. This authority, unless revoked or varied by the Company in a general meeting will expire at the conclusion of the next Annual General Meeting of the Company.

Statement Accompanying Notice of Annual General Meeting

Statement Accompanying Notice of Annual General Meeting
(pursuant to Paragraph 8.27(2) of Bursa Malaysia Securities Berhad Main Market Listing Requirements)

Directors who are standing for election at the Eighth Annual General Meeting are as follows:

1. Dato' Seri (Dr.) Goh Eng Toon
2. Dato' Dr Freezailah Bin Che Yeom

The profiles of the above Directors are set out in the section entitled "Profile of Directors" on pages 16 to 18. The details of their respective interests in the securities of the Company are set out in the section entitled "Analysis of Shareholdings and Warrantholdings" on pages 148 to 154.


building
aspirations

Corporate Information

BOARD OF DIRECTORS

Dato' Seri (Dr.) Goh Eng Toon	Chairman, Non-Independent Non-Executive Director
Dato' Tee Tiam Lee	Executive Deputy Chairman
Dato' Leong Kok Wah	Executive Director
Dato' Dr Freezailah bin Che Yeom	Independent Non-Executive Director
Ho Tet Shin	Independent Non-Executive Director
Dato' Choong Moh Kheng	Independent Non-Executive Director

AUDIT COMMITTEE

Ho Tet Shin (Chairman)
Dato' Dr Freezailah bin Che Yeom
Dato' Seri (Dr.) Goh Eng Toon

NOMINATION COMMITTEE

Dato' Seri (Dr.) Goh Eng Toon (Chairman)
Dato' Dr Freezailah bin Che Yeom
Ho Tet Shin

REMUNERATION COMMITTEE

Dato' Seri (Dr.) Goh Eng Toon (Chairman)
Dato' Dr Freezailah bin Che Yeom
Ho Tet Shin

EXECUTIVE COMMITTEE

Dato' Seri (Dr.) Goh Eng Toon (Chairman)
Dato' Tee Tiam Lee
Dato' Leong Kok Wah

RISK MANAGEMENT COMMITTEE

Ho Tet Shin (Chairman)
Dato' Leong Kok Wah
Jamiluddin Amini Bin Sulaiman

ESOS COMMITTEE

Dato' Tee Tiam Lee (Chairman)
Dato' Leong Kok Wah
Law Woo Hock

COMPANY SECRETARIES

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

REGISTERED OFFICE

15th Floor, Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Tel : 603-8024 8822
Fax : 603-8024 8811

HEAD OFFICE

15th Floor, Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Tel : 603-8024 8822
Fax : 603-8024 8811

AUDITORS

KPMG (AF 0758)
Chartered Accountants
Level 10, KPMG Tower
8 First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan

PRINCIPAL BANKERS

EON Bank Berhad
Malayan Banking Berhad
Standard Chartered Bank Malaysia Berhad
United Overseas Bank (Malaysia) Berhad

SHARE REGISTRAR

Tricor Investor Services Sdn Bhd
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Tel : 603-2264 3883
Fax : 603-2282 1886

STOCK EXCHANGE LISTING

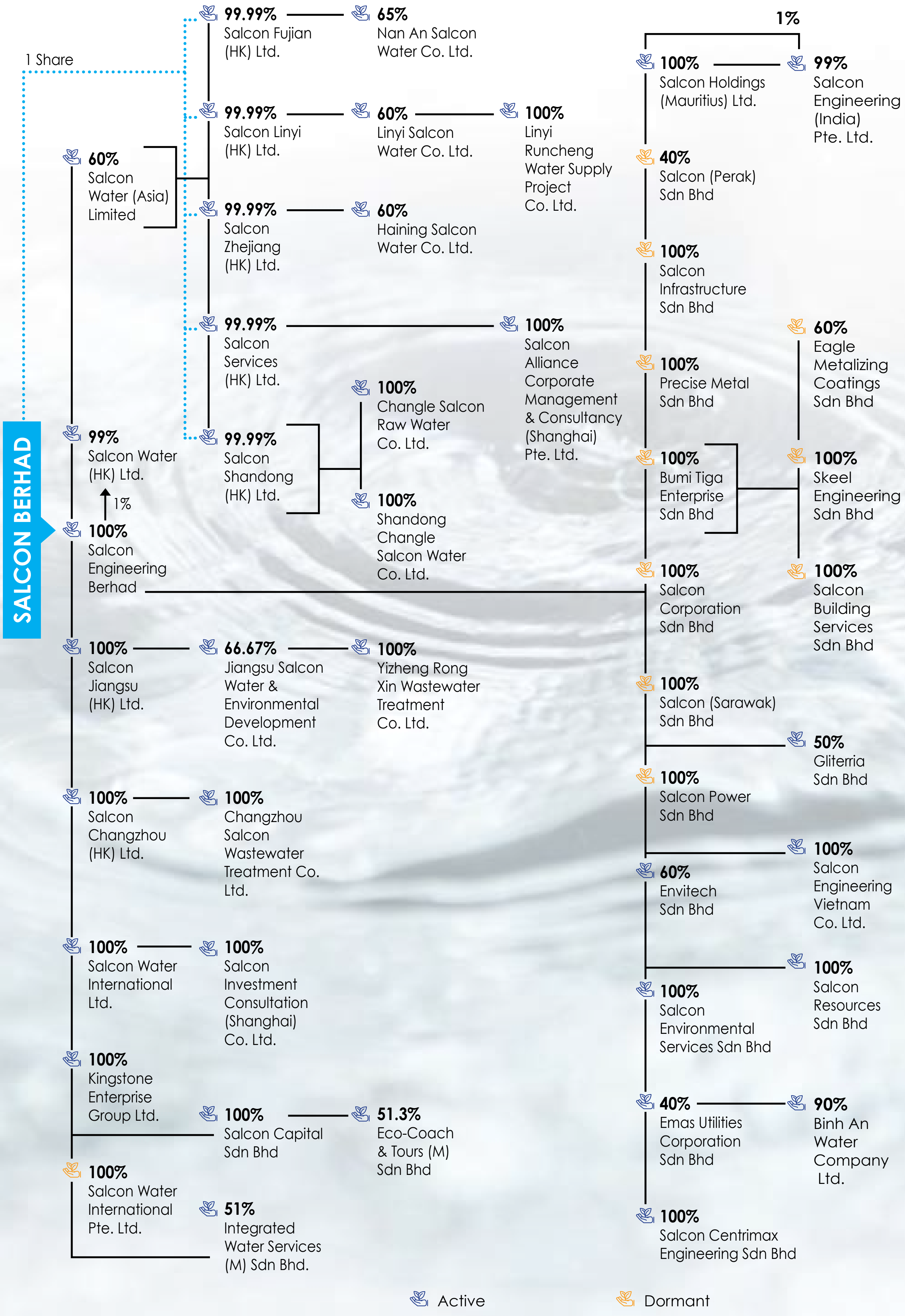
Main Market of Bursa Malaysia Securities Berhad
(Listed since 3 September 2003)
Sector: Trading/Services
Stock Name : SALCON
Stock Code : 8567

WEBSITE

www.salcon.com.my


enhancing the
essence of life

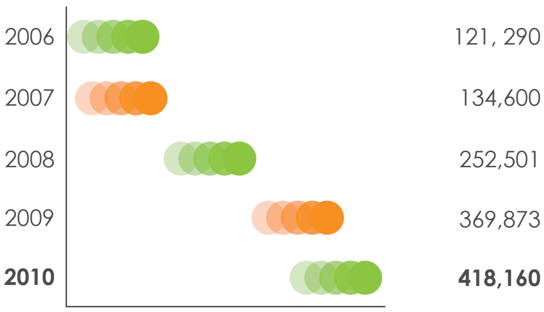
Corporate Structure



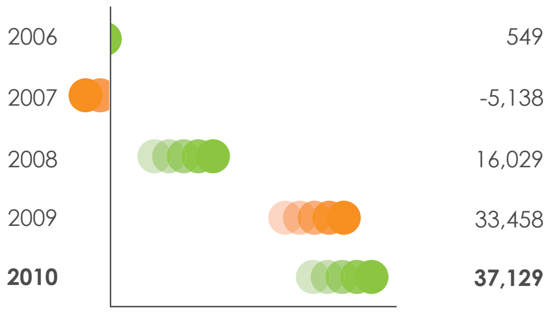
Financial Highlights

	2006	2007	2008	2009	2010
Turnover (RM'000)	121,290	134,600	252,501	369,873	418,160
Profit/(Loss) Before Tax (RM'000)	549	-5,138	16,029	33,458	37,129
Shareholder's Fund (RM'000)	112,747	223,395	290,283	307,531	309,472
No. of Shares Issued ('000)	212,046	425,200	467,720	467,720	473,548

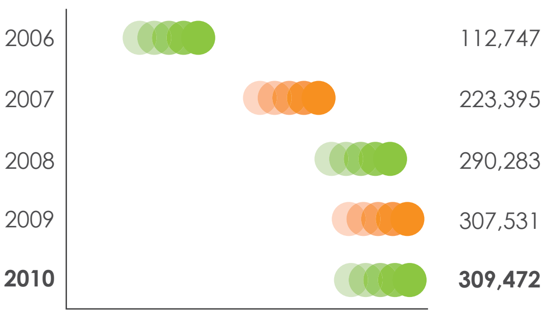
TURNOVER (RM'000)



PROFIT/(LOSS) BEFORE TAX (RM'000)



SHAREHOLDER'S FUND (RM'000)



NUMBER OF SHARES ISSUED ('000)

Heartiest Congratulations to our Chairman

Dato' Seri (Dr.) Goh Eng Toon

on his conferment of Doctor of Laws (honoris causa) by
Wawasan Open University 23 October 2010

We are indeed proud of Dato' Seri (Dr.) Goh Eng Toon's conferment of Doctor of Laws, honoris causa from Wawasan Open University during their inaugural convocation ceremony.

The conferment was in recognition of Dato' Seri (Dr.) Goh's contribution to nation building in the economic, social and education sector.

Dato' Seri (Dr.) Goh was instrumental in building Ban Hin Lee Bank, a tiny family-owned bank in Penang into one of the most respected, resilient and modern banks in the country. Through the leadership and efforts of Dato' Seri (Dr.) Goh, first as General Manager and CEO and from 1986, as Chairman and CEO, Ban Hin Lee Bank's shareholder funds and total assets stood at RM700 million and RM7.5 billion respectively, with 49 branches in Malaysia and Singapore, prior to its merger with Southern Bank in 2000. It was a testament to Dato' Seri (Dr.) Goh's business acumen and prudent lending policies that during the height of the Asian Financial crisis, the Ban Hin Lee group's solid financial performance remained strong even after making provisions for bad and doubtful loans. After Ban Hin Lee Bank merged with Southern Bank, Dato' Seri (Dr) Goh remained a director of Southern Bank until 2004.

In his long and distinguished career as a prominent financier and banker, Dato' Seri Goh attributes his success to two values - hard work and integrity. It is these 2 maxims that has guided him throughout his successful banking career.

Dato' Seri (Dr.) Goh believes that a developed nation comes from a better society and people. Thus, other than his contribution in the economic sector, he never neglects those who are more unfortunate. He is active as a trustee in many charitable trusts, institutions and associations such as Silver Jubilee Home for old folks and the Handicapped Children Centre by contributing not only money, but time and leadership.

Today, Dato' Seri (Dr.) Goh, although retired, still serves as Chairman on the boards of Salcon Berhad and Gleneagles Medical Centre, Penang as well as being a director of the Heng Lee Group of companies.

Board of Directors

Seated:
Dato' Seri (Dr.) Goh Eng Toon

Standing (from left):
Dato' Leong Kok Wah
Ho Tet Shin

Seated:

Dato' Tee Tiam Lee

Standing (from left):

Dato' Choong Moh Kheng

Dato' Dr Freezailah bin Che Yeom

Profile of directors

DATO' SERI (DR.) GOH ENG TOON

Chairman, Non-Independent Non-Executive Director

Dato' Seri (Dr.) Goh Eng Toon, aged 77, was appointed to the Board of Salcon Berhad ("Salcon") on 15 June 2005 as the Vice Chairman. He was appointed the Chairman of Salcon on 18 October 2007.

He holds a Cambridge General Certificate of Education and is a Fellow of the Institute of Bankers Malaysia.

Dato' Seri (Dr.) Goh started his banking career with Midland Bank in the United Kingdom in the early fifties and Malayan Banking Berhad from 1960 to 1973. In 1973, he was appointed the Chief Executive Officer ("CEO") of Ban Hin Lee Bank Berhad, Director and CEO in 1978, Acting Chairman and CEO in 1986 and became its Chairman and CEO from 1990 until the merger of Ban Hin Lee Bank Berhad and Southern Bank Berhad in July 2000. He was a Director of Southern Bank and its Group: Southern Finance Berhad, SBB Mutual Berhad (formerly known as BHLB Pacific Trust Management Berhad), BHLB Asset Management Sdn Bhd and BHL Venture Berhad until 2004, when he retired from the Bank and the Group. He was also the Chairman of BHLB Trustee Berhad until December 2005.

He also served on the Board of Aviva Insurance Berhad ("Aviva") as its Chairman. He was also the Chairman of the Audit, Risk Management, Nomination and Remuneration Committees of Aviva. He retired from Aviva in September 2006 when it merged with MSIG Insurance Berhad.

Dato' Seri (Dr.) Goh was a Director and Chairman of Rockwills Trustee Berhad until 5 May 2011. He presently serves on the Board and as the Chairman of Pulau Pinang Clinic Sdn. Bhd. (Gleneagles Medical Centre, Penang). He is also a Director of Heng Lee & Co. Sdn Bhd and its Group of Companies. He also serves as trustee in many charitable homes, institutions and associations.

Dato' Seri (Dr.) Goh is currently the Chairman of the Executive Committee, Nomination Committee and Remuneration Committee and a member of the Audit Committee of the Company.

DATO' TEE TIAM LEE

Executive Deputy Chairman

Dato' Tee Tiam Lee, aged 54, was appointed to the Board of Salcon on 1 January 2010.

Dato' Tee has an extensive career and has vast experience in various industries including insurance, water engineering/treatment, hotel management, property investment and oil palm plantation business.

He began his career in insurance in 1976 after finishing his secondary education and has more than 30 years experience in this industry to-date.

Dato' Tee presently sits on the Board of MUI Continental Insurance Berhad and is also a member of its Remuneration Committee, Risk Management Committee and Underwriting Committee.

He is also a Director of several private limited companies including Hotel Sri Hoover Sdn Bhd which deals in hotel management, and Tabir Arena Sdn Bhd, Jouta Plantation Sdn Bhd and Evergreen Comfort Sdn Bhd, which deal in oil palm plantation business in the east coast of West Malaysia.

He is the Chairman of The Mines Residents Association (MRA) and is also a Director of the Chinese Chamber of Commerce in Terengganu since 1995.

Dato' Tee is a member of the Executive Committee, Chairman of ESOS Committee and a major shareholder of the Company. He was a senior adviser of the Company.

Profile of Directors

DATO' LEONG KOK WAH
Executive Director

Dato' Leong Kok Wah, aged 57, was appointed to the Board of Salcon on 1 January 2010.

He holds a Master's degree in Business Administration (MBA) from University of Hull, United Kingdom ("UK"), and is a member of Institute of Bankers (UK), Institute of Credit Management (UK), Institute of Marketing (UK) and Institute of Bankers Malaysia.

Dato' Leong has an extensive career and held senior positions in the banking industry. He has vast experience in stock broking, asset management and options and futures trading. He sits on the Board of various companies in Malaysia.

Dato' Leong is an Independent Non-Executive Director and a member of Audit Committee, Nomination Committee and Remuneration Committee of S P Setia Berhad. He also sits on the Board of MUI Continental Insurance Berhad and is a member of its Audit Committee and Investment Committee.

He is a member of the Executive Committee, Risk Management Committee and ESOS Committee.

DATO' DR FREEZAILAH BIN CHE YEOM
Independent Non-Executive Director

Dato' Dr. Freezailah bin Che Yeom, aged 71, was appointed to the Board of Salcon on 21 July 2003.

He holds a First Class Honours degree in Forestry and a Doctor of Philosophy in Ecology from the University of Edinburgh, United Kingdom.

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

He was also conferred the "Order of the Rising Sun, Gold Rays with Neck Ribbon" by His Majesty the Emperor of Japan. He is a Fellow of the Institute of Foresters Malaysia and Honorary Member of the Society of American Foresters. He has also addressed many important forestry fora.

Dato' Dr. Freezailah is currently the Chairman of the Malaysian Timber Certification Council. He is also a council member of Wawasan Open University College. Dato' Dr. Freezailah is active in various national and international organisations and initiatives dealing with forestry, conservation, environmental issues and related technological advances.

Dato' Dr. Freezailah is a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company.

Profile of Directors

DATO' CHOONG MOH KHENG
Independent Non-Executive Director

Dato' Choong Moh Kheng, aged 55, was appointed to the Board of Salcon on 3 January 2011.

He holds a Bachelor of Science (Honors) Civil Engineering from Manchester University, United Kingdom and obtained his post-graduated degree in Master of Business Administration from Golden Gate University, San Francisco, United States of America.

Dato' Choong has an extensive working experience in both Civil and Building works include Astrid Meadows luxurious Condominium Project, Singapore (S55.1 million), Gleneagles Hospital Extension, Singapore ($150 million) and North-South Interurban Toll Expressway, Sungkai to Slim River, Perak (RM332 million).

Dato' Choong is currently the Managing Director of Pembinaan Punca Cergas Sdn Bhd ("PPC"). He is also the founder director and Joint Managing Director of PPC group of companies. His active involvement in the industry includes being the Honorary Treasurer of the Road Engineering Association of Malaysia (REAM).

HO TET SHIN
Independent Non-Executive Director

Mr. Ho Tet Shin, aged 60, was appointed to the Board of Salcon on 5 August 2005.

He is a member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Accountants, as well as a Fellow of the Institute of Chartered Accountants in England and Wales.

Mr. Ho started his accountancy training with KPMG London and qualified as a Chartered Accountant in 1974. He then joined KPMG Kuala Lumpur and played a leading role in its Receivership and Insolvency Department for two (2) years before he left to pursue a career in commerce and industry.

He has since held senior management positions in a wide range of businesses, including manufacturing, banking, telecommunications and stock broking. His current interest is in the deployment of micro-algae based technologies for waste treatment and sustainable development.

Mr. Ho is the Chairman of the Audit Committee and Risk Management Committee, and a member of the Nomination Committee and Remuneration Committee of the Company.

Notes:-

1. *All Directors are Malaysian.*
2. *There is no family relationship between the Directors and/or major shareholders of the Company except the following:-*
   (a) Datin Seri Kee Seok Ai, who is a major shareholder of the Company by virtue of her interest in Naga Muhibah Sdn Bhd, is the spouse of Dato' Seri (Dr.) Goh Eng Toon;
   (b) Datin Goh Phaik Lynn, who is a major shareholder of the Company by virtue of her interest in Naga Muhibah Sdn Bhd, is the spouse of Dato' Leong Kok Wah and a daughter of Dato' Seri (Dr.) Goh Eng Toon and Datin Seri Kee Seok Ai; and
   (c) Dato' Leong Kok Wah is a son-in-law of Dato' Seri (Dr.) Goh Eng Toon and Datin Seri Kee Seok Ai.
3. *None of the Directors has entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company.*
4. *None of the Directors has been convicted for offences (other than traffic offences) within the past 10 years.*

sustaining future development

in ever loving memory of

Mr. Jaggit Singh

Tribute to our

Executive Director,
the late Mr Jaggit Singh a/l Tara Singh

"Forever in Our Hearts"

Mr. Jaggit Singh a/l Tara Singh, Executive Director of Salcon Berhad, passed away on 27 June 2010

Mr. Jaggit Singh a/l Tara Singh left behind his family, friends and colleagues on 27 June 2010. He was the Executive Director of Salcon Berhad and a member of the Executive Committee and Risk Management Committee. A man of vision, Mr Jaggit contributed greatly to many of the company's milestones and achievements since he joined Salcon in 1980.
He was a person who led by example and through his leadership and guidance, steered the company through numerous notable achievements, both locally and overseas. His great wisdom, knowledge and conscientious character gained him great respect amongst his peers and colleagues in the industry.
We will no doubt miss his warmth, smiles and laughter and most of all his guidance and care. Nevertheless, his inspiring legacy will continue to live on in our hearts and minds.

“ On behalf of the Board of Directors of Salcon Berhad, I have pleasure in presenting the Annual Report and Audited Financial Statements of the Group and Company for the financial year ended 31 December 2010 ”

Chairman's Message

DATO' SERI (DR.) GOH ENG TOON
Chairman

Pipe laying work in progress for the 175 mld Nan An Raw Water Supply Project, Nan An City, Fujian Province, China

The Malaysian economy continued to expand in the aftermath of the global financial crisis with a GDP growth of 7% in 2010. Against this positive backdrop, the Group delivered another year of increased profitability and improved asset quality and thus, ended the year with a positive set of results in 2010.

FINANCIAL PERFORMANCE

For the financial year ended 31 December 2010, the Group registered a revenue growth of 13% to a record high of RM418 million from RM370 million in 2009. In line with the increase in revenue, the Group's pre-tax profit grew to RM37.1 million from RM33.4 million or an 11% increase compared to the previous year. Group profit after tax also increased in tandem to RM28.5 million or 10% increase. Earnings per share was slightly lower at 4.51 sen compared to 4.72 sen the previous year due to higher minority interests.

The double digit growth is attributable to the strategic initiatives by the Group to ensure sustainable and higher returns and optimizing opportunities to enhance the value of our concession investments. Notable projects secured during this period include the Sg. Labu Water Treatment Plant project and several sewerage treatment projects in Kelantan.

In terms of the Group's consolidated balance sheet, shareholders' funds expanded to RM309.5 million as at 31 December 2010 whilst cash and cash equivalents totalled RM145 million. Gearing ratio stood at 0.76 times shareholders funds.

Ir How See Hock with YB. Dato Jacob Dungau Sagan, Deputy Minister of International Trade and Industry and other winners during the 6th Asia Water Management Excellence Award Presentation

Rewarding Our Shareholders

Consistent with our stronger overall performance, the Board is recommending a dividend of 1.5 sen per share equivalent to a total amount of RM7.1 million. Salcon will continue to pursue a dividend practice that recognises the need to achieve a balance between providing reasonable returns to shareholders whilst conserving funds for new investment opportunities critical to long term growth.

Salcon Berhad's certificate and trophy received from the 6th Asia Water Management Excellence Award

Recognition of Excellence

During the year, the Group was recognized for its contribution and role in the water and wastewater industry by its peers on both the local and international fronts. The recognition of the Group's management and technical accomplishments further enhances its corporate image and boosts stakeholders' confidence. These are crucial ingredients to sustain profitability in facing a challenging global economy.

Amongst the accolades received were the **"6th Asia Water Management Excellence Awards"** by the Asian Water Magazine and Malaysia Water Association for management excellence and leadership in the industry for having brought significant contribution to the advancement of the water and wastewater industry in the region.

In addition to this, the Group was also awarded the **"2010 Malaysia Frost & Sullivan Water Treatment Company of the Year"** by the renowned International Research Company, Frost and Sullivan. Salcon is recognised as a specialist in mechanical and electrical works - which encompass the intricate engineering design and build of water treatment plants. The judging panel comprising of leading industry analysts highlighted that over the years, Salcon has strengthened its position in Malaysia as an industry leader.

Dato' Tee Tiam Lee, Deputy Chairman of Salcon Berhad exchanging agreements with Mr. Masayoshi Hosoya, Managing Director of EMIF with Dato' Seri (Dr.) Goh Eng Toon and Dato' Lee Chee Liong, Deputy Minister of Home Affairs Malaysia as witnesses.

Intake structure works in progress at the new 100 mld Changle Raw Water Project, Changle County, Shandong Province, China

MILESTONE DEVELOPMENTS

Strategic Investment Platform

During the period under review, the Group entered into an agreement to divest 40% of its holdings of six (6) of its China concessions. The move seeks to unlock and maximize shareholders value, whilst elevating the Group's strength and stature through a strategic partnership with the Emerging Market Infrastructure Fund Pte Ltd (EMIF), which is jointly managed by the Australian based Challenger group and Japanese conglomerate, Mitsui Co.

EMIF's international infrastructure business and financial management expertise, coupled with Salcon's considerable experience and proven track record in the water and wastewater business, would create a robust strategic platform for the continued growth and expansion of the Salcon Group in China to meet the critical needs in the fast growing Chinese water and wastewater sector. The gross proceeds of RMB200 million generated from the sales would be used to fuel future growth and tap opportunities in the China water sector.

The divestment resulted in an increase in equity of RMB88 million to the Group and an increase in Net Asset per share to RM0.74 per share or RM0.88 per share (if based on fair value on the entire 100% stake).

View of Yizheng Rong Xin Wastewater Plant, with capacity of 50 mld in Yizheng City, Jiangsu Province, China

View of Twin Tower water tanks at the new 100 mld Changle Water Treatment Plant, Changle County, Shandong Province, China

Expanding Concessions Portfolio

During the period under review, the Group, via its joint venture company, Jiangsu Salcon Water & Environment Development Co. Ltd acquired 100% of Yizheng Rong Xin Wastewater Treatment Company Limited (Rong Xin) for a total purchase consideration of RMB44.0 million. (or RM20.28 million)

The Group, via Rong Xin, has awarded a 30-year concession for the treatment of municipal wastewater in Yizheng city with a treatment capacity of 50 MLD (million litres per day). This acquisition is part of the overall plan for the integration and consolidation of water and wastewater works in Yizheng city and its environs. The Group currently owns the Yizheng treated water pipeline concession which is under construction.

The signing of this agreement marks Salcon's 8th concession in China. Yizheng city is located in Jiangsu Province, one of the most prosperous provinces in China.

The Group looks forward to the completion of construction works of 3 existing concessions namely Changle water, Changle raw water and Nan An raw water works which will see a doubling in the production capacity of the Group's China operations.

Pengurusan Aset Air Berhad and Salcon during the official ground breaking ceremony for commencement of construction of Sg. Labu Water Treatment Plant in Selangor

Construction works in progress at Sg. Labu Water Treatment Plant

BUSINESS PROSPECTS

In Malaysia, growth is expected to continue in 2011 at a moderate rate of 5%, driven by the implementation of the Government's Economic Transformation Programme. In terms of water and wastewater infrastructure works, government expenditure is currently spread across several government agencies and initiatives including spending under the 10th Malaysian Plan, the various economic development corridors and Pengurusan Asset Air Berhad or PAAB.

Under the 10th Malaysian Plan, the Government has allocated approximately RM1.8 billion for water projects spread over 2 years whilst in the East Coast Economic Region (ECER) and Sarawak Corridor Renewable Energy (SCORE), approximately RM271 million worth of various infrastructure works including water supply facilities will be given priority in 2011. Besides this, PAAB has rolled out various tenders for water supply facilities in the states where water assets have been acquired by them, namely Negeri Sembilan, Melaka, Johor and most recently in Perlis. PAAB has announced plans to raise up to RM20 billion from an Islamic bond sale to fund working capital, develop new water infrastructure assets and refinance existing loans.

Installation of air pipe for aeration tank in progress at the construction and completion of infrastructure works for Medini Development, Iskandar Malaysia, Johor

Installation of decanters and aeration pipes for Penampang Regional Sewage Treatment Plant with ultimate capacity of 300,000 PE for the Kota Kinabalu Sewerage Project Phase 1, Sabah

View of Raw Water Intake at the Batticaloa Water Supply Project, Sri Lanka

Given the good prospects and an ever increasing demand for drinking water, the Group sees excellent opportunities to leverage on our expertise to present tailor made solutions to our clients. With its proven track record in water and wastewater management services, the Group is confident of being able to capitalize on all opportunities to enhance our position and participation in the local market.

In its overseas ventures, the Group shall continue to leverage on its track record and technological know-how in key growth markets such as Vietnam, Cambodia, Sri Lanka, Indonesia and India. In these areas, the Group has formed strategic tie-ups with influential local partners to jointly pursue new potential projects. The Group has participated in various tenders and submitted proposals for water and wastewater projects/ concessions in these countries and looks forward to securing projects in these high growth markets in the coming years.

Filtration plant construction in progress at Kelani Right Bank Water Treatment Plant, Sri Lanka

Non-Revenue Water Pilot project in progress in Mumbai, India

Phase 2 expansion of Haining Water Treatment Plant, Haining City, Zhejiang Province, China with total capacity of 300 mld

Laying of pipelines in progress at the Changle Raw Water Project, Changle County, Shandong Province, China

In China, with the enlarged Salcon-EMIF platform, the Group is confident of being able to expand and seize the abundant opportunities in the China water and environmental market and to be much more competitive in the long run. The Group shall continue to develop new lucrative concessions to secure a stable and recurrent income stream via prudent investment strategies which has stood in good stead thus far.

The Group will strive to sustain and build on current performance through efficient execution of contract works and aggressive replenishment of its order books. Besides this, the Group will continue its prudent investment philosophy to grow its concession business so as to build on recurrent income streams to ensure sustainability and a steady earnings base.

Based on its established track record and proven technical expertise, the Group is confident on being able to maximize opportunities arising in Malaysia as well as the various geographical areas which it operates in.

View of 150 mld Linyi Water Treatment Plant, Linyi City, Shandong Province, China

CORPORATE RESPONSIBILITY

The Group firmly believes in implementing best practices in corporate governance to uphold the high standards expected of it in terms of integrity, transparency and accountability throughout the Group's business operations. The Group's commitment to corporate governance is outlined in the Statement on Corporate Governance and other related reports found in the relevant sections of this Annual Report.

ACKNOWLEDGEMENTS

The Group is blessed with the unparalleled support, contribution, dedication and professionalism of the management and employees across all divisions and levels, and on behalf of the Board, I would like to express our gratitude for their drive, dedication and perseverance in contributing to the Group's top and bottom lines.

There were several changes to the Board composition during the year. Early in the year, we were saddened by the loss of Mr Jaggit Singh who contributed greatly to the growth and development of Salcon. With his demise, the Group has lost an energetic, committed and inspirational teacher and leader who served the company for 30 years.

We saw the resignation of two (2) directors. On behalf of the Board, I would like to record our sincere appreciation and highest gratitude to Ir How See Hock for his dedication and contribution during his tenure as the Chief Executive Officer of Salcon Berhad and also to Y. Bhg. Tan Sri Dato Seri Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas as an independent non-executive director. I take this opportunity to wish them all the best for their future endeavors. I am pleased to welcome Dato' Choong Moh Keng, a man of considerable experience in the construction sector as a new member to the board.

Last but not least, my sincere appreciation to my fellow Board members, whose guidance and counsel during the year have been invaluable and to our shareholders, clients, partners and associates, as well as the Government Agencies for their unwavering support.

Thank you.

surging ahead

Corporate Responsibility Report

Introduction

This year, the Group continues to focus our efforts on Corporate Responsibility (CR) programmes and initiatives as we firmly believe that CR is an integral part of our business to enhance the relationship of trust with our various stakeholders. The Group seeks to fulfill its obligations as a responsible corporate citizen by acting responsibly and with accountability in our day-to-day operations whilst also being involved in initiatives involving the local communities where we operate.

In this report, key achievements highlighting the Corporate Responsibility of the Group are outlined in four main areas i.e. Marketplace, Workplace, Environment and Community. Data from this report covers the Group's subsidiaries in Malaysia, China, Sri Lanka and Vietnam.

Marketplace

The Group is committed to being a corporation our customers can trust. We strongly believe that good governance is more than compliance with a collection of laws and regulations. As such, the Group strives to maintain a corporate governance structure that strongly adheres to the principle of giving fair and transparent business conduct to all the stakeholders including financial performance, business activities and other related matters.

Economic Value Generated to our Stakeholders

Economic Data - Group Level

	2010 RM'000	2009 RM'000	2008 RM'000
Direct Economic Value Generate			
Revenue	418,160	369,873	252,501
Other income and Interest income	15,244	7,042	10,226
Gross value generate	**433,404**	**376,915**	**262,727**
Economic Value Distributed to			
Our suppliers: operation costs	361,705	313,731	214,323
Our employees: salaries & benefits	32,686	26,610	25,242
Our Lenders: Payment to lenders (Finance cost)	5,278	6,661	9,513
The government: Payment to governments:			
Malaysia	5,760	4,831	3,826
Outside Malaysia	2,842	2,554	314
The Rakyat: Community Investments	249	245	374
Net value added	24,884	22,283	9,135
Our shareholders: Payments to Shareholder's	7,015	4,291	-
Our Future: economic value retained	**17,869**	**17,992**	**9,135**

Economic value generated to our stakeholders for the past 3 years

Raw water pumping station on cable stayed deck bridge at Sungai Terip Water Treatment Plant , Negeri Sembilan

For FYE2010, the Group achieved a gross economic value of RM433.4 million, an increase of 15% compared to the previous year.

With the improved performance, the Group rewarded our shareholders by increasing dividend payments from 1.0 cent to 1.5 cent per share this year, a 50% increase from the previous dividend declared.

Net value added came up to RM24.8 million, an increase of 11.7% compared to the previous year.

Revenue by Region

No.	Revenue	2010 RM '000	2009 RM '000	2008 RM '000
1	Malaysia	273,046	203,289	163,046
2	Vietnam	28,960	72,137	12,483
3	China	66,403	60,706	56,526
4	Sri Lanka	48,997	31,174	19,638
5	Indonesia	715	2,567	431
6	Others	39	-	377
	Total	**418,160**	**369,873**	**252,501**

Revenue by Region of the Group for the past 3 years

The Group's revenue increased by 13% in FYE 2010, mainly due to the contribution of the projects in Malaysia, Sri Lanka as well as China. Contribution from Vietnam is reduced as projects there are nearly reaching its tail end.

Procurement Policy

The procurements process is managed by the Group's centralised Procurement department, whereby, its goals are to engage reliable, qualified and competent suppliers and to procure materials economically without compromising on quality. The procurement team adds significant value through a systematic evaluation and selection of suppliers based on the suppliers' and sub-contractors' compliance of requirements, good track records, competitive pricing, delivery service, after sales service, recommendations and participation in main contract tender.

The Group cascades down its values in the supply chain by requiring suppliers and sub-contractors to meet relevant criteria and requirements which the Group has set out. It is crucial to ensure the sustainability of the performance of our suppliers and sub-contractors by setting a fair and equitable evaluation and pre-qualification standard, with focus on good track record, health and safety and environmental issues.

Corporate Responsibility Report

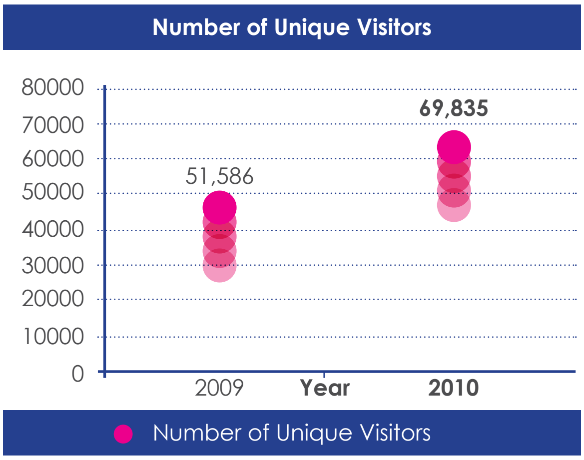
In order to ensure the efficiency and performance of the Group's engaged suppliers and sub-contractors, a yearly evaluation is conducted by the Procurement Department as an indicator to gauge their performance.

While ensuring the performance of its suppliers and sub-contractors, the Group highly values the long-term business relationships with trustworthy and responsible suppliers and sub-contractors which it has established over the years. The Group strives to maintain good relationships with them so as to ensure sustainable quality services to our ultimate clients.

Investor Relations

The Group continues to provide open and transparent communication to the investing community via effective and regular investment briefings, timely press releases, up-to-date corporate website and many more. Salcon believes in accountability, openness and transparent communication as this will assist its investors in making informed and accurate decisions on their investment in Salcon. Investors, analysts and shareholders are also able to obtain information on the Group's financial performance from its website and feedback is encouraged via email or during the company's annual general meetings or extraordinary general meetings, as the case may be.

In the past year, the total number of unique visitors to the Group's official website at www.salcon.com.my totalled 69,835, which saw an increase of 35.4% compared to last year's figure of 51,586.



Number of unique visitors to the Group's official website

In order to extend the Group's network to a wider scope as well as to interact with various stakeholders in an informal and leisurely manner, a fan page was established in the biggest social networking utility - Facebook. With this, stakeholders can keep in touch with the latest news and activities of the company. At the same time, Salcon Facebook members have a new avenue to discuss and comment about the status, activities, photo and topics relating to the Group amongst each other.

Find us on Facebook

Customer Satisfaction

The Group is committed to providing our customers with competent and professional services over and above their satisfaction levels. In addition to this, we strive to implement new measures for continuous improvement in all aspects of our customer relations.

Customer Satisfaction Surveys are conducted on an annual basis covering all project worksites. Whilst the feedback from our customers, in general, was satisfactory, nevertheless, the Group is aware that there is much more to be done in bringing our service standards to a higher level. The Group views our customers' feedback as an important resource to improve further. The survey is based on the following criterias:

1) Quality of Workmanship
2) Competence of personnel
3) Safety in Workplace
4) Works progress based on Schedule
5) Communication between Salcon & Client
6) Environmental Management
7) Knowledge of Construction/operation technologies
8) Meeting project requirement specifications
9) Response to Customer request
10) Project/operational management skill

Workplace

The Group recognises the importance of two way commitment between ourselves as an employer and our employees. The Group upholds our core values of 'Respect' towards our employees by demonstrating fairness, trust and concern in order to ensure that our employees are able to commit and remain loyal to the company.

The Group also selects employees based on a stringent recruitment and selection policy and careful evaluation of their skills, abilities and potential. From there, the Group constantly provides opportunities for our employees to grow and allow them to make effective contributions to the business.

Last year, the Group invested in training and career development courses with the aim of nurturing excellent teamwork and providing long-term skills and knowledge other than just mere employment.

Training and Career Development

The Group believes in providing its employees with the best training and development possible. It wholeheartedly supports employees in acquiring new knowledge and technical expertise. Through training, courses, and corporate resources the Group aims to provide opportunities for employees' personal growth. In 2010, the Group has invested approximately RM200,000 and 4512 hours in employee learning and career development.

Regular trainings are conducted for the employees

Employees Statistic

As at 31 December 2010, the Group employed a total of 1094 people. Compared to the previous year (991 employees), the number has risen by 10%. This is mainly because of greater need for personnel in the Changle new 100 MLD water treatment plant. Also, it includes new employees of the new water and wastewater projects in Yizheng City, Jiangsu Province as well as the increase of manpower in Shanghai Business Development office.

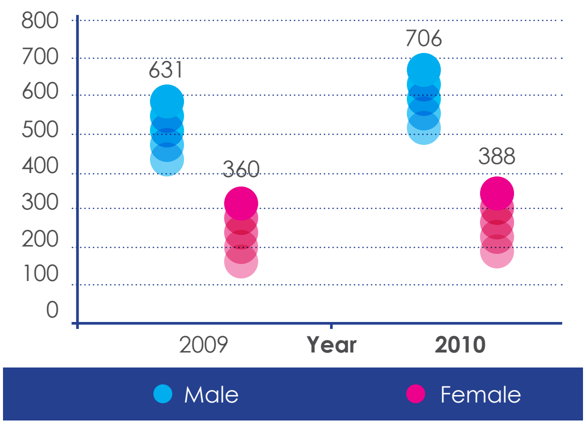
Employees are also recruited to support the Group's overseas expansion in India, Sri Lanka and Vietnam.

Number of Employees

Geographic Representation	2010	2009	2008
Malaysia	454	420	361
China	546	494	628
Thailand	2	2	2
Sri Lanka	39	27	17
Vietnam	39	43	21
India	12	4	n/a
Indonesia	2	1	1
Total	**1094**	**991**	**1030**

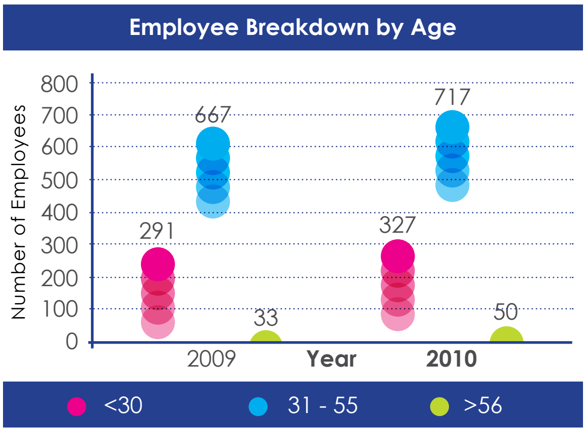
Number of employees in different geographical regions

Employee Breakdown by Gender



Employee breakdown by Gender in 2009 and 2010

Corporate Responsibility Report



Employee breakdown by age in 2009 and 2010

Presenting long service award to the loyal and dedicated employees

Rewards and Benefits

The Group provides a wide variety of benefits and competitive rewards, including life and medical insurance, allowances, education assistance scheme etc. On 23 June 2010, the Group established an Employees' Share Option Scheme (ESOS) for eligible directors and employees of Salcon and its subsidiaries in Malaysia . As at 31 December 2010, the Group has issued 5,827,500 new ordinary shares of RM0.50 each at the option price of RM0.57.

The Group appreciates the contributions of long serving employees by awarding the Long Service Award during the Company Annual Dinner to those who have served the company for a minimum of 10 years.

Work-life Balance

The Group aims to create a conducive work-life balance for our employees, as we believe that leisure time outside of daily work will enable employees to bond and promote better teamwork and cooperation.

The Salcon Recreation Club (SRC) plays an important role in this by fostering closer relationships between the management and employees through various interactive activities. Events carried out during the year include the Company Annual Dinner, Company trip to Korea, Movie Day, Family Day, Deepavali and Ramadan gift distribution and Chinese New Year lion dance.

Subsidizing oversea trips for all employees

Salcon Family Day at Desa Water Park

Health and safety talks were also organized throughout the year with topics close to the heart including Breast Cancer Awareness Talk, Cervical Cancer Awareness Talk, Optic Talk, Fire Safety Talk, Organ Donation Talk and IT awareness talks.

A Safe & Healthy Workplace

Over the past year, the Group has continued to further drive improvements in providing a safe and healthy workplace for our employees in office as well as project sites.

The Group continues to be accredited by world leading certification body, Bureau Veritas Certification, for OHSAS 18001 to ensure a safe and healthy work environment for all employees, customers, contractors, visitors and community in our business operations.

In 2010, with a workforce exceeding 1,000 people, Salcon achieved 3.3 million man hours without a Lost Time Injury (LTI), an increase of 24% compared to previous year.

Particulars	2010	2009	2008
Target man hours without Lost Time Injury (LTI)	2,500,000	1,000,000	800,000
Achievement	3,269,131	1,072,359	920,135
Achievement in %	131%	107%	115%

Achievement in meeting zero LTI for the past 3 years

Salcon achieved
3.3 million
man hours without a Lost Time Injury (LTI), an increase of
24% compared to
previous year.

Providing safety and health trainings and awareness amongst employees

Corporate Responsibility Report

Environment

Although the effect of climate change in Malaysia is not as severe compared to other more vulnerable countries, Malaysia has begun to feel some of the effects of global warming. These come in the form of heavier flooding, temperature change, heavy rainfall etc, which impact water resources and indirectly, affect the water treatment process.

The Group strives to minimize this impact by planning regular and timely planned preventive services including tank cleaning, optimizing raw water source by abstracting river water while maintaining the storage at the reservoir.

In our business operations, the Group adheres strictly to local laws and regulations in protecting and conserving the environment. In accordance with the Group's accredited ISO 14001:2004 system, we seek to minimize adverse impacts on the environment by better managing our resources and reducing pollution through proper disposal of hazardous waste.

Environmental Cost of Producing Water

During the period under review, the amount of energy used to deliver 1 m3 of water to our customers remained the same as previous year, whereas the amount of plant losses has increased to 2.34 million cubic meters. We seek opportunities to reduce the energy consumption by all means, while delivering efficient and sufficient water supply to the consumers.

To deliver 1m3 of water to consumers

	2010	2009	2008
kwh of electricity used	0.31	0.31	0.37
m^3 of water lost from the plant (plant losses)	2.34 mil	2.18 mil	2.95 mil

Note: Data consolidated from the Sg. Terip Water Treatment Plant, Kuala Jelai, Linyi Water Treatment Plant, Changle Water Treatment Plant, Haining Water Treatment Plant and Binh An Water Treatment Plant.

Drinking Water Quality

Drinking water quality is the issue of concern for human health in all places, we committed to serve people with quality water in compliance with the drinking water standards of various countries which the Group operates in.

Scheduled Waste

In order to reduce the environmental impact, the Group stringently adheres to the operational control procedures to ensure that hazardous wastes are properly disposed. In Malaysia, these wastes are disposed off through Kualiti Alam Malaysia, a renowned waste disposal and management service provider, whereas in other regions such as China and Sri Lanka, the wastes are disposed to local government designated landfill areas.

Water Resources

The Group intends to provide sufficient water and to also ensure that water resource is not 'lost' during the process of distribution. The Group takes serious concern on water conservation as it is the precious resources for all. In our projects, it actively assists clients in reducing the Non-Revenue Water (NRW) in Seremban and Nilai in Negeri Sembilan, whole state of Kelantan and the district of Sandakan in Sabah.

Maintenance and Servicing of Pressure Reduced Valve (PRV)


Winners of Earth Hour Snapshot Contest

In our office

The Group's efforts to contribute to environmental conservation is not only limited to within the head office of the Group but also extended to the offices at various other project sites and regions, in such a way that knowledge and awareness of environment conservation were fostered through related activities amongst the employees from time to time.

The activities include:

No.	Activiities	Objectives	Results
1	Recycle for a good cause: Organized in collaboration with Pertubuhan Amal Seri Sinar Kuala Lumpur Selangor (P.A.S.S) to collect the reusable items for donating to charity bodies	To serve the needy in the community and practice environmental conservation amongst employees	Lots of reusable items such as clothes, toys, magazines, books etc were received from employees.
2	E-greeting cards: The company started to use e-greeting cards for festival such as Deepavali and Hari Raya	To reduce paper consumption	Heads of department and staff shows their support in using the e-greeting cards
3	EDMS implementation & support from all departments of Head Quarter	To encourage a paperless office	The system is running smoothly amongst departments. Training and progress meeting were held by MIS department to ensure the implementation of EDMS is successful
4	Earth Hour Contest: To take a creative picture with Earth Hour as the theme and also provide tips of saving electricity	To create awareness amongst employees on energy conservation through switching off lights for one hour on 27 Mar 2010	Participants who took creative photos during the Earth Hour won themselves an official earth hour T-Shirt from WWF
5	Donate used papers to small time vendors for snack packing in Hambantota, Sri Lanka	To preserve the environment on paper usage	Small time vendor's profit margin increases slightly on the reduced cost of buying paper
6	Subsidized water resource fee and reservoir refurbishment fee in Linyi City, Shandong Province	To contribute to reservoir construction and environmental protection	The fund subsidized was submitted to the Financial Bureau of Linyi City, Shandong Province

Community

The Group continues to embed our community policy throughout 2010 which is to raise awareness on water conservation as well as caring for the society. We provide opportunities for both our employees and the public to participate in various social programmes which are aimed at improving the quality of life of the communities where we operate in. The Group seeks to improve its duty as a responsible corporate citizen through strategic partnerships with authorities or non-profit organizations in the next step.

Educating the youth

The Group firmly believes that awareness of water conservation starts from young and undertakes the initiative to foster this knowledge amongst school going children.

In July 2010, Salcon together with Water Watch Penang (WWP) and Malaysia Environmental NGO (MENGO) jointly organized a "River & Water Awareness & Education Programme" for the school children in Kuala Lumpur with the main objective to increase awareness and education of the importance of river and water amongst youths.

The interesting event received overwhelming response from the pupils from SMK Seksyen 5, Wangsa Maju where they were taught how to conduct water samplings and carried out checks on micro-organism found in the river to understand its eco-system at Klang river (nearby Klang Gate Dam).

Educating the youth on river conservation with professionals

Blood Donation Drive

The Group took the initiative to organize the first Blood Donation Campaign which was open for both for employees and the public in May 2010 at the concourse area, the Summit Subang Jaya, Shopping Complex. The blood donation was made possible with the collaboration from National Blood Centre as well as the Summit Shopping Complex.

A total of 101 people registered as donors and 78 pints of blood was donated to the National Blood Centre. With this encouraging response, the Group plans to have this activity on an annual basis to encourage its employees to carry out their individual social responsibility by providing them a chance to contribute to society.

First Blood Donation Campaign in collaboration with Summit Shopping Complex and National Blood Centre

Cheer leading team and runners showing their support at the Kuala Lumpur Rat Race 2010

Charity Support

The Group supports various charity runs in Malaysia and also Vietnam. In June 2010, Salcon took part in the Standard Chartered Kuala Lumpur Marathon for the very first time this year. We also participated in the Kuala Lumpur Rat Race 2010 organized by Bursa Malaysia and The Edge Daily with the objective to help the needy through the contribution from Malaysia corporations, for the second year running. The Group supported the event with a contribution of RM15,000 and the Salcon team was awarded the Best Dressed Team First Runner-up in the Rat Race.

Besides this, Salcon Engineering Vietnam Company Ltd also participated in the Terry Fox Run to raise fund for cancer research programmes.

Sports and Healthy Living

Salcon continues its support of the Negeri Sembilan Masters Invitational 2010 for the 4th year running as a co-sponsor this year. The championship offers a total prize money of RM500,000, which is an increase of RM100,000 from last year's edition, further cementing its stature as one of the biggest professional golf events in the country.

The 4th year running as a co-sponsor for Negeri Sembilan Masters Invitational 2010

Sponsorship in support of football tournament organized by Saigon Water Corporation in Ho Chi Minh City, Vietnam

Gift hampers to the less fortunate during New Year in Binh Thang Commune, Vietnam

Besides this, the Group also contributed 100 units of Salcon caps in Piala Dato' Johan Pahlawan in May 2010.

In Vietnam, the Group's wholly owned subsidiary, Salcon Engineering Vietnam Company Limited, showed its support in the football tournament which was organized in conjunction with the 5th year establishment of Saigon Water Corporation (SAWACO) in Ho Chi Min City, Vietnam. 14 employees were sent to play in the tournament.

Sending sundry items donated by Salcon employees to Taman Sinar Harapan Kuala Kubu Bharu

Helping the less fortunate

Salcon spread its care to the needy in other regions of Vietnam, contributing 150 gift hampers to poor families during the new year at Binh Thang Commune.

Salcon also organized a charity drive for Taman Sinar Harapan Kuala Kubu Bharu (TSH KKB) on 25th February 2011. The charity drive received great response from the employees who donated sundry items such as biscuits, rice, sugar, beverages. Besides this, cash donation was contributed to the shelter home for them to better manage the home and provide physiotherapy equipment for the residents.

Conclusion

The Group encourages all employees to be involved in CR initiatives not only in the activities organized by the Company, but also on a personal basis. Last year, the management integrated CR initiatives as part of the Key Performance Indexes in individual staff appraisal assessment. It is hoped that with this measure, all employees would put greater emphasis to fulfilling their personal social responsibility.

The Group is committed to continuously measure and improve its CR initiatives. There is still much to do and we look forward to achieving new heights through our commitment as a responsible corporate citizen. The Group will also seek to collaborate with government authorities and non-profit organizations, to further expand our efforts to reach out to a wider section of society.


making a world of
differences

Corporate Governance Statement

The Board of the Company continues to uphold its commitment to the highest standard of corporate governance in managing the affairs of the Group. This statement describes how the Group has applied the principles and best practices set out in the Malaysian Code on Corporate Governance (the Code) in protecting the interests of and enhancing shareholders' value throughout the financial year ended 31 December 2010.

PRINCIPLE A – BOARD OF DIRECTORS

Membership and Balance

The Board began the year with eight (8) members, including four (4) Executive Directors and four (4) Non-Executive Directors, led by a Non-Executive Chairman. During the year, there were changes in the composition of the Board, which include the unfortunate demise of one (1) of its Executive Director, resignation of two (2) Directors, i.e. the Chief Executive Officer and an Independent Non-Executive Director and subsequent appointment of a new Independent Non-Executive Director, bringing the current number of Board members to six (6). The number of Independent Directors is in compliance with the Bursa Malaysia Securities Berhad (Bursa Securities) Main Market Listing Requirements (Main LR) which requires one third of the Board to comprise of Independent Directors. The profiles of the Directors are set out in Pages 16 to 18 of this Annual Report.

The Board's main roles are to create value for shareholders, provide leadership to the Group through the consideration and adoption of the Group's strategic objectives. The Board also ensures that all necessary financial and other resources are made available to enable those objectives to be achieved. Other key functions of the Board include responsibilities as prescribed under the Best Practices Provision AA 1 in Part 2 of the Code. 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 Executive Management to ensure necessary checks and balances whilst ensuring the independence of the Board from Management.

Generally, the Executive Directors and Management, under the overall guidance of the Executive Committee, is responsible for implementing operational strategies and corporate decisions made by the Board.

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 for the Director concerned to declare his interest and abstain from the decision-making process.

Appointments and Re-election

The Company's Articles of Association provides that at least one third (1/3) of the Board of Directors shall retire from office provided always that all Directors shall retire from office once at least in each three (3) years. All retiring Directors shall be eligible for re-election. Directors over the age of seventy (70) years may be re-appointed in accordance with Section 129 of the Companies Act, 1965.

At the 7th Annual General Meeting held on 23 June 2010, Dato' Seri (Dr.) Goh Eng Toon and Dato' Dr Freezailah bin Che Yeom, who are over the age of seventy (70), retired in pursuant of Section 129(6) of the Companies Act, 1965. They offered themselves for re-appointment and were re-appointed to the Board.

Pursuant to the Company's Articles of Association, all new Directors who are appointed by the Board are subject to re-election by the shareholders at the next Annual General Meeting subsequent to their appointment.

Corporate Governance Statement

On 3 January 2011, Dato' Choong Moh Kheng was appointed as the Independent Non-Executive Director and as required, his appointment shall be subjected to re-election at the 8th Annual General Meeting scheduled on 23 June 2011.

Board Meetings

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

For the financial year ended 31 December 2010, five (5) Board meetings were held and the attendance of the Directors is listed below:

Directors	Number of Meetings Attended
Dato' Seri (Dr.) Goh Eng Toon (Chairman)	5/5
Dato' Tee Tiam Lee	5/5
Dato' Leong Kok Wah	5/5
Dato' Dr Freezailah bin Che Yeom	5/5
Ho Tet Shin	5/5
Dato' Choong Moh Kheng *(Appointed on 3 January 2011)*	-
Ir. How See Hock *(Resigned on 1 January 2011)*	5/5
Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr Haji Megat Khas *(Resigned on 16 July 2010)*	1/3
Jaggit Singh a/l Tara Singh *(Demised on 27 June 2010)*	3/3

Directors' Trainings

All Directors are provided with the opportunity, and are encouraged, to attend training to keep them updated on relevant new legislations, best practices, financial reporting requirements and/or other relevant courses to further enhance their skills and knowledge to enable them to discharge their responsibilities more effectively. The Directors are also updated by the Company Secretary on any changes to legal and governance requirements of the Group. The training programmes attended by the Directors, with exception to Dato' Seri (Dr.) Goh Eng Toon, during the year, collectively or individually, included the following:

1. 6th Tricor Tax & Corporate Seminar

2. The National Water & Utilities Summit 2010

3. SWOT Analysis / Company Objectives, Goals & KPI

4. 2nd Annual Corporate Governance Summit 2010

5. Fire Prevention Talk

Corporate Governance Statement

Dato' Seri (Dr.) Goh Eng Toon has not attended any training during the financial year 2010 due to unavailability of a suitable training programme in the year under review. A suitable training programme for all Directors has been identified for the financial year 2011. All Directors have attended the Mandatory Accreditation Programme conducted by Bursatra Sdn Bhd.

As provided in the Best Practices AAXIII of the Code, the newly appointed Director shall be provided with appropriate orientation and education program. The Company's orientation also includes briefing on the corporate structure, business and policies of the Group as well as the roles and responsibilities of the Board.

Access to Advice and Information

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

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

Board Committees

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

a) Audit Committee

The Audit Committee was established to assist the Board in fulfilling its responsibilities relating to the accounting and reporting practices of the Group. The Board considers that the membership of the Audit Committee is in compliance with the Bursa Securities Main LR and the Code's recommendations. The terms of reference as well as the members of the Audit Committee are set out in Pages 53 to 58 of the Annual Report.

b) Executive Committee

The Executive Committee is responsible for implementing the decisions and policies approved by the Board.

The members of the Executive Committee are as follows:

Dato' Seri (Dr.) Goh Eng Toon (Chairman)
Dato' Tee Tiam Lee
Dato' Leong Kok Wah
Ir. How See Hock *(Ceased as member on 1 January 2011)*
Jaggit Singh a/l Tara Singh *(Demised on 27 June 2010)*

c) *Nomination Committee*

The Nomination Committee meets at least once a year. It was set up to review the optimal mix of qualifications, skills and experience of the Board, 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 and nominate and assess the candidates for appointment as Directors. The members of the Nomination Committee are as follows:

Dato' Seri (Dr.) Goh Eng Toon (Chairman)
Dato' Dr Freezailah bin Che Yeom
Ho Tet Shin

The Board considers that the membership of the Committee is in compliance with the Code's recommendation.

d) *Remuneration Committee*

The Remuneration Committee was set up to deliberate on the remuneration framework and its members meet at least once a year to make recommendations to the Board on structuring Executive Director's remuneration packages.

The members of the Remuneration Committee are as follows:

Dato' Seri (Dr.) Goh Eng Toon (Chairman)
Dato' Dr Freezailah bin Che Yeom
Ho Tet Shin

The Board considers that the membership of the Remuneration Committee is in compliance with the Code's recommendation.

e) *Risk Management Committee*

The Risk Management Committee is established to be the forefront of Enterprise-wide Risk Management Programme and ensure consistent adoption of risk management structure throughout the Group. The Risk Management Committee is responsible to the Board and assists the Board in overseeing all risks management activities within the Group. In addition, it reviews the efficacy of internal controls within the Group. The Risk Management Committee meets twice a year or as required.

The members of the Risk Management Committee are as follows:

Ho Tet Shin (Chairman)
Dato' Leong Kok Wah *(Appointed as member on 20 December 2010)*
Jamiluddin Amini bin Sulaiman *(Appointed as member on 20 December 2010)*
Ir. How See Hock *(Ceased as member on 1 January 2011)*
Jaggit Singh a/l Tara Singh *(Demised on 27 June 2010)*

f) *ESOS Committee*

The Employees' Share Option Scheme (ESOS) Committee was established on 7 July 2010 and is responsible to administer the ESOS in accordance with By-Laws.

The members of the ESOS Committee are as follows:

Dato' Tee Tiam Lee (Chairman)
Dato' Leong Kok Wah
Law Woo Hock
Ir. How See Hock *(Ceased as member on 1 January 2011)*

Corporate Governance Statement

PRINCIPLE B - DIRECTORS' REMUNERATION

The remuneration policy of the Company is to ensure competitive remuneration, thereby enabling the Company to attract and retain high calibre executives and at the same time protect the interest of the shareholders. The remuneration package of the executive directors is structured so as to link rewards to corporate and individual performance. In the case of the non-executive directors, the level of remuneration should reflect the experience and level of expertise and responsibilities undertaken by the particular non-executive director concerned.

Level and Make-up of Remuneration

Details of the remuneration of Directors of the Company for the financial year ended 31 December 2010 are as follows:

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

Directors' Remuneration	Executive Directors (RM'000)	Non-Executive Directors (RM'000)
Salary	1,555	-
Bonus	216	-
Fees	-	136
Meeting Allowances	-	18
Benefits-In-Kind	97	-
Statutory Contribution	217	-
ESOS	123	-
Others	40	-
Total	**2,248**	**154**

2. It is not the Board's policy to disclose the remuneration of each individual director due to the Company's concerns for the sensitivity and confidentiality of such information. However, it has resolved to disclose their salaries into bands of RM50,000, as shown below, only for purposes of complying with the Code, differentiating the numbers between executive and non-executive directors.

Directors' Remuneration	Number of Directors
Executive Directors	
Less than RM500,000	2
RM500,001 - RM550,000	2
Non-Executive Directors	
Less than RM50,000	3
RM50,001 - RM100,000	1

Remuneration Procedures

The Remuneration Committee, which consists of wholly non-executive directors, reviews and recommends for Board's approval, the remuneration of the Executive Directors and the fees for the Non-Executive Directors.

In determining the remuneration package, the Executive Directors shall abstain from the deliberations and voting decisions in respect to their remuneration. The Board as a whole will decide the non-executive directors' remuneration with the director concerned abstained from participating on decision in respect of his individual remuneration.

In financial year 2010, the Remuneration Committee has reviewed and proposed to the Board, the remuneration package for year 2010 for the Executive Directors. The proposed remuneration packages for the Executive Directors have been approved by the Board whilst the proposed remuneration for the Non-Executive Directors shall be subjected to the shareholders' approval at the 8th Annual General Meeting.

PRINCIPLE C - RELATIONSHIP WITH SHAREHOLDERS

Shareholders Communication and Investors Relationship Policy

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

The Annual General Meetings (AGM) is the forum to communicate with shareholders. Dissemination of information also includes the distribution of Annual Reports, relevant circulars, issuance of press releases and giving press conferences. The financial performance of the Group is communicated to the public via its quarterly report to the Bursa Securities.

To further enhance transparency and communication with shareholders and all concerned, the Company established an internet website at www.salcon.com.my for the timely and wide dissemination of business related information for the benefit of all interested parties. As an alternate channel to reach out to a broader range of the public, shareholders and interested parties may also connect to Salcon via Facebook.

The Board had appointed Dato' Dr Freezailah bin Che Yeom as the Senior Independent Non-Executive Director to whom shareholders' concerns may be conveyed.

Annual General Meeting

The AGM is the principal forum for communicating with shareholders. Shareholders are encouraged to attend the AGM and participate in an open discussion during the AGM. The Directors respond to shareholders' questions during the AGM. The Chairman and where appropriate, the Executive Directors will provide a written answer after the AGM for significant question that is not readily answered at 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.

Corporate Governance Statement

PRINCIPLE D - ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

Internal Control

The Internal Control Statement furnished on Pages 59 to 60 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 and the Group's auditors, both internal and external.

Compliance with the Code

The Group has complied with the best practices of the Code throughout the financial year ended 31 December 2010, except for Principle BIII - Disclosure on remuneration of Directors.

OTHER INFORMATION REQUIRED BY THE BURSA SECURITIES MAIN LR

Utilisation of Proceeds

The Renounceable Rights Issue was completed and the shares were granted listing and quotation on the Main Board of Bursa Securities on 23 May 2007. The status of the utilisation of the proceeds as at 4 May 2011 is as follows:

	Proposed Revised Utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Working capital for the Sabah sewage system project	20,000	(16,131)	3,869
General working capital for the Group	79,978	(83,822)	(3,844)
Repayment of bank borrowings	19,000	(19,000)	-
Estimated expenses relating to the Rights Issue with Warrants	1,888	(1,913)	(25)
Total	**120,866**	**(120,866)**	**-**

The Group disposed 40% of its holdings in six (6) China concessions (Disposal). The status of the utilisation of the proceeds as at 4 May 2011 is as follows:

	Proposed Revised Utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Future investments	84,380	-	84,380
Repayment of bank borrowings	10,000	(4,514)	5,486
Defraying estimated expenses relating to the Disposal	1,200	(1,200)	-
Total	**95,580**	**(5,714)**	**89,866**

Material Contracts

There were no material contracts entered into by the Company or its subsidiaries involving Directors and major shareholders for the financial year ended 31 December 2010.

Non-audit Fee

Other than the following, there was no non-audit fees paid to the external auditors for the financial year ended 31 December 2010.

Auditor	Services	Amount Paid (RM)
KPMG	Professional Services in connection with the review of the Internal Control Statement	10,000
KPMG	Extended audit scope on the process of compilation of the disclosure of realised and unrealised profits or losses	15,000

Variation in Results for the Financial Year

The audited financial statements for the financial year ended 31 December 2010, contained in this Annual Report does not deviate by more than 10% from the unaudited results of the Group announced on 28 February 2011.

Share Buybacks

The Company did not enter into any share buyback transactions during the financial year ended 31 December 2010.

Options or Convertible Securities

The Company has allocated 32,783,700 share options under ESOS and out of this total, 5,827,500 share options were exercised during the financial year ended 31 December 2010. Further details in regards to the Company's ESOS is available in the Directors' Report in the Financial Statements on Pages 62 to 67 of this Annual Report.

Corporate Governance Statement

Depository Receipt Programme

The Company did not sponsor any depository receipt programmes during the financial year ended 31 December 2010.

Impositions of Sanctions / Penalties

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

Profit Guarantee

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

Revaluation Policy on Landed Properties

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

ESOS

There were no options offered to and exercised by non-executive directors pursuant to the Company's ESOS for the financial year ended 31 December 2010.

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 Company and the Group and are pleased to announce that in preparing the financial statements for the financial year ended 31 December 2010, the Group has:

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

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

Audit Committee Report

The Audit Committee of Salcon Berhad is pleased to present its report for the financial year ended 31 December 2010.

MEMBERSHIP AND ACTIVITIES

Membership

In compliance with the Bursa Securities Main LR, all three (3) members of the Audit Committee (the Committee) are non-executive directors with a majority of them being independent, including the Committee Chairman.

The Committee comprises of the following members:

Ho Tet Shin (Chairman)	Independent Non-Executive Director
Dato' Dr Freezailah Bin Che Yeom	Independent Non-Executive Director
Dato' Seri (Dr.) Goh Eng Toon *(Appointed as member on 16 July 2010)*	Non-Independent Non-Executive Director
Tan Sri Dato' Seri Megat Najmuddin Bin Datuk Seri Dr Hj Megat Khas *(Ceased as member on 16 July 2010)*	Independent Non-Executive Director

The Committee Chairman, Mr. Ho Tet Shin, is a qualified Chartered Accountant. He is a member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Accountants as well as a Fellow of the Institute of Chartered Accountants in England and Wales.

Meetings

During the financial year ended 31 December 2010, five (5) meetings were convened, with details on the attendance of the members listed below:

Directors	No. of Meetings Attended
Ho Tet Shin (Chairman)	5/5
Dato' Dr Freezailah Bin Che Yeom	5/5
Dato' Seri (Dr.) Goh Eng Toon *(Appointed as member on 16 July 2010)*	2/2
Tan Sri Dato' Seri Megat Najmuddin Bin Datuk Seri Dr Hj Megat Khas *(Ceased as member on 16 July 2010)*	2/3

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

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

Audit Committee Report

Trainings

During the year, the Committee members have attended the following training programmes, collectively or individually:

1. 6th Tricor Tax & Corporate Seminar

2. The National Water & Utilities Summit 2010

Summary of Activities of the Committee

The activities carried out by the Committee during the financial year ended 31 December 2010 include, inter alia with particular attention paid to overseas operations, the following:

- Reviewed the External Auditors' scope of work and audit plans for the year, prior to the commencement of their annual audit.

- Considered and recommended to the Board for approval, the audit fees payable to the External Auditors as disclosed in Note 21 to the financial statements.

- Reviewed with the External Auditors, the results of the audit and major issues arising from the audit.

- 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 Bursa Securities Main LR, Malaysian Accounting Standards Board (MASB) and other relevant legal and regulatory requirements.

- Reviewed the Internal Audit & Risk Management Department's resource requirements, performance appraisals, programs and plans for the financial year under review as well as the plans for the financial year ending 31 December 2011.

- Reviewed the Summary of Pertinent Issues presented by the Internal Auditor on major findings, recommendations and management's responses. The Committee also discussed management actions taken to improve the system of internal control based on improvement opportunities identified in the summary report.

- 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 Internal Control Statement and Audit Committee Report and its recommendation to the Board for inclusion in the Annual Report.

- Reviewed the application of corporate governance principles and the extent of the Group's compliance with the best practices set out under the Code for the purpose of preparing the Internal Control Statement and Corporate Governance Statement pursuant to Bursa Securities Main LR.

- Reviewed the verification exercise conducted by the Internal Auditor on the Employee Share Option Scheme (ESOS) allocation for the financial year ended 31 December 2010 to ensure compliance with the criteria as approved and disclosed by the ESOS Committee.

Internal Audit Function

The Group's internal audit function is performed in-house by the Internal Audit & Risk Management Department (IARMD), which has a direct reporting line to the Audit Committee. IARMD 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 in a transparent manner.

The internal audit activities are carried out based on the approved annual Internal Audit Plan, which is designed via risk based approach to cover projects, concessions and other operational units within the Group. 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.

During the financial year under review, the internal audit activities, which were carried out independently from the management and operations of the Group, include, inter alia, the following:

- Conducted audit visits to project sites, including those in Vietnam and Sri Lanka, as well as China;
- Reviewed the extent of compliance to the Group's established policies and procedures as well as relevant statutory requirements;
- Reviewed the reliability, completeness, usefulness of financial, operational and management information and the underlying records;
- Reviewed the adequacy of controls implemented to safeguard the Group's assets;
- Reviewed the internal controls and key operating processes according to the approved annual plan as well as their risk management processes and recommend areas for improvement; and
- Verified the allocation of ESOS as according to the disclosed criteria for allocation of options.

The pertinent findings arising from the above activities and management responses were tabled to the Audit Committee during its meeting held on quarterly basis. Follow up audits were conducted and the status of implementation of corrective action were also tabled to the Audit Committee.

All internal audit activities for the financial year ended 31 December 2010 were conducted by the in-house audit team. There were no areas of the internal audit function which were outsourced. The total cost incurred by the Group's internal audit function for the year under review was approximately RM410,000.

TERMS OF REFERENCE

Composition

1. The Committee shall be appointed by the Board from amongst its Directors (except for alternate directors) who fulfill the following requirements:

   a. the audit committee shall comprise of no fewer than three (3) members;

   b. all members of the committee shall be non-executive directors, with a majority of them being independent directors; and

   c. all members of the audit committee should be financially literate and at least one member of the audit committee:

Audit Committee Report

(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.

(iii) shall fulfill such other requirements as prescribed or approved by Bursa Malaysia.

2. No alternate director of the Board shall be appointed as a member of the audit committee.

3. The members of the Committee shall select a chairman from among their number who shall be an independent director.

4. 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.

5. 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 and Internal Auditors, as well as employees of the Group;

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

f. convene meetings with the external auditors at least twice a year, excluding the attendance of other Directors and employees of the Group.

Audit Committee Report

Functions

The functions of the Committee shall include a review of the following:

Governance

a. the Management's compliance with laws, regulations, established policies, plans and procedures.

b. 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.

Financial Reporting

a. the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:

i. changes in or implementation of major accounting policy changes;

ii. significant and unusual events;

iii. compliance with accounting standards and other legal requirements; and

iv. the going concern assumption.

External Audit

a. with the External Auditors, the scope of their audit plan, their evaluation of the system of internal control and the audit reports on the financial statements.

b. the assistance given by the employees of the listed issuer to the external auditor.

c. the selection, re-appointment, remuneration, resignation or dismissal of the External Auditors.

d. to review the external auditor's management letter and management's response.

e. to discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary).

Internal Audit

a. the adequacy of the scope, functions, competency and resources of the Internal Audit function and the authority necessary to carry out its work.

b. the internal audit program, processes and the results of the internal audit work, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the Internal Audit function.

c. approve any appointment or termination of senior staff members of the internal audit function;

d. take cognizance of resignations of internal audit staff members and provide the resignation staff member an opportunity to submit his reasons for resigning.

Audit Committee Report

ESOS

a. verifying the allocation of options under the Employee Share Option Scheme (ESOS) as compliant with the disclosed criteria for allocation of options, at the end of each financial year, if applicable.

Other Matters

a. any other matters as may be directed by the Board from time to time.

Meetings

Meetings of the Committee shall be held not less than four (4) times a year. Other Board members and employees may attend any particular meeting only at the Committee's invitation. 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. 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. Key issues discussed shall be reported by the Chairman of the Committee to the Board.

STATEMENT OF VERIFICATION ON ALLOCATION OF OPTIONS PURSUANT TO EMPLOYEE SHARE OPTION SCHEME

Paragraph 8.17(3) of Bursa Securities Main LR requires a statement by the Audit Committee verifying the allocation of options under the ESOS as compliant with the disclosed criteria for allocation of options, at the end of each financial year.

The Audit Committee has verified the allocation of 32,783,700 options granted to the eligible employees for the financial year ended 31 December 2010 and noted its compliance with the criteria for the allocation of options as approved and disclosed.

Following the Board and Shareholders' approval, the ESOS Committee was established on 7 July 2010, i.e. the effective date of ESOS, to administer the ESOS of Salcon Berhad. The ESOS Committee main responsibility is to administer the ESOS in accordance to Group's approved By-Laws.

The members of the ESOS Committee are provided in page 47 of the Annual Report.

Internal Control Statement

Bursa Securities Main LR, Paragraph 15.26(b) requires the Board of Directors of Public Listed Companies to include an Internal Control Statement in their Annual Reports about the state of internal control in their companies as a group. The Code stipulates that the Board should maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets. In pursuance thereof and in accordance to the Bursa Securities Statement on Internal Control: Guidance for Directors of Listed Companies, the Board is pleased to report to the shareholders the state of internal controls that affected the Group during the period under review.

Board Responsibilities

The Board affirms the overall responsibility for maintaining a sound system of internal controls and to review its adequacy and integrity so as to safeguard shareholders' investments and the Group's assets. The Group's systems of internal controls cover, inter alia, risk management, financial, operational, organizational, management information system and compliance controls. The systems of internal controls are designed to ensure that the risks facing the Group's businesses in pursuit of its objectives are continuously identified and managed at known and acceptable levels.

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

Risk Management

The Board confirms that there is an embedded process for the ongoing identification, evaluation and reporting of the major business risks faced by the Group, excluding associated company, during the financial year ended 31 December 2010 up to the date of the annual report and financial statements.

The Group has in place a Risk Management Committee to provide oversight function in the implementation and enforcement of the risk management process. The Group's Risk Management Framework is outlined in its Integrated Risk Management Policy.

Management from each business or operations area applies a risk/control assessment approach in identifying the risks relating to their area; the likelihood of these risks occurring; the consequences if they do occur and the actions being and/or to be taken to manage these risks to the desired level. The risk profiles and risk treatment measures determined from this process are documented in risk registers with each business or operations area having its respective risk register. The risk registers are compiled to form the Corporate Risk Register for reporting to the Risk Management Committee on a semi-annual basis. The overall process is facilitated by the Internal Audit & Risk Management Department who are dedicated to the role.

Internal Audit Function

The Board complies with the Code (Part 2 - Best Practices in Corporate Governance), in setting up an internal audit function within the Group. 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 systems of internal controls in managing its key risks.

The internal audit function reviews the key activities of the Group on the basis of an annual audit plan approved by the Audit Committee. The audit plan for the Group is prepared based on the direction given by the Audit Committee and the Corporate Risk Registers of the operating entities within the Group. The Audit Committee decides on the scope of the work to be carried out and reviews the internal audit reports to ensure that the necessary level of assurance with respect to the adequacy of internal controls and the management of key risks as required by the Board is achieved. Follow-up reviews on previous audit issues are carried out to ensure that appropriate actions are taken to address internal control weaknesses highlighted. Subsequent to the reviews, the Audit Committee shall present its pertinent findings to the Board on a quarterly basis or as appropriate.

Internal Control Statement

Other Risks and Control Processes

The Board is pleased to summarize below, the other elements and control processes implemented in reviewing the effectiveness, adequacy and integrity of the system of internal control within the Group:

- Salcon Engineering Berhad continues to be certified under the ISO9001:2008 and ISO14001:2004 quality and environmental management systems at the corporate office and project levels. As testimony of the Group's commitment to ensuring quality and minimum environmental impact, a Quality and Environmental Policy Statements and ISO Procedures have been established with updates of at least once a year.
- To encourage continual improvements, annual training and compliance audits are carried out at least once a year on environmental and quality performances for activities undertaken at the project sites by Quality Assurance (QA) and Safety, Health & Environmental (SHE) departments.
- The Group conforms to the Occupational Safety & Health OSHAS18001 (2007) requirements, with the development of a Corporate Safety & Health Manual and Procedures for implementation on project sites and the corporate office. A Safety & Health Policy Statement established by the Group represents a testimony of the Group's commitment to maintaining a safe working environment and stringent work practices.
- The Corporate Safety & Health Committee reviews and updates the Safety & Health Policy Statement as well as conducts training courses at least once a year, to ensure continual improvement and enhancement of the effectiveness of the Occupational Safety and Health Management System (OSHMS) 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.
- As a form of preventive control and awareness on conflict of interest situation and to promote good employee conducts and ethics, the Group has developed and put in place, a policy on Code of Ethics and Conduct.
- Quarterly updates of the financial results of the Group are reported to the Audit Committee and the Board.
- Regular business development and management meetings, which involve the Chief Executive Officer, Executive Directors and selected personnel, are held to promptly identify and address any issues encountered by the Group.
- The internal audit function provides reasonable level of assurance on the operations and validity of the systems of internal controls whilst, the Management, through the Audit Committee, is tasked to follow up and monitor the status of actions on recommendations made by the internal auditors.
- The Audit Committee 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 Internal Audit & Risk Management Department has performed reviews on all major subsidiaries in Malaysia, project operations in Vietnam and Sri Lanka and five out of the seven main subsidiaries in China. The Board confirms that the systems of internal controls are being implemented throughout the Group and continuous reviews are being carried out to ensure its adequacy and effectiveness. There were no major internal controls weaknesses detected which have a material impact on the Group's financial performance or operations.

Financial Statements

Directors' Report
for the year ended 31 December 2010

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2010.

Principal activities

The Company is principally an investment holding company, whilst the principal activities of the subsidiaries are as stated in Note 7 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

Results

	Group RM'000	Company RM'000
Profit for the year attributable to:		
Owners of the Company	21,145	9,476
Minority interests	7,382	-
	28,527	9,476

Reserves and provisions

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

Dividends

Since the end of previous financial year, the Company paid a first and final dividend of 1.5 sen per ordinary share, single tier totalling RM7,015,000 in respect of the year ended 31 December 2009 on 23 July 2010.

The first and final dividend of 1.5 sen per ordinary share, single tier recommended by the Directors in respect of the financial year ended 31 December 2010, is subject to the approval of the owners of the Company at the forthcoming Annual General Meeting.

Directors of the Company

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

Dato' Seri Goh Eng Toon
Dato' Tee Tiam Lee
Dato' Leong Kok Wah
Dato' Dr Freezailah bin Che Yeom
Ho Tet Shin
Dato' Choong Moh Kheng (appointed on 3 January 2011)
Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr Hj Megat Khas (resigned on 16 July 2010)
How See Hock (resigned on 1 January 2011)
Jaggit Singh a/l Tara Singh (demised on 27 June 2010)

Directors' interests

The interests and deemed interests in the ordinary shares, options and warrants of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at 31 December 2010 (including the interests of the spouses and children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.50 each			
	At 1.1.2010	**Acquired**	**Disposed**	**At 31.12.2010**
The Company				
Direct interest				
Dato' Dr Freezailah bin Che Yeom	50,400	-	-	50,400
Dato' Tee Tiam Lee	26,096,400	700,000	-	26,796,400
Dato' Leong Kok Wah	-	700,000	-	700,000
How See Hock	1,787,900	580,000	-	2,367,900
Deemed interest				
Dato' Seri Goh Eng Toon	66,709,600	-	-	66,709,600
Dato' Tee Tiam Lee	29,397,400	-	-	29,397,400
Dato' Leong Kok Wah	200,000	-	-	200,000
Ho Tet Shin	21,400	-	-	21,400
How See Hock	214,900	-	214,900	-

	Number of options over ordinary shares of RM0.50 each			
	At 1.1.2010	**Granted**	**Exercised**	**At 31.12.2010**
The Company				
Direct interest				
Dato' Tee Tiam Lee	-	2,100,000	700,000	1,400,000
Dato' Leong Kok Wah	-	2,100,000	700,000	1,400,000
How See Hock	-	1,500,000	500,000	1,000,000

Particulars of the Directors' interest in the warrants during the financial year are as follows:

	Number of Warrants 2007/2014			
	At 1.1.2010	**Acquired**	**Exercised/ Disposed**	**At 31.12.2010**
The Company				
Direct interest				
Dato' Dr Freezailah bin Che Yeom	12,700	-	-	12,700
Dato' Leong Kok Wah	3,600,000	-	-	3,600,000
How See Hock	469,950	-	-	469,950
Deemed interest				
Dato' Tee Tiam Lee	7,370,650	-	-	7,370,650
Dato' Seri Goh Eng Toon	16,704,800	-	-	16,704,800
Ho Tet Shin	10,700	-	-	10,700
How See Hock	118,700	-	-	118,700

Directors' Report
for the year ended 31 December 2010 (cont'd)

Directors' benefits

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

There were no arrangements during and at the end of the financial 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 Warrants 2007/2014 and the Employees' Share Option Scheme.

Issue of shares and debentures

During the financial year, the Company issued 5,827,500 new ordinary shares of RM0.50 each for cash arising from the exercise of employees' share options at a weighted average exercise price of RM0.57 per ordinary share.

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

Warrants 2007/2014

On 18 May 2007, the Company issued 106,022,701 free detachable warrants ("Warrants 2007/2014") pursuant to a renounceable rights issue of 212,045,402 new ordinary shares of RM0.50 each ("Rights Shares") to the entitled shareholders ("Rights Issue") on the basis of two (2) Rights Shares with one (1) Warrant 2007/2014 attached for every two (2) existing shares held.

Each Warrant 2007/2014 entitles the registered holder to subscribe for one (1) new ordinary share of RM0.50 each of the Company at any time on or after 18 May 2007 to 17 May 2014, at an exercise price of RM0.75 per share or such adjusted price in accordance with the provisions in the Deed Poll dated 12 April 2007. Any Warrants 2007/2014 not exercised during the exercise period will lapse and become void.

The shares arising from the exercise of Warrants 2007/2014 shall rank *pari passu* in all respects with the existing issued ordinary shares of the Company except that they shall not be entitled to any dividends, distributions or rights, the entitlement date of which is prior to the date of the allotment of the new shares arising from the exercise of Warrants 2007/2014.

The outstanding Warrants 2007/2014 remain unexercised at the end of the financial year amounting to 104,912,701 (2009: 104,912,701).

Options granted over unissued shares

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

At an extraordinary general meeting held on 23 June 2010, the Company's shareholders approved the establishment of an ESOS of not more than 15% of the issued and paid up share capital of the Company to eligible Directors and employees of the Group.

Options granted over unissued shares (cont'd)

The salient features of the ESOS are, *inter alia*, as follows:

i) Maximum allowable allotment and basis of allocation

The maximum number of new ordinary shares of RM0.50 each in the Company ("Salcon Shares") that may be offered under the ESOS Options to eligible persons shall take into consideration, amongst other factors, the eligible persons' seniority and performance subject to the following:

(a) Not more than 50% of the total number of Salcon Shares to be issued under the ESOS shall be allocated, in aggregate, to Directors and senior management of the Group; and

(b) Not more than 10% of the total number of Salcon Shares to be issued under the ESOS would be allocated to any one eligible person, who either singly or collectively through person(s) connected with him/her holds 20% or more of the issued and paid-up share capital of the Company (excluding treasury shares).

ii) Eligibility to participate in the ESOS

Generally, any employee or Executive Director of any company comprised in the Group shall be eligible to be considered for the offer of ESOS Options under the ESOS provided that:

(a) he/she is a natural person who is at least eighteen (18) years of age;
(b) he/she is employed full time by and on the payroll of any company in the Group;
(c) in the case of an Executive Director, whose specific allocation has been approved by the shareholders of the Company in a general meeting and is not prohibited or disallowed by the relevant authorities or laws from participating in the ESOS;
(d) his/her employment must have been confirmed and he/she is employed by any company in the Group for more than one (1) year on the date of offer (except in respect of the Executive Directors); and
(e) he/she complies fully with any other criteria set by the ESOS Committee.

The ESOS Committee reserves the right to set different eligibility criteria for foreign incorporated subsidiaries of the Company.

iii) Duration of the ESOS

The ESOS shall be valid for a duration for five (5) years from the effective date of implementation and may, if the Board deems fit, upon the recommendation of the ESOS Committee, be extended for a further five (5) years, subject to a maximum aggregate of ten (10) years from the effective date of implementation of the ESOS.

iv) Subscription price

Subject to any adjustment that may be made in accordance with the Bylaws of the ESOS, the price payable for the exercise of an option under the ESOS shall be determined by the ESOS Committee at its sole discretion based on the five (5) day weighted average market price of the underlying shares immediately prior to the date of offer is made by the ESOS Committee, with a discount of not more than ten per centum (10%) thereon, if deemed appropriate, or the par value of the Salcon Shares, whichever is the higher.

iv) Subscription price (cont'd)

The options offered to take up unissued ordinary shares of RM0.50 each and the exercise price are as follows:

Date of offer	Exercise price	Number of options over ordinary shares of RM0.50 each				
		At 1.1.2010	Granted	Exercised	Lapsed	At 31.12.2010
9 July 2010	RM0.57	-	31,498,500	5,827,500	1,240,500	24,430,500

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose in this report the names of persons to whom less than 400,000 options have been granted during the financial year and details of their holdings as required by Section 169(11) of the Companies Act, 1965. This information has been separately filed with the Companies Commission of Malaysia.

Other than the Directors whose interests are disclosed separately in the Directors' interest, the names of option holders granted options to subscribe for 400,000 or more ordinary shares of RM0.50 each are disclosed in Note 38 to the financial statements.

Other statutory information

Before the statements of comprehensive income and statements of financial position 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) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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.

Other statutory information (cont'd)

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

In the opinion of the Directors, except for the gain on disposal of property, plant and equipment as disclosed in Note 21, the financial performance of the Group and of the Company for the financial year ended 31 December 2010 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.

Subsequent events

The subsequent events are as disclosed in Note 35 to the financial statements.

Auditors

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

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

....

Dato' Seri Goh Eng Toon

....

Dato' Tee Tiam Lee

Kuala Lumpur,

Date: 28 April 2011

Statements of Financial Position
at 31 December 2010

	Note	Group 31.12.2010 RM'000	Group 31.12.2009 RM'000 restated	Group 1.1.2009 RM'000 restated	Company 31.12.2010 RM'000	Company 31.12.2009 RM'000
Assets						
Property, plant and equipment	3	340,703	228,119	196,270	-	-
Intangible assets	4	15,705	14,525	13,854	-	-
Prepaid lease payments	5	23,642	22,746	20,868	-	-
Investment properties	6	3,443	4,695	4,720	-	-
Investments in subsidiaries	7	-	-	-	80,675	80,675
Investment in associate	8	30,690	32,128	29,541	-	-
Other investments	10	86	86	2,086	-	-
Deferred tax assets	11	2,420	2,441	4,921	-	-
Total non-current assets		416,689	304,740	272,260	80,675	80,675
Trade and other receivables, including derivatives	12	272,404	287,509	236,138	231,138	171,202
Inventories	13	5,421	3,305	3,277	-	-
Current tax assets		143	91	354	-	-
Assets classified as held for sale	14	653	1,130	7,500	-	-
Cash and cash equivalents	15	145,230	147,519	185,628	2,289	94
Total current assets		423,851	439,554	432,897	233,427	171,296
Total assets		840,540	744,294	705,157	314,102	251,971
Equity						
Share capital		236,774	233,860	233,860	236,774	233,860
Reserves		50,865	67,207	67,721	59,373	57,217
Retained earnings/ (Accumulated losses)		21,833	6,464	(11,298)	(37,002)	(39,463)
Total equity attributable to owners of the Company	16	309,472	307,531	290,283	259,145	251,614
Minority interests		84,546	71,700	57,935	-	-
Total equity		394,018	379,231	348,218	259,145	251,614
Liabilities						
Loans and borrowings	17	40,276	8,964	10,127	38,000	-
Deferred tax liabilities	11	79	-	-	-	-
Total non-current liabilities		40,355	8,964	10,127	38,000	-
Trade and other payables, including derivatives	19	205,519	251,342	194,415	8,930	187
Loans and borrowings	17	195,911	102,110	152,079	8,000	-
Current tax liabilities		4,737	2,647	318	27	170
Total current liabilities		406,167	356,099	346,812	16,957	357
Total liabilities		446,522	365,063	356,939	54,957	357
Total equity and liabilities		840,540	744,294	705,157	314,102	251,97

The notes on pages 74 to 143 are an integral part of these financial statements.

Statements of Comprehensive Income
for the year ended 31 December 2010

		Group		Company	
		2010	2009	2010	2009
	Note	RM'000	RM'000	RM'000	RM'000
Revenue	20	418,160	369,873	37,541	10,745
Cost of sales		(344,446)	(297,115)	-	-
Gross profit		73,714	72,758	37,541	10,745
Other income		14,185	4,352	3	10,000
Distribution expenses		(5,167)	(4,182)	(30)	(7)
Administrative expenses		(43,919)	(33,918)	(19,206)	(2,346)
Other expenses		(1,108)	(5,371)	-	(2,000)
Results from operating activities		37,705	33,639	18,308	16,392
Finance income		1,059	2,690	1,405	2,108
Finance costs	23	(5,278)	(6,661)	(796)	(1,374)
Operating profit		33,486	29,668	18,917	17,126
Share of profit after tax of equity accounted associate		3,643	3,790	-	-
Profit before tax		37,129	33,458	18,917	17,126
Income tax expense	24	(8,602)	(7,385)	(9,441)	(5,394)
Profit for the year	21	28,527	26,073	9,476	11,732
Other comprehensive income/(expense), net of tax					
Foreign currency translation differences for foreign operations		(17,047)	(1,278)	-	-
Other comprehensive income/(expense) for the year, net of tax	25	(17,047)	(1,278)	-	-
Total comprehensive income for the year		11,480	24,795	9,476	11,732
Profit attributable to:					
Owners of the Company		21,145	22,053	9,476	11,732
Minority interests		7,382	4,020	-	-
Profit for the year		28,527	26,073	9,476	11,732
Total comprehensive income attributable to:					
Owners of the Company		2,647	21,539	9,476	11,732
Minority interests		8,833	3,256	-	-
Total comprehensive income for the year		11,480	24,795	9,476	11,732
Basic earnings per ordinary share (sen)	26	4.51	4.72		
Diluted earnings per ordinary share (sen)	26	4.33	4.72		

The notes on pages 74 to 143 are an integral part of these financial statements.

Statements of Changes in Equity
for the year ended 31 December 2010

Group	Note	Share capital RM'000	Share premium RM'000	Warrant reserve RM'000	Translation reserve RM'000	Revaluation reserve RM'000	Share option reserve RM'000	(Accumulated losses)/ Retained earnings RM'000	Total RM'000	Minority interests RM'000	Total equity RM'000
		Attributable to Owners of the Company									
		Non-distributable						*Distributable*			
At 1 January 2009		233,860	35,067	22,150	10,354	150	-	(11,298)	290,283	57,935	348,218
Total comprehensive income for the year		-	-	-	(514)	-	-	22,053	21,539	3,256	24,795
Acquisition by minority interests		-	-	-	-	-	-	-	-	12,611	12,611
Dividends to owners	27	-	-	-	-	-	-	(4,291)	(4,291)	-	(4,291)
Dividends to minority interests		-	-	-	-	-	-	-	-	(2,102)	(2,102)
At 31 December 2009/ 1 January 2010		233,860	35,067	22,150	9,840	150	-	6,464	307,531	71,700	379,231
Effect of adopting FRS 139		-	-	-	-	-	-	1,239	1,239	-	1,239
At 1 January 2010, as restated		233,860	35,067	22,150	9,840	150	-	7,703	308,770	71,700	380,470
Total comprehensive income for the year		-	-	-	(18,498)	-	-	21,145	2,647	8,833	11,480
Share options exercised		2,914	407	-	-	-	-	-	3,321	-	3,321
Transfer to share premium for share options exercised		-	971	-	-	-	(971)	-	-	-	-
Share-based payment transactions	18	-	-	-	-	-	1,749	-	1,749	-	1,749
Subscription of shares by minority interests in subsidiary		-	-	-	-	-	-	-	-	9,412	9,412
Dividends to owners	27	-	-	-	-	-	-	(7,015)	(7,015)	-	(7,015)
Dividends to minority interests		-	-	-	-	-	-	-	-	(5,399)	(5,399)
At 31 December 2010		236,774	36,445	22,150	(8,658)	150	778	21,833	309,472	84,546	394,018
		Note 16	Note 16	Note 16	Note 16	Note 16	Note 16				

Statements of Changes in Equity
for the year ended 31 December 2010 (cont'd)

		Non-Distributable					
Company	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Warrant reserve RM'000**	**Share option reserve RM'000**	**Accumulated losses RM'000**	**Total equity RM'000**
At 1 January 2009		233,860	35,067	22,150	-	(46,904)	244,173
Dividends to owners	27	-	-	-	-	(4,291)	(4,291)
Total comprehensive income for the year		-	-	-	-	11,732	11,732
At 31 December 2009/ 1 January 2010		233,860	35,067	22,150	-	(39,463)	251,614
Share options exercised		2,914	407	-	-	-	3,321
Transfer to share premium for share options exercised		-	971	-	(971)	-	-
Share-based payment transactions	18	-	-	-	1,749	-	1,749
Dividends to owners	27	-	-	-	-	(7,015)	(7,015)
Total comprehensive income for the year		-	-	-	-	9,476	9,476
At 31 December 2010		236,774	36,445	22,150	778	(37,002)	259,145
		Note 16	Note 16	Note 16	Note 16		

The notes on pages 74 to 143 are an integral part of these financial statements.

Statements of Cash Flows
for the year ended 31 December 2010

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit before tax	37,129	33,458	18,917	17,126
Adjustments for:				
Amortisation of intangible assets	364	363	-	-
Amortisation of prepaid lease payments	843	826	-	-
Depreciation of property, plant and equipment	10,984	9,897	-	-
Dividend income	-	-	(37,541)	(10,745)
Finance costs	5,278	6,661	796	1,374
Gain on disposal of property, plant and equipment	(5,922)	(156)	-	-
Finance income	(1,059)	(2,690)	(1,405)	(2,108)
Allowance for diminution in value of investments	-	2,000	-	2,000
Loss on disposal of investment properties	40	-	-	-
Gain on disposal of assets classified as held for sale	(40)	-	-	-
Equity settled share-based payment transactions	1,749	-	322	-
Change in fair value of investment properties	95	180	-	-
Share of profit of equity accounted associate	(3,643)	(3,790)	-	-
Reversal of impairment loss on investment in subsidiary	-	-	-	(10,000)
Property, plant and equipment written off	7	40	-	-
Unrealised (gain)/loss on foreign exchange	(218)	137	13,388	1,275
Operating profit/(loss) before changes in working capital	45,607	46,926	(5,523)	(1,078)
Changes in trade and other receivables	18,955	(51,337)	(51,647)	42,205
Changes in inventories	(2,116)	(28)	-	-
Changes in trade and other payables	(48,267)	56,927	8,743	(303)
Cash generated from/(used in) operations	14,179	52,488	(48,427)	40,824
Interest paid	(5,278)	(6,661)	(796)	(1,374)
Tax paid	(6,464)	(2,312)	(334)	(522)
Net cash generated from/(used in) operating activities	2,437	43,515	(49,557)	38,928
Cash flows from investing activities				
Acquisition of property, plant and equipment	(119,725)	(42,567)	-	-
Acquisition of investment properties	(54)	(1,285)	-	-
Acquisition of subsidiary, net of cash acquired	(22,558)	8,998	-	-
Prepayment of prepaid leases	(3,344)	(2,968)	-	-
Dividends received from				
- Associated company	5,081	1,203	-	-
- Subsidiaries	-	-	8,041	8,245
Interest received	1,059	2,690	1,405	2,108
Proceeds from disposal of assets classified as held for sale	1,170	7,500	-	-
Proceeds from disposal of investment properties	518	-	-	-
Proceeds from disposal of property, plant and equipment	19,559	214	-	-
Fund placed with debts service reserve account	(2,201)	-	(2,201)	-
Net cash (used in)/generated from investing activities	(120,495)	(26,215)	7,245	10,353

The notes on pages 74 to 143 are an integral part of these financial statements.

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Cash flows from financing activities				
Dividends paid to minority interests	(5,329)	(925)	-	-
Dividends paid to owners of the Company	(7,015)	(4,291)	(7,015)	(4,291)
Proceeds from issuance of equity shares in a subsidiary to minority interests	9,412	1,402	-	-
Net proceeds from issue of share capital	3,321	-	3,321	-
Proceeds from borrowings	219,079	44,284	52,000	-
Repayment of borrowings	(101,159)	(94,520)	(6,000)	(45,000)
Payment of finance lease liabilities	(1,629)	(780)	-	-
Net cash generated from/(used in) financing activities	116,680	(54,830)	42,306	(49,291)
Exchange differences on translation of the financial statements of foreign entities	1,161	289	-	-
Net decrease in cash and cash equivalents	(217)	(37,241)	(6)	(10)
Cash and cash equivalents at 1 January	147,312	184,707	94	104
Effect of exchange rate fluctuations on cash held	(7,695)	(154)	-	-
Cash and cash equivalents at 31 December	139,400	147,312	88	94

Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Deposits placed with licensed banks	88,763	49,266	-	-
Cash and bank balances	56,467	98,253	2,289	94
Bank overdrafts	(3,629)	(207)	-	-
	141,601	147,312	2,289	94
Less : Amount placed with debts service reserve account	(2,201)	-	(2,201)	-
	139,400	147,312	88	94

Acquisition of property, plant and equipment

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM121,011,000 (2009: RM43,948,000), of which RM1,286,000 (2009: RM1,381,000) were acquired by means of finance leases.

Dividends paid to minority interests

In 2009, the Group paid dividends to minority interests amounted RM2,102,000, of which RM1,177,000 was reinvested in the enlarged share capital of a subsidiary.

Notes to the Financial Statements

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

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries and the Group's interest in associates and/or jointly controlled entities. The financial statements of the Company as at and for the year ended 31 December 2010 do not include other entities.

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

The financial statements were authorised for issue by the Board of Directors on 28 April 2011.

1. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with Financial Reporting Standards (FRS), generally accepted accounting principles and the Companies Act, 1965 in Malaysia.

The Group and the Company have not applied the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective:

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 March 2010

- Amendments to FRS 132, *Financial Instruments: Presentation - Classification of Rights Issues*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010

- FRS 1, *First-time Adoption of Financial Reporting Standards* (revised)
- FRS 3, *Business Combinations* (revised)
- FRS 127, *Consolidated and Separate Financial Statements* (revised)
- Amendments to FRS 2, *Share-based Payment Transactions*
- Amendments to FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- Amendments to FRS 138, *Intangible Assets*
- IC Interpretation 12, *Service Concession Agreements*
- IC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation*
- IC Interpretation 17, *Distributions of Non-cash Assets to Owners*
- Amendments to IC Interpretation 9, *Reassessment of Embedded Derivatives*

1. Basis of preparation (cont'd)

(a) Statement of compliance (cont'd)

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2011

- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards*
  - *Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters*
  - *Additional Exemptions for First-time Adopters*
- Amendments to FRS 2, *Group Cash-settled Share Based Payment Transactions*
- Amendments to FRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*
- IC Interpretation 4, *Determining whether an Arrangement contains a Lease*
- IC Interpretation 18, *Transfers of Assets from Customers*
- Improvements to FRSs (2010)

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011

- IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*
- Amendments to IC Interpretation 14, *Prepayments of a Minimum Funding Requirement*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

- FRS 124, *Related Party Disclosures* (revised)
- IC Interpretation 15, *Agreements for the Construction of Real Estate*

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning 1 January 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 March 2010, 1 July 2010 and 1 January 2011, except for IC Interpretation 17 and IC Interpretation 18 which are not applicable to the Group and the Company; and

- from the annual period beginning 1 January 2012 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 July 2011 and 1 January 2012, except for IC Interpretation 19, Amendments to IC Interpretation 14 and IC Interpretation 15 which are not applicable to the Group and the Company.

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively, is not expected to have any financial impacts to the current and prior periods financial statements upon their first adoption other than as disclosed below:

IC Interpretation 12 requires the operator to recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service or a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset. Some contractual terms may give rise to both an intangible asset and a financial asset. The impacts and disclosures as required by FRS 108.30(b), *Accounting Policies, Changes in Accounting Estimates and Errors*, in respect of applying IC Interpretation 12 are not disclosed by virtue of the exemptions given in the Interpretation.

1. Basis of preparation (cont'd)

(a) Statement of compliance (cont'd)

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

Following the announcement by the MASB on 1 August 2008, the Group's and the Company's financial statements will be prepared in accordance with the International Financial Reporting Standards (IFRS) framework for annual periods beginning on 1 January 2012.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in note 2.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 2(q) - contract revenue
- Note 3 - revaluation of property, plant and equipment
- Note 4 - measurement of the recoverable amounts of cash generating units
- Note 6 - valuation of investment properties
- Note 11 - recognition of unutilised tax losses
- Note 12 - valuation of recoverability and impairment of receivables

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the Group entities, other than those disclosed in the following notes:

- Note 2(c) - Financial instruments
- Note 2(e) - Leased assets
- Note 2(g) - Investment properties
- Note 2(v) - Operating segments

(a) Basis of consolidation

(i) Subsidiaries

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

Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

(ii) Associates

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

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or included in a disposal group that is classified as held for sale. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted associates, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

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

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

2. Significant accounting policies (cont'd)

(a) Basis of consolidation (cont'd)

(iii) Jointly-controlled operation and assets

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

(iv) Changes in Group composition

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

(v) Minority interest

Minority interests at the end of the reporting period, being the portion of the net identifiable assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Minority interests in the results of the Group is presented on the face of the consolidated statement of comprehensive income as an allocation of the comprehensive income for the year between minority interests and the owners of the Company.

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

vi) Transactions eliminated on consolidation

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

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

2. Significant accounting policies (cont'd)

(b) Foreign currency

(i) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies at reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

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

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

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal.

(iii) Net investment in foreign operations

Exchange differences arising from monetary items that in substance form part of the Company's net investment in foreign operations, are recognised in the Company's other comprehensive income. Such exchange differences are reclassified to equity in the consolidated financial statements. Deferred exchange differences are recognised in the consolidated statement of comprehensive income upon disposal of the investment.

2. Significant accounting policies (cont'd)

(c) Financial instruments

Arising from the adoption of FRS 139, Financial Instruments: *Recognition and Measurement,* with effect from 1 January 2010, financial instruments are categorised and measured using accounting policies as mentioned below. Before 1 January 2010, different accounting policies were applied. Significant changes to the accounting policies are discussed in note 36.

(i) Initial recognition and measurement

A financial instrument is recognised in the financial statements when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market, trade and other receivables and cash and cash equivalents.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

2. Significant accounting policies (cont'd)

(c) Financial instruments (cont'd)

(ii) Financial instrument categories and subsequent measurement (cont'd)

Financial assets (cont'd)

(c) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see note 2(m)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Significant accounting policies (cont'd)

(c) Financial instruments (cont'd)

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

(d) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

2. Significant accounting policies (cont'd)

(d) Property, plant and equipment (cont'd)

(i) Recognition and measurement (cont'd)

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" or "other expenses" respectively in the profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

Property, plant and equipment under the revaluation model

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

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

(ii) Subsequent costs

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

2. Significant accounting policies (cont'd)

(d) Property, plant and equipment (cont'd)

(iii) Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

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

- leasehold land — 99 years
- buildings — 30 - 50 years
- plant and machinery — 5 - 50 years
- motor vehicles — 5 - 8 years
- fixtures and fittings — 10 years
- office equipment — 5 years

Depreciation methods, useful lives and residual values are reassessed at the end of the reporting period.

(e) Leased assets

(i) Finance lease

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

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

(ii) Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised in the statement of financial position of the Group or the Company. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

2. Significant accounting policies (cont'd)

(e) Leased assets (cont'd)

(ii) Operating lease (cont'd)

In the previous years, a leasehold land that normally had an indefinite economic life and title was not expected to pass to the lessee by the end of the lease term was treated as an operating lease. The payment made on entering into or acquiring a leasehold land that was accounted for as an operating lease represents prepaid lease payments, except for leasehold land classified as investment property.

The Group has adopted the amendments made to FRS 117, *Leases* in 2010 in relation to the classification of lease of land. Leasehold land which in substance is a finance lease has been reclassified and measured as such retrospectively.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

(f) Intangible assets

(i) Goodwill

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

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

For business acquisitions beginning from 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

(ii) Other intangible assets

Intangible assets, other than goodwill, that are acquired by the Group are stated at cost less any accumulated amortisation and any accumulated impairment losses.

2. Significant accounting policies (cont'd)

(f) Intangible assets (cont'd)

(ii) Other intangible assets (cont'd)

The fair value of intangible assets acquired in a business combination is based on the discounted cash flows expected to be derived from the water concession rights ranging from 30 to 50 years.

(iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Amortisation

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

Intangible assets are amortised from the date that they are available for use. Amortisation of intangible assets is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful live is as follows:

- intangible assets 30 - 50 years

(g) Investments properties

(i) Investment properties carried at fair value

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purpose.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

An investment property under construction before 1 January 2010 was classified as property, plant and equipment and measured at cost. Such property is stated at cost until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in profit or loss.

2. Significant accounting policies (cont'd)

(g) Investments properties (cont'd)

(i) Investment properties carried at fair value (cont'd)

Following the amendment made to FRS 140, *Investment Property*, with effect from 1 January 2010, investment property under construction is classified as investment property. Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

(ii) Reclassification to/from investment property

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

When the use of a property changes such that it is reclassified as property, plant and equipment or inventories, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

(iii) Determination of fair value

An external, independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every year.

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

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

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

Significant assumptions in arriving at the fair value of investment properties are disclosed in Note 6.

Notes to the Financial Statements (cont'd)

2. Significant accounting policies (cont'd)

(h) Inventories

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

(i) Receivables

Prior to 1 January 2010, receivables were initially recognised at their costs and subsequently stated at cost less allowance for doubtful debts.

Following the adoption of FRS 139, trade and other receivables are categorised and measured as loans and receivables in accordance with note 2(c).

(j) Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Company's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to investment property, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(k) Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. For qualifying contracts, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Construction work-in-progress is presented as part of trade and other receivables as amount due from contract customers in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as deferred income in the statement of financial position.

2. Significant accounting policies (cont'd)

(l) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances and deposits with banks which have an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

Cash and cash equivalents (other than bank overdrafts) are categorised and measured as loans and receivables in accordance with policy Note 2(c).

(m) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries,associates and joint ventures) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity and recognised to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

Notes to the Financial Statements
(cont'd)

2. Significant accounting policies (cont'd)

(m) Impairment (cont'd)

(ii) Other assets

The carrying amounts of other assets (except for inventories, assets arising from construction contract, deferred tax asset, investment property that is measured at fair value and non-current assets (or disposal groups) classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(n) Equity instruments

Instruments are classified as equity are stated at cost on initial recognition and are not remeasured subsequently.

(i) Shares issue expenses

Costs directly attributable to issue of instruments classified as equity are recognised as a deduction from equity.

2. Significant accounting policies (cont'd)

(n) Equity instruments (cont'd)

(ii) Warrant reserve

Free warrants with rights issue are accounted for in accordance with Financial Reporting Standards Interpretation Committee ("FRSIC") Consensus 8/2008, which require free warrants to be accounted for in accordance with the substance and economic reality of the transactions and accordingly, a value is assigned to the warrants using a reasonable and appropriate method of allocation.

(o) Employee benefits

(i) Short term employee benefits

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

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

The Group's contribution to statutory pension funds are charged to the profit or loss in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(ii) Share-based payment transactions

The grant date fair value of share-based payment awards to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of employee share options is measured using a Black Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(p) Provisions

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

2. Significant accounting policies (cont'd)

(p) Provisions (cont'd)

Contingent liabilities

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

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

(q) Revenue and other income

(i) Goods sold

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

(ii) Construction contracts

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

The stage of completion is assessed by reference to surveys of work performed/the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs/completion of a physical proportion of the contract work. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the profit or loss.

(iii) Rental income

Rental income from investment property is recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

2. Significant accounting policies (cont'd)

(q) Revenue and other income (cont'd)

(iv) Dividend income

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

(v) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

(r) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all conditions attached will be met. Government grants shall be recognized in profit or loss on a systematic basis over the concession periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income may be presented as a credit in profit or loss, either separately or under a general heading such as "Other income".

(s) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(t) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

2. Significant accounting policies (cont'd)

(t) Income tax (cont'd)

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, and the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

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

A tax incentive that is not a tax base of an asset is recognised as a reduction of income tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

(u) Earnings per ordinary share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(v) Operating segments

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

Following the adoption of FRS 8, *Operating Segments*, an operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3. Property, plant and equipment

Group Cost/Valuation	Land RM'000	Freehold buildings RM'000	Long term leasehold buildings* RM'000	Plant and machinery* RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Capital work-in-progress RM'000	Total RM'000
At 1 January 2009, previously stated	745	409	95,797	81,940	8,351	4,527	23,085	214,854
Effect of adoption of FRS117	6,811	-	-	-	-	-	-	6,811
At 1 January 2009, restated	7,556	409	95,797	81,940	8,351	4,527	23,085	221,665
Additions	-	-	1,611	3,437	1,708	327	36,865	43,948
Disposals	-	-	-	(100)	(562)	(202)	-	(864)
Write-off	-	-	-	-	(68)	-	-	(68)
Effect of movements in exchange rates	-	-	(1,038)	(966)	(36)	(10)	(276)	(2,326)
At 31 December 2009, as restated/1 January 2010	7,556	409	96,370	84,311	9,393	4,642	59,674	262,355
Acquisition through business combinations	-	-	20,833	10,007	35	120	-	30,995
Other additions	-	-	26,305	15,253	1,754	655	77,044	121,011
Disposals	(6,400)	-	(7,667)	-	(915)	(29)	-	(15,011)
Write-off	-	-	-	-	-	(62)	-	(62)
Effect of movements in exchange rates	-	-	(6,262)	(5,909)	(220)	(68)	(4,234)	(16,693)
At 31 December 2010	1,156	409	129,579	103,662	10,047	5,258	132,484	382,595
Representing items at:								
Cost	-	-	129,579	103,662	10,047	5,258	132,484	381,030
Valuation	1,156	409	-	-	-	-	-	1,565
At 31 December 2010	1,156	409	129,579	103,662	10,047	5,258	132,484	382,595
Depreciation								
At 1 January 2009, previously stated	-	53	5,987	12,550	3,764	2,874	-	25,228
Effect of adoption of FRS117	167	-	-	-	-	-	-	167
At 1 January 2009, restated	167	53	5,987	12,550	3,764	2,874	-	25,395
Depreciation for the year	106	10	3,070	5,060	1,028	623	-	9,897
Disposals	-	-	-	(81)	(532)	(193)	-	(806)
Write-off	-	-	-	-	(28)	-	-	(28)
Effect of movements in exchange rates	-	-	(69)	(142)	(8)	(3)	-	(222)
At 31 December 2009, as restated/1 January 2010	273	63	8,988	17,387	4,224	3,301	-	34,236
Depreciation for the year	55	10	3,295	5,834	1,300	490	-	10,984
Disposals	(266)	-	(401)	-	(699)	(8)	-	(1,374)
Write-off	-	-	-	-	-	(55)	-	(55)
Effect of movements in exchange rates	-	-	(612)	(1,196)	(57)	(34)	-	(1,899)
At 31 December 2010	62	73	11,270	22,025	4,768	3,694	-	41,892

Notes to the Financial Statements
(cont'd)

3. Property, plant and equipment (cont'd)

Group Cost/Valuation (cont'd)	Land RM'000	Freehold buildings RM'000	Long term leasehold buildings* RM'000	Plant and machinery* RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Capital work-in-progress RM'000	Total RM'000
Carrying amounts								
At 1 January 2009, as restated	7,389	356	89,810	69,390	4,587	1,653	23,085	196,270
At 31 December 2009, as restated/1 January 2010	7,283	346	87,382	66,924	5,169	1,341	59,674	228,119
At 31 December 2010	1,094	336	118,309	81,637	5,279	1,564	132,484	340,703
Representing items at:								
Cost	-	-	118,309	81,637	5,279	1,564	132,484	339,273
Valuation	1,094	336	-	-	-	-	-	1,430
At 31 December 2010	1,094	336	118,309	81,637	5,279	1,564	132,484	340,703

* Included in long term leasehold buildings and plant and machinery are water treatment plants in China with carrying amount of RM199,444,000 (2009: RM146,819,000).

Assets under finance lease

Included in property, plant and equipment of the Group are motor vehicles acquired under finance lease agreements with net book value of RM3,621,000 (2009: RM2,551,000).

Borrowing costs

Included in property, plant and equipment under construction of the Group are interests capitalised at rate of 6% per annum for the year of RM3,732,000 (2009: 763,000).

Property, plant and equipment under the revaluation model

Leasehold land, freehold land and building of subsidiaries were revalued on 31 July 2006 and 21 December 2007 respectively by independent professional qualified valuers using the open market value method.

Had the leasehold land 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 2010 RM'000	 2009 RM'000
Leasehold land	349	365
Freehold land and building	628	631
	977	996

3. Property, plant and equipment (cont'd)

Property, plant and equipment under the revaluation model (cont'd)

In the previous year, long term leasehold land and building of the Group with carrying amount amounting to RM6,185,000 and RM7,343,000 respectively were charged to a licensed bank to secure a term loan granted to a subsidiary as disclosed in Note 17. During the current financial year, the subsidiary had fully repaid the term loan upon disposal of the long term leasehold land and building.

Land

Included in the carrying amounts of land are:

	Group 2010 RM'000	Group 2009 RM'000 restated
Freehold land	745	745
Long term leasehold land	349	6,538
	1,094	7,283

The carrying amounts of land at 1 January 2009 and 31 December 2009 have been adjusted following the adoption of the amendments to FRS 117, *Leases*, where leasehold land, in substance is a finance lease, has been reclassified from prepaid lease payments to property, plant and equipment.

4. Intangible assets

Group	Note	Goodwill RM'000	Intangible assets RM'000	Total RM'000
Cost				
At 1 January 2009		3,683	10,597	14,280
Acquisition through busines combinations	34	-	1,034	1,034
At 31 December 2009/1 January 2010		3,683	11,631	15,314
Acquisition through business combinations	34	-	1,544	1,544
At 31 December 2010		3,683	13,175	16,858
Amortisation				
At 1 January 2009		-	426	426
Amortisation for the year		-	363	363
At 31 December 2009/1 January 2010		-	789	789
Amortisation for the year		-	364	364
At 31 December 2010		-	1,153	1,153
Carrying amounts				
At 1 January 2009		3,683	10,171	13,854
At 31 December 2009/1 January 2010		3,683	10,842	14,525
At 31 December 2010		3,683	12,022	15,705

4. Intangible assets (cont'd)

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the subsidiaries acquired which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The goodwill impairment test was based on value in use and was determined by the management.

Value in use was determined by assessing the subsidiaries' future budgets.

The value assigned to the key assumptions used in preparing the budgets represent management's assessment of future trends in the subsidiaries' principal activities and are based on internal sources (historical data).

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results in both 2009 and 2010. Cash flows for the remaining concession period ranging from 25 - 42 year period were extrapolated using an average growth rate of 6 percent (2009: 6 percent). Management believes that this forecast period was justified due to the 30 and 50 years water concession rights of the subsidiaries in China.

- A pre-tax discount rate of 10 percent (2009: 10 percent) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the average of the industry's borrowing rate.

The values assigned to the key assumptions represent management's assessment of future trends in the water industry and are based on internal sources (historical data).

The intangible assets of the Group comprised the water concession rights of 30 years for subsidiaries in China, namely, Linyi Salcon Water Company Limited, Haining Salcon Water Company Limited, Nan An Salcon Water Company Limited, Changle Salcon Raw Water Company Limited and Jiangsu Salcon Water & Environmental Development Company Limited and of 50 years for Shandong Changle Salcon Water Company Limited.

5. Prepaid lease payments

Group	Leasehold land unexpired period less than 50 years RM'000
Cost	
At 1 January 2009, previously stated	30,699
Effect of adoption of FRS117	(6,811)
At 1 January 2009, restated	23,888
Additions	2,968
Effect of movements in exchange rates	(300)
At 31 December 2009, restated/1 January 2010	26,556
Additions	3,344
Effect of movements in exchange rates	(1,778)
At 31 December 2010	**28,122**

5. Prepaid lease payments (cont'd)

Group	Leasehold land unexpired period less than 50 years RM'000
Cost	
Amortisation	
At 1 January 2009, previously stated	3,187
Effect of adoption of FRS117	(167)
At 1 January 2009, restated	3,020
Amortisation for the year	826
Effect of movements in exchange rates	(36)
At 31 December 2009, restated/1 January 2010	3,810
Amortisation for the year	843
Effect of movements in exchange rates	(173)
At 31 December 2010	4,480
Carrying amounts	
At 1 January 2009, restated	20,868
At 31 December 2009, restated/1 January 2010	22,746
At 31 December 2010	23,642

The Group has leasehold land in the People's Republic of China where the Group's subsidiaries' water treatment plants reside. The leasehold land with remaining lease tenures ranging from 25 to 42 years (2009: 26 to 43 years) respectively.

6. Investment properties

	Note	Group 2010 RM'000	Group 2009 RM'000
At 1 January		4,695	4,720
Acquisitions		54	1,285
Disposal		(558)	-
Transfer to assets held for sale	14	(653)	(1,130)
Change in fair value		(95)	(180)
At 31 December		3,443	4,695

Included in the above are:

	Group 2010 RM'000	Group 2009 RM'000
Freehold land	230	230
Freehold land and buildings	2,642	3,180
Leasehold land and buildings with unexpired lease period of more than 50 years	571	1,285
	3,443	4,695

6. Investment properties (cont'd)

The following are recognised in the profit or loss in respect of investment properties:

	Group 2010 RM'000	Group 2009 RM'000
Rental income	57	91
Direct operating expenses:		
- income generating investment properties	23	66
- non-income generating investment properties	7	8

The titles to freehold land and buildings and leasehold land and buildings with unexpired lease period of more than 50 years with carrying amounts of RM2,642,000 and RM571,000, respectively are in the process of being transferred to the subsidiaries.

The Directors estimate the fair value of investment properties based on comparable market value of similar properties. Based on the Directors' estimation, the fair value of the investment properties approximates their carrying amounts at 31 December 2010 and 31 December 2009.

7. Investments in subsidiaries

	Company 2010 RM'000	Company 2009 RM'000
Unquoted shares, at cost	80,265	80,265
Unquoted preference shares, at cost	7,267	7,267
Less: Impairment losses	(6,857)	(6,857)
	80,675	80,675

Details of the subsidiaries are as follows:-

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2010	Effective ownership interest 2009
Salcon Engineering Berhad	Malaysia	- Design, construction, operation and maintenance of municipal potable water, sewage and wastewater facilities; - Provision of mechanical and electrical engineering services for general industries; and - Investment holding.	100%	100%

7. Investments in subsidiaries (cont'd)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2010	Effective ownership interest 2009
Integrated Water Services (M) Sdn. Bhd.	Malaysia	Operation and maintenance of a water treatment plant.	51%	51%
Salcon Linyi (HK) Limited ^	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	100%	100%
Salcon Zhejiang (HK) Limited ^	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	100%	100%
Salcon Fujian (HK) Limited ^	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidi ary.	100%	100%
Salcon Jiangsu (HK) Limited ^	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	100%	100%
Salcon Shandong (HK) Limited ^	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	100%	100%
Salcon Services (HK) Limited ^	Hong Kong	Investment holding company involved in investment advisory in the People's Republic of China via its subsidiary.	100%	100%
Salcon Water (HK) Limited ^	Hong Kong	Dormant	100%	100%
Salcon Water International Limited ^	Hong Kong	Dormant	100%	100%
Salcon Water (Asia) Limited ^	Hong Kong	Dormant	100%	100%

7. Investments in subsidiaries (cont'd)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2010	Effective ownership interest 2009
Salcon Capital Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Water International Pte. Ltd. ^	Singapore	Dormant	100%	100%
Salcon Changzhou (HK) Limited # (formerly known as Greatwall Capital Resources Limited)	Hong Kong	Dormant	100%	-
Kingstone Enterprise Group Limited #	Hong Kong	Dormant	100%	-
Subsidiaries of Salcon Engineering Berhad:				
Salcon-Centrimax Engineering Sdn. Bhd.	Malaysia	Marketing, sales and servicing of equipment for water and palm oil industries.	100%	100%
Precise Metal Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Power Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Resources Sdn. Bhd.	Malaysia	Dormant	100%	100%
Bumi Tiga Enterprise Sdn. Bhd.	Malaysia	Investment holding	100%	100%
Salcon (Sarawak) Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Environmental Services Sdn. Bhd.	Malaysia	Operation and maintenance of water treatment plants.	100%	100%
Envitech Sdn. Bhd.	Malaysia	Design, building, operation and maintenance of wastewater and sewage treatment plants.	60%	60%

7. Investments in subsidiaries (cont'd)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2010	Effective ownership interest 2009
Subsidiaries of Salcon Engineering Berhad: (cont'd)				
Salcon Corporation Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon (Perak) Sdn. Bhd. @	Malaysia	Dormant	40%	40%
Salcon Infrastructure Sdn. Bhd.	Malaysia	Dormant	100%	100%
Glitteria Sdn. Bhd. @	Malaysia	Provision of engineering works	50%	50%
Salcon Holdings (Mauritius) Limited ^	Mauritius	Investment holding	100%	100%
Salcon Engineering Vietnam Company Limited ^	Vietnam	Dormant	100%	100%
Subsidiaries of Bumi Tiga Enterprise Sdn. Bhd.:				
Skeel Engineering Sdn. Bhd.	Malaysia	Dormant	100%	100%
Salcon Building Services Sdn. Bhd.	Malaysia	Property investment	100%	100%
Eagle Metalizing & Coatings Company Sdn. Bhd. *	Malaysia	Dormant	60%	60%
Subsidiary of Salcon Linyi (HK) Limited:				
Linyi Salcon Water Company Limited ^	People's Republic of China	Management and operation of water production and distribution of water in Linyi City.	60%	60%

7. Investments in subsidiaries (cont'd)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2010	Effective ownership interest 2009
Subsidiary of Linyi Salcon Water Company Limited:				
Linyi Runcheng Water Supply Project Company Limited ^	People's Republic of China	Repair and maintenance of municipal water supply pipeline, equipment, water supply equipment.	60%	60%
Subsidiary of Salcon Zhejiang (HK) Limited:				
Haining Salcon Water Company Limited ^	People's Republic of China	Management and operation of water production and sale of water in Haining City, ZheJiang Province.	60%	60%
Subsidiary of Salcon Fujian (HK) Limited:				
Nan An Salcon Water Company Limited ^	People's Republic of China	Design, build and operate of water transmission in Fujian Province.	65%	65%
Subsidiary of of Salcon Jiangsu (HK) Limited:				
Jiangsu Salcon Water & Environmental Development Company Limited ^	People's Republic of China	Design, build and operate of water transmission in Jiangsu Province.	67%	67%
Subsidiary of Jiangsu Salcon Water & Environmental Development Company Limited:				
Yizheng Rong Xin Wastewater Treatment Company Limited ^	People's Republic of China	Management and operation of wastewater treatment plant in Yizheng city.	67%	-

7. Investments in subsidiaries (cont'd)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2010	Effective ownership interest 2009
Subsidiary of Salcon Shandong (HK) Limited:				
Shandong Changle Salcon Water Company Limited ^	People's Republic of China	Management and operation of water production and distribution of water in Changle County, Shandong Province.	100%	100%
Changle Salcon Raw Water Company Limited.^	People's Republic of China	Design, build and operate of water transmission in Changle County, Shandong Province.	100%	100%
Subsidiary of Salcon Services (HK) Limited:				
Salcon Investment Consultation (Shanghai) Company Limited ^	People's Republic of China	Consultancy services for investment, operation and strategy business.	100%	100%
Subsidiary of Salcon Holdings (Mauritius) Limited:				
Salcon Engineering (India) Pte. Ltd. #	India	Construction, development and maintenance of water, sewage and wastewater treatment plants.	100%	100%

^ Audited by other firm of accountants.

@ Although the Group owns not more than 50% of the voting power of Salcon (Perak) Sdn. Bhd. ("SPSB") and Glitteria Sdn. Bhd. ("GSB"), the Group regards them as subsidiaries as it is able to govern the financial and operating policies of the companies by virtue of shareholders agreements entered into with the other investors of SPSB and GSB respectively. Consequently, the Group consolidates its investment in these companies.

The financial statements of these subsidiaries were not audited as the subsidiaries were acquired during the financial year and were not required to prepare audited financial statements as at 31 December 2010. Accordingly, these subsidiaries were consolidated based on management financial statements.

* The financial statements of this subsidiary was not audited and this subsidiary was consolidated based on management financial statements.

8. Investment in associate

	Group 2010 RM'000	2009 RM'000
Unquoted shares, at cost	11,800	11,800
Unquoted preference shares, at cost	10,000	10,000
Share of post-acquisition profits	8,890	10,328
	30,690	32,128

Summary financial information for associate, not adjusted for the percentage ownership held by the Group:

2010	Country of incorporation	Effective ownership interest	Revenue (100%) RM'000	Profit (100%) RM'000	Total assets (100%) RM'000	Total liabilities (100%) RM'000
EUC*	Malaysia	40%	23,632	9,107	67,078	885
2009						
EUC*	Malaysia	40%	25,838	9,475	65,830	1,597

* Emas Utilities Corporation Sdn. Bhd. ("EUC") holds 90% equity interest in Binh An Water Corporation Ltd, a company incorporated in Vietnam. The principal activities of EUC is investment holding whilst that of Binh An Water Corporation Ltd is production and supply of treated water in Vietnam.

9. Investment in jointly controlled entity

Details of jointly controlled entities are as follows:

	Principal activities	Proportion of ownership interest 2010	2009
WET - Envitech Joint Venture	Construction of sewage treatment plants, project management on sewage treatment plants and related activities.	50%	50%
Hydrotek - Salcon Joint Venture	Construction of Min Buri Water distribution pumping station.	49%	49%
Salcon - WHS Joint Venture	Undertaking projects in water development in the State of Sabah.	60%	60%

(i) The Group entered into a Joint Venture agreement with Water Engineering Technology Sdn. Bhd. and incorporated WET - Envitech Joint Venture on 2 April 2004. The principal activities of WET-Envitech JV are that of the construction of sewage treatment plants as well as project management in relation to sewage treatment plants and related activities. WET - Envitech JV commenced operations in 2007. The joint venture is accounted for using the proportionate consolidation method.

9. Investment in jointly controlled entity (cont'd)

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

b) The Group entered into a joint venture with Warisan Harta Sabah Sdn. Bhd., a company incorporated in Malaysia, on 31 January 2003. There was no share of results accrued during the financial year. The joint venture has remained dormant during the financial year.

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

10. Other investments

Group	**Total**	**Unquoted shares**	**Other investment**
2010	**RM'000**	**RM'000**	**RM'000**
Non-current			
Available-for-sale financial assets	4,815	175	4,640
Less: Impairment loss	(4,729)	(175)	(4,554)
	86	-	86
2009			
Non-current			
At cost	4,815	175	4,640
Less: Impairment loss	(4,729)	(175)	(4,554)
	86	-	86
Company			
2010			
Non-current			
Available-for-sale financial assets	4,500	-	4,500
Less: Impairment loss	(4,500)	-	(4,500)
	-	-	-
2009			
Non-current			
At cost	4,500	-	4,500
Less: Impairment loss	(4,500)	-	(4,500)
	-	-	-

The comparative figures as at 31 December 2009 have not been presented based on the new categorisation of financial assets resulting from the adoption of FRS 139 by virtue of the exemption given in FRS 7.44AA.

11. Deferred tax assets and liabilities

Recognised deferred tax assets/(liabilities)

Deferred tax assets are attributable to the following:

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	-	-	(520)	(434)	(520)	(434)
Provisions	590	604	-	-	590	604
Other items	-	-	(126)	(126)	(126)	(126)
Tax losses carry-forwards	2,397	2,397	-	-	2,397	2,397
Tax assets/(liabilities)	2,987	3,001	(646)	(560)	2,341	2,441
Set off of tax	(567)	(560)	567	560	-	-
Net tax assets	2,420	2,441	(79)	-	2,341	2,441

In recognising the deferred tax assets attributable to unutilised tax losses carry-forwards, the Directors made an assumption that there will not be any substantial change (more than 50%) in the shareholders before these assets are utilised. If there is substantial change in the shareholders, unutilised tax losses carry-forwards amounting to approximately RM9.6 million will not be available to the Group, resulting in a decrease in net deferred tax assets of RM2.3 million.

Unrecognised deferred tax assets

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

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Unabsorbed capital allowance	40	40	-	-
Unutilised tax losses	702	690	-	-
	742	730	-	-

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

11. Deferred tax assets and liabilities (cont'd)

Movement in temporary differences during the year

Group	At 1.1.2009 RM'000	Recognised in profit or loss (note 24) RM'000	At 1.1.2010 RM'000	Recognised in profit or loss (note 24) RM'000	At 31.12.2010 RM'000
Property, plant and equipment	(328)	(106)	(434)	(86)	(520)
Provisions	233	371	604	(14)	590
Other items	-	(126)	(126)	-	(126)
Tax losses carry-forwards	5,016	(2,619)	2,397	-	2,397
	4,921	(2,480)	2,441	(100)	2,341

12. Trade and other receivables, including derivatives

	Note	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Trade					
Trade receivables		127,400	121,342	-	-
Less: Allowance for impairment losses		(23,553)	(23,669)	-	-
	12.1	103,847	97,673	-	-
Amount due from contract customers	12.2	112,931	147,686	-	-
		216,778	245,359	-	-
Non-trade					
Amount due from associate	12.3	1	146	-	-
Amount due from subsidiaries	12.4	-	-	230,434	171,202
Other receivables	12.5	48,943	32,600	-	-
Deposits		1,790	761	-	-
Prepayments		4,800	8,643	704	-
Financial assets at fair value through profit or loss:					
- Held for trading, including derivatives		92	-	-	-
		55,626	42,150	231,138	171,202
		272,404	287,509	231,138	171,202

12. Trade and other receivables, including derivatives (cont'd)

12.1 Included in trade receivables of the Group are retention sums amounting to RM13,956,000 (2009: RM10,898,000) relating to construction work in progress. Retentions are unsecured, interest-free and are expected to be collected as follows:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Within 1 year	100	1,096	-	-
1 - 2 years	3,473	1,961	-	-
2 - 3 years	4,774	905	-	-
3 - 4 years	932	4,385	-	-
4 - 5 years	4,677	2,551	-	-
	13,956	10,898	-	-

12.2 Amount due from contract customers

	Group	
	2010	**2009**
	RM'000	**RM'000**
Aggregate costs incurred to date	908,511	822,622
Add: Attributable profit	136,839	126,470
	1,045,350	949,092
Less: Progress billings	(947,689)	(812,363)
	97,661	136,729
Amount due to contract customers (Note 19)	15,270	10,957
Amount due from contract customers	112,931	147,686

Included in aggregate costs incurred during the year are personnel expenses and hiring of equipment amounting to RM6,862,000 (2009: RM4,499,000) and RM1,273,000 (2009: RM414,000) respectively.

12.3 The amount due from associate is non-trade, unsecured, interest free and repayable upon demand.

12.4 The amount due from subsidiaries are unsecured, interest free and repayable upon demand except for an amount due from a subsidiary amounting to RM65 million (2009: RM39 million) which bear interest ranging from 2% to 5.20% (2009: 2%) per annum.

12.5 Included in other receivables of the Group are as follows:

i) RM15,700,000 (2009: RM13,600,000) being advance payments to sub-contractors/suppliers of subsidiaries which was paid in accordance with the terms of the contract.

ii) RM4,456,000 (2009: RM3,107,000) being pre-commencement projects expenses incurred in new projects. These amounts will be charged out to projects upon commencement of the projects in 2011.

12. Trade and other receivables, including derivatives (cont'd)

iii) Allowance for impairment losses amounting to RM132,000 (2009: RM142,000).

iv) Advances paid to contractors in constructing the water treatment plants in China amounted to RM3.1 million (2009: RM2.7 million).

v) Advances amounting to RM14 million (2009: Nil) paid to a joint venture partner of a subsidiary in arranging advance payment to the respective sub-contractors for construction of water transmission project.

13. Inventories

	Group	
	2010	2009
	RM'000	RM'000
At cost:		
Raw materials and consumables	4,886	2,839
Spares	535	466
	5,421	3,305

In 2010, inventories recognised as cost of sales amounted to RM6,111,000 (2009: RM7,151,000).

14. Assets classified as held for sale

	Note	Group RM'000
Assets classified as held for sale		
At 1 January 2009		7,500
Transfer from investment properties	6	1,130
Disposal		(7,500)
At 31 December 2009/1 January 2010		1,130
Transfer from investment properties	6	653
Disposal		(1,130)
At 31 December 2010		653

During the current financial year, the Company disposed the investment properties for a total consideration of RM1,170,000 to a third party.

As at 31 December 2010, leasehold land and building is presented as assets held for sale pursuant to Sale and Purchase Agreements entered into by a subsidiary with third parties to dispose of the assets. Efforts to sell the assets have commenced prior to the end of the reporting period, and the sales are expected to be completed in 2011.

15. Cash and cash equivalents

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Deposits placed with licensed banks				
- Malaysia	37,684	17,605	-	-
- Outside Malaysia	51,079	31,661	-	-
	88,763	49,266	-	-
Cash and bank balances				
- Malaysia	18,118	9,748	2,289	94
- Outside Malaysia	38,349	88,505	-	-
	56,467	98,253	2,289	94
	145,230	147,519	2,289	94

Included in the cash and bank balances in 2010 is RM2,201,200 (2009: Nil) placed in a debts service reserve account with restricted withdrawal of fund.

The currency profile of cash and cash equivalents is as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Ringgit Malaysia (RM)	45,764	26,761	2,289	94
Renminbi (RMB)	87,992	107,534	-	-
U.S. Dollar (USD)	5,485	7,134	-	-
Japanese Yen (JPY)	23	57	-	-
Vietnamese Dong (VND)	1,848	5,247	-	-
Sri Lanka Rupee (LKR)	2,901	561	-	-
Thai Baht (THB)	69	137	-	-
Hong Kong Dollar (HKD)	27	15	-	-
Euro (EUR)	990	3	-	-
Indonesian Rupiah (IDR)	8	6	-	-
Indian Rupees (Rs)	123	64	-	-
	145,230	147,519	2,289	94

16. Capital and reserves

Share capital

	Group and Company			
	Amount 2010 RM'000	Number of shares 2010 RM'000	Amount 2009 RM'000	Number of shares 2009 RM'000
Authorised:				
Ordinary shares of RM0.50 each	500,000	1,000,000	500,000	1,000,000
Issued and fully paid:				
Ordinary shares of RM0.50 each at 1 January	233,860	467,720	233,860	467,720
Issue of shares under the Employee Share Option Scheme	2,914	5,828	-	-
At 31 December	236,774	473,548	233,860	467,720

The Company has issued share options (see note 18).

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

Warrant reserve

The warrant reserve relates to reserves allocated to free detachable warrants issued with rights issue effected on 18 May 2007.

The proceeds received were allocated between the equity instruments using the proportionate fair value basis to account for the free warrants. In 2008, the assignment of fair value to the free warrants had resulted in a reallocation of RM22,384,000 from the share premium account to the warrant reserve account. Upon the exercise of warrants, the proportionate amount of warrant reserve is transferred to the share premium account.

Translation reserve

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

Revaluation reserve

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

Share option reserve

The share option reserve comprises the cumulative value of employee services received for the issue of share options. When the option is exercised, the amount from the share option reserve is transferred to share premium. When the share options expire, the amount from the share option reserve is transferred to retained earnings.

Section 108 tax credit

In 2009, the Company has chosen to frank dividends under the single tier company income tax system. As such, the remaining Section 108 tax credit of the Company is no longer available to the Company.

Notes to the Financial Statements (cont'd)

17. Loans and borrowings

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Non-current				
Finance lease liabilities	2,276	2,784	-	-
Term loans (unsecured)	38,000	-	38,000	-
Term loan (secured)	-	6,180	-	-
	40,276	8,964	38,000	-
Current				
Bank overdrafts (unsecured)	3,629	207	-	-
Bankers' acceptances (unsecured)	1,726	11,428	-	-
Revolving credits (unsecured)	4,444	8,198	-	-
Term loans (unsecured)	184,585	79,583	8,000	-
Term loan (secured)	-	1,540	-	-
Finance lease liabilities	1,527	1,154	-	-
	195,911	102,110	8,000	-

Included in unsecured term loans of the Group is RM16,875,000 (2009: RM18,157,000) being long term loan obtained from Linyi Municipal Government which bear interest at rate of 2.55% (2009: 2.55%) per annum.

The loans and borrowings of the Group amounting to RM155,606,000 (2009: RM60,793,000) is reflected as current despite having repayment terms of more than 1 year. The loans are classified as current liabilities as these loan agreements of the subsidiaries included a callable clause that permits the banks to demand for immediate repayment, notwithstanding that there may be no event of default. The repayment terms are as follows:

17.1 Terms and debts repayment schedule

Group	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
2010						
Bank overdrafts	2011	3,629	3,629	-	-	-
Bankers' acceptances	2011	1,726	1,726	-	-	-
Revolving credits						
- RM	2011	1,000	1,000	-	-	-
- RMB	2011	3,444	3,444	-	-	-
Term loans						
- RM	2011 - 2016	46,000	8,000	8,000	30,000	-
- RMB	2011 - 2016	176,585	20,979	29,172	79,256	47,178
Finance lease liabilities	2011 - 2015	3,803	1,527	1,266	1,010	-
		236,187	40,305	38,438	110,266	47,178

17. Loans and borrowings (cont'd)

17.1 Terms and debts repayment schedule (cont'd)

Group	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
	2009					
Bank overdrafts	2010	207	207	-	-	-
Bankers' acceptances	2010	11,428	11,428	-	-	-
Revolving credits						
- RM	2010	4,418	4,418	-	-	-
- RMB	2010	3,780	3,780	-	-	-
Term loans						
- RM	2010 - 2014	7,720	1,540	1,540	4,640	-
- RMB	2010 - 2015	79,583	18,790	21,569	21,067	18,157
Finance lease liabilities	2010 - 2015	3,938	1,154	1,192	1,592	-
		111,074	41,317	24,301	27,299	18,157

Company **2010**	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
Term loan						
- RM	2011 - 2016	46,000	8,000	8,000	30,000	-

17.2 Security

In 2009, one of the term loans of the Group was secured over a building with a carrying amount of RM7,343,000 and leasehold land with a carrying amount of RM6,185,000. During the current financial year, the subsidiary had fully repaid the term loan.

The facilities granted to the subsidiaries are guaranteed by the Company.

17. Loans and borrowings (cont'd)

17.3 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Future minimum lease payments 2010 RM'000	Interest 2010 RM'000	Present value of minimum lease payments 2010 RM'000	Future minimum lease payments 2009 RM'000	Interest 2009 RM'000	Present value of minimum lease payments 2009 RM'000
Less than one year	1,701	(174)	1,527	1,339	(185)	1,154
Between one and five years	2,410	(134)	2,276	2,986	(202)	2,784
	4,111	(308)	3,803	4,325	(387)	3,938

18. Employee benefits

Equity compensation benefits

Share option plan

On 9 July 2010, the Group offers vested share options over ordinary shares to Executive Directors and eligible employees.

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

Grant date/employees entitled	Number of instruments '000	Vesting conditions	Contractual life of options
Option granted to Executive Directors and eligible employees on 9 July 2010		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. One-third (1/3) of the total option is exercisable equally in year one (1) year two (2) and year three (3) respectively.	5 years
Total share options	31,499		

18. Employee benefits (cont'd)

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

	Weighted average exercise price RM	Group and Company 2010 '000
Granted	0.57	31,499
Lapsed	0.57	(1,241)
Exercised	0.57	(5,828)
Outstanding at 31 December	0.57	24,430

Share option programme

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a black-scholes model, with the following inputs:

Fair value of share options and assumptions	2010
Fair value at grant date	RM0.17
Weighted average share price	RM0.64
Exercise price	RM0.57
Expected volatility (weighted average volatility)	3.24%
Option life (expected weighted average life)	5 years
Risk-free interest rate (based on Malaysian government bonds)	3.96%

Value of employee services received for issue of share options

	Group 2010 RM'000	Company 2009 RM'000
Share options granted in 2010	1,749	322

19. Trade and other payables, including derivatives

	Note	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Trade					
Trade payables	19.1	91,990	108,149	-	-
Amount due to contract customers (Note 12)		15,270	10,957	-	-
		107,260	119,106	-	-

19. Trade and other payables, including derivatives (cont'd)

	Note	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Non-trade					
Amount due to associate	19.2	1	277	-	-
Amount due to subsidiaries	19.3	-	-	8,132	-
Other payables	19.4	82,156	129,921	739	-
Accrued expenses		849	2,038	59	187
Deferred income	19.5	15,501	-	-	-
Financial liabilities at fair value through profit or loss:					
- Held for trading, including derivatives		(248)	-	-	-
		98,259	132,236	8,930	187
		205,519	251,342	8,930	187

19.1 Trade payables/other payables denominated in currencies other than the functional currencies of the Group comprise:

Currencies	2010 RM'000	2009 RM'000
Sri Lanka Rupee (LKR)	14,925	1,695
Vietnamese Dong (VND)	2,077	2,980
Australia Dollar (AUD)	1,342	-
Thai Baht (THB)	645	642
U.S. Dollar (USD)	15	41,836
Euro (EUR)	7,335	36,447
Japanese Yen (JPY)	23,758	32,303

19.2 The amount due to associate is unsecured, interest free and repayable upon demand.

19.3 The amount due to subsidiaries are unsecured, interest free and repayable upon demand.

19.4 Included in other payables of the Group are as follows:

i) RM19.5 million (2009: RM23.2 million) being amount payable to the Linyi Municipal Government for the acquisition of water related assets.

ii) Advances received from contract customers amounting to RM40.6 million (2009: RM72.9 million) being mobilisaton costs received in advance in accordance with terms of the contracts.

iii) Dividend payable by a subsidiary to minority interest of RM280,000 (2009: RM219,000).

iv) RM16.9 million (2009: RM18.2 million) being advances received from a joint venture partner of a subsidiary. The advance bears interest at 1.5% (2009: 1.5%) per annum, unsecured and repayable on demand.

19. Trade and other payables, including derivatives (cont'd)

19.5 The deferred income relates to government grant received from the Government of China amounting to RM15.5 million (2009: Nil) for the water concession investment in China. The amount will be recognised in profit or loss over the remaining concession period of 25 years.

Included in other payables of the Group in 2009 was RM15 million being advance received from a joint venture partner of a subsidiary. The advance is subject to interest at 5% per annum and repayable upon demand.

20. Revenue

	Group		Company	
	2010 RM'000	**2009 RM'000**	**2010 RM'000**	**2009 RM'000**
Contract revenue	366,478	366,786	-	-
Invoiced sales	51,682	3,087	-	-
Dividends	-	-	37,541	10,745
	418,160	369,873	37,541	10,745

21. Profit for the year

	Group		Company	
	2010 RM'000	**2009 RM'000**	**2010 RM'000**	**2009 RM'000**
Profit for the year is arrived at after charging:				
Allowance for diminution in value of investments	-	2,000	-	2,000
Allowance for impairment losses				
- Trade receivables	1,013	3,191	-	-
Amortisation of intangible assets	364	363	-	-
Amortisation of prepaid lease payments	843	826	-	-
Auditors' remuneration:				
Audit fees				
- KPMG Malaysia	206	173	40	40
Other auditors	162	138	-	-
- Non-audit fees				
- KPMG Malaysia	25	10	-	-
Depreciation of property, plant and equipment	10,984	9,897	-	-
Change in fair value of investment properties	95	180	-	-
Loss on disposal of investment properties	40	-	-	-
Personnel expenses (including key management personnel):				
- Contributions to Employees Provident Fund	2,072	1,664	253	-
- Share-based payments	1,749	-	322	-
- Wages, salaries and others	32,686	28,080	2,650	-
Property, plant and equipment written off	7	40	-	-
Realised loss on foreign exchange	-	171	-	-
Rental of premises	1,023	677	-	-
Unrealised loss on foreign exchange	-	137	13,388	1,275

21. Profit for the year (cont'd)

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
and after crediting:				
Allowance for impairment losses no longer required				
- Trade receivables	325	45	-	-
Dividend income from subsidiaries (unquoted)	-	-	37,541	10,745
Gain on disposal of property, plant and equipment	5,922	156	-	-
Gain on disposal of assets classified as held for sale	40	-	-	-
Finance income:				
- Subsidiaries	-	-	1,405	1,456
- Others	1,059	2,690	-	652
Realised gain on foreign exchange	2,082	21	-	-
Rental income on premises	1,023	1,209	-	-
Rental income on investment properties	57	91	-	-
Reversal of impairment loss on investment in subsidiary	-	-	-	10,000
Unrealised gain on foreign exchange	218	-	-	-

22. Key management personnel compensation

The key management personnel compensation is as follows:

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Directors of the Company:				
- Fees	136	169	136	169
- Remuneration	4,147	2,121	-	-
- Other short term employee benefits (including estimated monetary value of benefit-in-kind)	296	128	-	-
- Share-based payments	555	-	150	-
	5,134	2,418	286	169

23. Finance costs

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Finance costs on:				
- Bank overdraft	93	46	-	-
- Loans	8,392	7,076	796	1,374
- Other borrowings	525	302	-	-
	9,010	7,424	796	1,374
Less: Capitalised on qualifying assets				
- property, plant and equipment	(3,732)	(763)	-	-
	5,278	6,661	796	1,374

24. Income tax expense

Recognised in the profit or loss

	Group		Company	
	2010	**2009**	**2010**	**2009**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Income tax expense	8,602	7,385	9,441	5,394
Current tax expense				
Malaysian - current year	4,322	4,261	9,446	2,971
- prior year	(195)	95	(5)	2,423
Overseas - current year	4,375	446	-	-
- prior year	-	103	-	-
Total current tax expense	8,502	4,905	9,441	5,394
Deferred tax expense				
Origination and reversal of temporary differences	100	1,794	-	-
Under provision from prior years	-	686	-	-
Total deferred tax expense	100	2,480	-	-
Total income tax expense	8,602	7,385	9,441	5,394
Profit for the year	28,527	26,073	9,476	11,732
Total income tax expense	8,602	7,385	9,411	5,394
Profit excluding tax	37,129	33,458	18,887	17,126
Income tax calculated using Malaysian tax rate of 25% (2009: 25%)	9,282	8,364	4,729	4,281
Effect of tax rates in foreign jurisdiction	(2,954)	(2,380)	-	-
Non-deductible expenses	5,115	2,436	4,866	1,376
Tax exempt income	(1,735)	(870)	(149)	(2,686)
Other items	(911)	(1,049)	-	-
	8,797	6,501	9,446	2,971
(Over)/Under provision in prior years	(195)	884	(5)	2,423
	8,602	7,385	9,441	5,394

The subsidiaries operating in the People's Republic of China ("China") are entitled for a full tax exemption on profits for the first three years in operations and half tax exemption thereafter for the next two years.

25. Other comprehensive income/(expenses)

Group 2010	Before tax RM'000	Tax RM'000	Net of tax RM'000
Foreign currency translation differences for foreign operations			
- Losses arising during the year	(17,047)	-	(17,047)
2009			
Foreign currency translation differences for foreign operations			
- Gains arising during the year	(1,278)	-	(1,278)

26. Earnings per ordinary share - Group

Basic earnings per share

The calculation of basic earnings per share at 31 December 2010 was based on the profit attributable to owners of the Company of RM21,145,000 (2009: RM22,053,000) and the weighted average number of ordinary shares outstanding calculated as follows:

Weighted average number of ordinary shares

	2010 '000	2009 '000
Issued ordinary shares at 1 January	467,720	467,720
Effect of shares issued	657	-
Weighted average number of ordinary shares at 31 December	468,377	467,720

	2010 sen	2009 sen
Basic earnings per share	4.51	4.72

Diluted earnings per share

	2010 '000	2009 '000
Issued ordinary shares at 1 January	467,720	467,720
Effect of shares issue	657	-
Weighted average number of ordinary shares at 31 December	468,377	467,720
Effect of share options on issue	20,103	-
Weighted average number of ordinary shares (diluted) at 31 December	488,480	467,720

	2010 sen	2009 sen
Diluted earnings per share	4.33	4.72

27. Dividends

Dividends recognised in the current year by the Company are:

2010	**Sen per share**	**Total amount RM'000**	**Date of payment**
Final 2009 ordinary (single tier)	1.50	7,015	23 July 2010
Total amount		7,015	
2009			
Final 2008 ordinary (tax exempted)	0.67	3,134	23 July 2009
Final 2008 ordinary (net of tax)	0.25	1,157	23 July 2009
Total amount		4,291	

After the reporting period, the following dividends were proposed by the Directors. These dividends will be recognized in subsequent financial period upon approval by the owners of the Company at the forthcoming Annual General Meeting.

	Sen per share
Final ordinary (single tier)	1.5

28. Operating segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Chief Executive Officer (the chief operating decision maker) reviews internal management reports at least on a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Segment 1. Includes constructions.
- Segment 2. Includes concessions.
- Segment 3. Includes trading

The accounting policies of the reportable segments are the same as described in note 2(v).

Performance is measured based on segment profit before tax, interest, depreciation and amortisation, as included in the internal management reports that are reviewed by the Group's Chief Executive Officer (the chief operating decision maker). Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

28. Operating segments (cont'd)

Segment assets

The total of segment asset is measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by the Group's Chief Executive Officer. Segment total asset is used to measure the return of assets of each segment.

Segment liabilities

Segment liabilities information is neither included in the internal management reports nor provided regularly to the Group's Chief Executive Officer. Hence no disclosure is made on segment liability.

Segment capital expenditure

Segment capital expenditure is the total cost incurred during the financial year to acquire property, plant and equipment and intangible assets other than goodwill.

	Constructions 2010 RM'000	Concessions 2010 RM'000	Trading 2010 RM'000	Total 2010 RM'000
Segment profit	20,171	35,612	12,826	68,609
Included in the measure of segment profit are:				
Revenue from external customers	272,917	92,472	52,771	418,160
Share of profit of associate	-	3,643	-	3,643
Not included in the measure of segment profit but provided to Chief Executive Officer:				
Depreciation and amortisation	(1,382)	(10,283)	(162)	(11,827)
Finance costs	(1,399)	(3,625)	(254)	(5,278)
Finance income	582	475	2	1,059
Income tax expense	(3,793)	(3,052)	(1,757)	(8,602)
Segment assets	303,722	520,810	16,008	840,540
Included in the measure of segment assets are:				
Investment in associate	-	30,690	-	30,690
Additions to non-current assets other than financial instruments and deferred tax assets	2,199	156,845	2	159,046

28. Operating segments (cont'd)

	Constructions 2009 RM'000	Concessions 2009 RM'000	Trading 2009 RM'000	Total 2009 RM'000
Segment profit	21,590	35,760	1,354	58,704
Included in the measure of segment profit are:				
Revenue from external customers	274,056	88,913	6,904	369,873
Share of profit of associate	-	3,790	-	3,790
Not included in the measure of segment profit but provided to Chief Executive Officer:				
Depreciation and amortisation	(1,224)	(9,202)	(297)	(10,723)
Finance costs	(1,694)	(4,571)	(396)	(6,661)
Finance income	1,871	812	7	2,690
Income tax expense	(6,057)	(1,003)	(325)	(7,385)
Segment assets	326,276	399,738	18,280	744,294
Included in the measure of segment assets are:				
Investment in associate	-	32,128	-	32,128
Additions to non-current assets other than financial instruments and deferred tax assets	2,366	41,578	4	43,948

Reconciliations of reportable segment profit or loss, assets and other material items

	2010 RM'000	2009 RM'000
Profit		
Total profit or loss for reportable segments	68,609	58,704
Depreciation and amortisation	(11,827)	(10,723)
Finance costs	(5,278)	(6,661)
Finance income	1,059	2,690
Unallocated expenses:		
Corporate expenses	(15,434)	(10,552)
Consolidated profit before tax	37,129	33,458

28. Operating segments (cont'd)

Geographical segments

The constructions and concessions are managed on a worldwide basis, but operations are in Malaysia, China, Sri Lanka and Vietnam.

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers. Segment assets are based on the geographical location of the assets. The amounts of non-current assets do not include financial instruments (including investment in associate) and deferred tax assets.

	Geographical information			
	Revenue 2010 RM'000	Non-current assets 2010 RM'000	Revenue 2009 RM'000	Non-current assets 2009 RM'000
Malaysia	273,046	23,250	203,289	37,805
China	66,403	360,176	60,706	232,272
Sri Lanka	48,997	-	31,174	-
Vietnam	28,960	-	72,137	-
Other countries	754	153	2,567	94
	418,160	383,579	369,873	270,171

29. Financial instruments

Certain comparative figures have not been presented for 31 December 2009 by virtue of the exemption given in paragraph 44AA of FRS 7.

29.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables (L&R);
(b) Fair value through profit or loss (FVTPL);
(c) Available-for-sale financial assets (AFS); and
(d) Other liabilities (OL).

29. Financial instruments (cont'd)

29.1 Categories of financial instruments (cont'd)

	Carrying amount RM'000	L&R/ (OL) RM'000	AFS RM'000	FVTPL -HFT RM'000
2010				
Financial assets				
Group				
Other investments	86	-	86	-
Trade and other receivables, including derivatives	267,604	267,512	-	92
Cash and cash equivalents	145,230	145,230	-	-
	412,920	412,742	86	92
Company				
Trade and other receivables	230,434	230,434	-	-
Cash and cash equivalents	2,289	2,289	-	-
	232,723	232,723	-	-
Financial liabilities				
Group				
Loans and borrowings	(236,187)	(236,187)	-	-
Trade and other payables, including derivatives	(205,519)	(205,767)	-	248
	(441,706)	(441,954)	-	248
Company				
Loans and borrowings	(46,000)	(46,000)	-	-
Trade and other payables	(8,930)	(8,930)	-	-
	(54,930)	(54,930)	-	-

29.2 Net gains and losses arising from financial instruments

	Group 2010 RM'000	Company 2010 RM'000
Net gains/(losses) arising on:		
Loans and receivables	2,727	(10,263)
Financial liabilities measured at amortised cost	(5,278)	(796)
	(2,551)	(11,059)

29. Financial instruments (cont'd)

29.3 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Currency risk
- Interest rate risk

29.4 Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers. The Company's exposure to credit risk arises principally from outstanding from subsidiaries and financial guarantees given.

Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis, and credit evaluations are performed on customers requiring credit over a certain amount.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 60 days, which are deemed to have higher credit risk, are monitored individually.

The exposure of credit risk for receivables as at the end of the reporting period by geographic region was:

	Group	
	2010 RM'000	2009 RM'000
Domestic	141,158	142,234
Sri Lanka	28,175	44,732
Vietnam	49,130	66,512
China	47,961	24,338
Others	1,180	1,050
	267,604	278,866

29. Financial instruments (cont'd)

29.4 Credit risk (cont'd)

Receivables (cont'd)

At date of statement of financial position, there were no significant concentrations of credit risk except for ten (2009: six) major project debts which accounted for 69% (2009: 61%) of net trade receivables. The Group would normally require advance payments to be paid for these projects and after taking into account advances received from these major project debts, net concentrations of credit risk amount to approximately 53% (2009: 39%) of net trade receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The Group and the Company are highly dependent on the domestic and overseas water and waste water industries.

Impairment losses

The ageing of receivables as at the end of the reporting period was:

Group	Gross RM'000	Individual impairment RM'000	Collective impairment RM'000	Net RM'000
2010				
Not past due	152,854	-	-	152,854
Past due 0 - 30 days	11,150	-	-	11,150
Past due 31 - 120 days	15,519	-	-	15,519
Past due more than 120 days	60,808	(23,553)	-	37,255
	240,331	(23,553)	-	216,778

Although these receivables are past due and have exceeded the credit terms granted to them, the Directors are reasonably confident that all debts can be recovered within the next 12 months.

The movements in the allowance for impairment losses of trade receivables during the year were:

	2010 RM'000
At 1 January	(23,669)
Impairment loss recognised	(1,013)
Impairment loss reversed	325
Impairment loss written off	804
At 31 December	(23,553)

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

29. Financial instruments (cont'd)

29.4 Credit risk (cont'd)

Financial guarantees

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries.

The Company monitors on an ongoing basis the results of the subsidiaries and repayments made by the subsidiaries.

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounts to RM93,975,000 (2009: RM88,879,000) and RM533,213,000 (2009: RM473,594,000) representing the outstanding amount and the gross banking facilities of the subsidiaries as at end of the reporting period.

As at end of the reporting period, there was no indication that any subsidiary would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

Inter company balances

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured advances to subsidiaries. The Company monitors the results of the subsidiaries regularly.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Impairment losses

As at the end of the reporting period, there was no indication that the advances to the subsidiaries are not recoverable. The Company does not specifically monitor the ageing of the advances to the subsidiaries. Nevertheless, these advances have been overdue for less than a year.

29. Financial instruments (cont'd)

29.5 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as for as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

Maturity analysis

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

Group	Carrying amount RM'000	Contractual interest rate	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
2010							
Non-derivative financial liabilities							
Unsecured bank facilities	228,755	2.25% to 5.50%	279,118	43,884	48,331	129,184	57,719
Bank overdraft	3,629	6.55% to 8.05%	3,629	3,629	-	-	-
Finance lease liabilities	3,803	2.25% to 3.77%	4,111	1,700	1,357	1,054	-
Trade and other payables	205,767		205,767	205,767	-	-	-
	441,954		492,625	254,980	49,688	130,238	57,719
2010							
Non-derivative financial liabilities							
Unsecured bank facility	46,000	5.20% to 5.50%	48,530	8,440	8,440	31,650	-
Trade and other payables	8,930		8,930	-	-	-	-
	54,930		57,460	8,440	8,440	31,650	-

29.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices will affect the Group's financial position or cash flows.

29. Financial instruments (cont'd)

29.6.1 Currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily Euro, United States Dollar, Japanese Yen, Vietnamese Dong and Sri Lanka Rupee.

Risk management objectives, policies and processes for managing the risk

The Group and the Company ensures that the net exposure is kept to an acceptable level by monitoring the fluctuation of the foreign currency.

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the functional currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

	Denominated in					
Group	**AUD**	**EUR**	**USD**	**JPY**	**VND**	**LKR**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2010						
Trade receivables	-	14	3,071	4,660	2,153	3,290
Cash and cash equivalents	-	990	5,485	23	1,848	2,901
Unsecured bank loans	-	-	-	-	-	-
Trade payables and other payables	-	(7,335)	(15)	(23,758)	(2,077)	(14,925)
Forward exchange contracts	248	305	-	(213)	-	-
Amount due from contract customers	-	-	-	9,580	-	-
Net exposure	248	(6,026)	8,541	(9,708)	1,924	(8,734)

Currency risk sensitivity analysis

Foreign currency risk arises from Group entities which have a following functional currency.

A 10 percent strengthening of the above currencies against RM at the end of the reporting period would have increased (decreased) equity and post-tax profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

Equity RM'000	Profit or loss RM'000
(1,032)	(1,376)

29. Financial instruments (cont'd)

29.6 Market risk (cont'd)

29.6.1 Currency risk (cont'd)

A 10 percent weakening of the above currencies against RM at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

29.6.2 Interest rate risk

The Group's investments in fixed rate debt securities and its fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

The Group and the Company borrowed for operations at variable rates using its overdrafts, revolving credit, bankers' acceptance and term loan facilities, and uses fixed rate finance lease agreements to finance capital expenditure. Deposits are placed with established banks or financial institutions at the prevailing market rate.

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Group 2010 RM'000	Company 2010 RM'000
Fixed rate instruments		
Financial assets	88,763	49,266
Floating rate instruments		
Financial liabilities	232,385	46,000

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

29. Financial instruments (cont'd)

29.6 Market risk (cont'd)

29.6.2 Interest rate risk (cont'd)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the end of the reporting period would have increased (decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Group Profit or loss		Company Profit or loss	
	100 bp increase RM'000	100 bp decrease RM'000	100 bp increase RM'000	100 bp decrease RM'000
Floating rate instruments	(2,324)	2,324	(460)	460

29.7 Fair value of financial instruments

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings approximate fair values due to the relatively short term nature of these financial instruments.

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

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

	2010		2009	
Group	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Forward exchange contracts:				
Assets	92	92	-	1,292
Liabilities	248	248	-	(53)
Secured bank loans	-	-	7,720	6,720
Unsecured bank loans	228,755	211,741	79,583	65,715
Finance lease liabilities	3,803	3,644	3,938	3,474

29. Financial instruments (cont'd)

29.7 Fair value of financial instruments (cont'd)

	2010		2009	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Company				
Unsecured bank loans	46,000	38,514	-	-

Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

30. Capital management

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor and determine an optimal debt-to-equity ratio that complies with debt covenants and regulatory requirements.

The debt-to-equity ratios at 31 December 2010 and at 31 December 2009 were as follows:

	Group	
	2010 RM'000	2009 RM'000
Total borrowings (note 17)	236,187	111,074
Less: Cash and cash equivalents (note 15)	(145,230)	(147,519)
Net debt/(cash)	90,957	(36,445)
Total equity	394,018	379,231
Debt-to-equity ratio	0.23	n/a

There were no changes in the Group's approach to capital management during the financial year.

Under the requirements of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less RM40 million. The Company has complied with this requirement.

The Group is also required to maintain a maximum debt-to-equity ratio of 1.25 to comply with a bank covenant, failing which, the bank may call an event of default.

Notes to the Financial Statements
(cont'd)

31. Contingencies (unsecured)

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

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Bank guarantees given to financial institutions in respect of facilities granted to subsidiaries	-	-	533,213	473,594
Bank guarantee given to third parties relating to performance, tender and advance payment bonds - unsecured	163,180	179,710	-	-
Guarantees given in favour of third parties - unsecured	10,918	10,918	10,918	10,918

32. Related parties

Identity of related parties

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

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

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation is disclosed in Note 22.

Significant transactions with subsidiaries

	Transaction value year ended 31 December	
	2010	2009
Company	RM'000	RM'000
Interest income	1,405	1,456
Advance to subsidiaries	25,002	22,251

The outstanding balances due from subsidiaries are disclosed in Note 12.

33. Capital and other commitments

	2010 RM'000	2009 RM'000
Capital expenditure commitments		
Plant and equipment		
Contracted but not provided for	154,329	263,500
Guaranteed minimum gross rental		
Contracted but not provided for in the financial statements	894	1,829

34. Acquisition of subsidiaries

Business combination

(i) On 12 February 2010, the Company acquired 1 ordinary share of HK$1.00 representing 100% equity interest in Kingstone Enterprise Group Limited, a company incorporated in Hong Kong, for a consideration of HK$1.00. The acquisition has no material impact on the earnings and net assets of the Group for the year.

(ii) On 13 August 2010, the Company acquired 1 ordinary share of HK$1.00 representing 100% equity interest in Greatwall Capital Resources Limited (now known as Salcon Changzhou (HK) Limited), a company incorporated in Hong Kong, for a consideration of HK$1.00. The acquisition has no material impact on the earnings and net assets of the Group for the year.

(iii) On 20 August 2010, Jiangsu Salcon Water & Environmental Development Company Limited, a 66.67% subsidiary of Salcon Jiangsu (HK) Limited, which is a wholly-owned subsidiary of the Company, entered into an Equity Transfer Agreement with Wins Sun International Investment Company Limited, Hong Kong, acquiring the entire equity interest in Yizheng Rong Xin Wastewater Treatment Company Limited for a total cash consideration of RMB44 million.

The acquisition of Yizheng Rong Xin Wastewater Treatment Company Limited had the following effect on the Group's assets and liabilities on acquisition date:

Group	Note	Recognised values on acquisition RM'000
Property, plant and equipment	3	30,995
Trade and other receivables		2,184
Cash and cash equivalents		1,219
Trade and other payables		(2,375)
Loans and borrowings		(9,790)
Net identifiable assets and liabilities		22,233
Intangible assets on acquisition	4	1,544
Consideration paid		23,777
Cash acquired		(1,219)
Net cash outflows		22,558

34. Acquisition of subsidiaries (cont'd)

Business combination (cont'd)

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

In 2009, the acquisition of Jiangsu Salcon Water & Environmental Development Company Limited had the following effect on the Group's assets and liabilities on acquisition date:

Group	Note	Recognised values on acquisition RM'000
Trade and other payables		30,277
Loans and borrowings		(10,032)
Net identifiable assets and liabilities		20,245
Intangible assets on acquisition	4	1,034
Consideration paid		21,279
Cash acquired		(30,277)
Net cash inflows		(8,998)

35. Subsequent events

i. On 22 November 2010, the Company entered into a Conditional Sale and Purchase Agreement with Challenger Emerging Market Infrastructure Fund Pte. Ltd. ("EMIF"), a company incorporated in Singapore, in relation to the proposed disposal of 40% of the entire issued and paid-up share capital of Salcon Water (Asia) Limited ("Salcon Asia") to EMIF for a total cash consideration of RMB238 million ("Proposed Disposal")

   To facilitate, inter-alia, the Proposed Disposal, the Company shall undertake a proposed internal restructuring involving its wholly-owned subsidiary, namely, Salcon Asia (an investment holding company), and 5 other wholly-owned subsidiaries of the Company, namely, Salcon Services (HK) Limited, Salcon Shandong (HK) Limited , Salcon Linyi (HK) Limited, Salcon Zhejiang (HK) Limited and Salcon Fujian (HK) Limited (collectively referred to as the "HK Subsidiaries") whereby the HK Subsidiaries will become approximately 99.99% owned subsidiaries of Salcon Asia.

   On 28 February 2011, the disposal is deemed completed by the Board following the completion of the conditions precedent of the Sale and Purchase Agreement dated 22 November 2010 relating to the Disposal ("SPA"). Concurrent with the completion of the Disposal, the Company had on even date entered into a Shareholders' Agreement ("SA") with EMIF.

   The SA governs matters relating to the ownership, management, control and operation of the Salcon Asia Group as well as the relationship between the Company and EMIF.

35. Subsequent events

ii. On 14 January 2011, Salcon Capital Sdn. Bhd., a wholly-owned subsidiary of the Company had entered into a Shares Subscription Agreement with Eco-Tours Sdn. Bhd. ("Eco-Tours") and Eco-NGT Sdn. Bhd. ("Eco-NGT"), both companies incorporated in Malaysia, ("Existing Sole Shareholder of Eco-Tours") to subscribe for 1,026,000 new ordinary shares of RM1.00 each in the issued and paid-up share capital of Eco-Tours which represents 51.3% of the paid-up share capital of Eco-Tours comprising 2,000,000 ordinary shares of RM1.00 each.

36. Significant changes in accounting policies

Group	Retained earnings RM'000
At 31 December 2009, as previously stated	
Adjustments arising from adoption of FRS 139:	6,464
- Recognition of derivatives previously not recognised, net of tax	1,239
At 1 January 2010, as restated	7,703

36.1 FRS 139, *Financial Instruments: Recognition and Measurement*

The adoption of FRS 139 has resulted in several changes to accounting policies relating to recognition and measurement of financial instruments. Significant changes in accounting policies are as follows:

Investments in equity securities

Prior to the adoption of FRS 139, investments in non-current equity securities, other than investments in subsidiaries and associate were measured at cost less allowance for diminution in value which is other than temporary. With the adoption of FRS 139, investments in non-current equity securities, other than investments in subsidiaries and associate are now categorised and measured as fair value through profit or loss, or as available-for-sale as detailed in note 2(c).

Derivatives

Prior to the adoption of FRS 139, derivative contracts were recognised in the financial statements on settlement date. With the adoption of FRS 139, derivative contracts are now categorised as fair value through profit or loss.

Impairment of trade and other receivables

Prior to the adoption of FRS 139, an allowance for doubtful debts was made when a receivable is considered irrecoverable by the management. With the adoption of FRS 139, an impairment loss is recognised for trade and other receivables and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

36. Significant changes in accounting policies (cont'd)

36.1 FRS 139, *Financial Instruments: Recognition and Measurement (cont'd)*

Impairment of trade and other receivables (cont'd)

These changes in accounting policies have been made in accordance with the transitional provisions of FRS 139. In accordance with the transitional provisions of FRS 139 for first-time adoption, adjustments arising from the remeasuring of financial instruments at the beginning of the financial year were recognised as adjustments of the opening balance of retained earnings or another appropriate reserve. Comparatives are not adjusted.

Consequently, the adoption of FRS 139 does not affect the basic and diluted earnings per ordinary share for prior periods. It is not practicable to estimate the impact arising from the adoption of FRS 139 to the current year's basic and diluted earnings per share.

36.2 FRS 140, *Investment Property*

Before 1 January 2010, an investment property under construction was classified as property, plant and equipment and measured at cost. Such property was measured at cost until construction or development was completed, at which time it would be remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement was recognised in profit or loss.

With the amendment made to FRS 140 with effect from 1 January 2010, investment property under construction is classified as investment property. Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

The change in accounting policy has been made prospectively in accordance with the transitional provisions of FRS 140.

Hence, the adoption of FRS 140 does not affect the basic and diluted earnings per ordinary share for prior periods and has no material impact to current year's basic and diluted earnings per ordinary share.

36.3 FRS 8, *Operating Segments*

As of 1 January 2010, the Group determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of FRS 8. Previously operating segments were determined and presented in accordance with FRS 1142004, Segment Reporting.

Comparative segment information has been re-presented. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

36. Significant changes in accounting policies (cont'd)

36.4 FRS 101 , *Presentation of Financial Statements* (revised)

The Group applies FRS 101 (revised) which became effective as of 1 January 2010. As a result, the Group presents all non-owner changes in equity in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it is in conformity with the revised standard. Since the change only affects presentation aspects, there is no impact on earnings per share.

36.5 FRS 117, *Leases*

The Group has adopted the amendment to FRS 117. The Group has reassessed and determined that all leasehold land of the Group which are in substance finance leases and has reclassified the leasehold land to property, plant and equipment. The change in accounting policy has been made retrospectively in accordance with the transitional provisions of the amendment.

The reclassification does not affect the basic and diluted earnings per ordinary share for the current and prior periods.

37. Comparative figures

37.1 FRS 101 , *Presentation of Financial Statements* (revised)

Arising from the adoption of FRS 101 (revised), income statements for the year ended 31 December 2009 have been re-presented as statements of comprehensive income. All non-owner changes in equity that were presented in the statements of changes in equity are now included in the statements of comprehensive income as other comprehensive income. Consequently, components of comprehensive income are not presented in the statements of changes in equity.

37.2 FRS 117, *Leases*

The Group has adopted the amendment to FRS 117. The Group has reassessed and determined that all leasehold land of the Group which in substance is a finance lease and has reclassified the leasehold land to property, plant and equipment accordingly. The change in accounting policy has been made retrospectively in accordance with the transitional provisions of the amendment.

37. Comparative figures (cont'd)

37.2 FRS 117, *Leases* (cont'd)

Following the adoption of the amendment to FRS 117, certain comparatives have been re-presented as follows:

	Group			
	31.12.2009		1.1.2009	
	As restated RM'000	As previously stated RM'000	AS restated RM'000	As previously stated RM'000
Cost				
Property, plant and equipment	262,355	255,544	221,665	214,854
Prepaid lease payments	26,556	33,367	23,888	30,699
Depreciation				
Property, plant and equipment	34,236	33,963	25,395	25,228
Prepaid lease payments	3,810	4,083	3,020	3,187
Carrying amount				
Property, plant and equipment	228,119	221,581	196,270	189,626
Prepaid lease payments	22,746	29,284	20,868	27,512

38. ESOS

Other than the Directors whose interests are disclosed separately in the Directors' Report, the eligible employees of the Group whose share options entitlements are equal to or more than 400,000 share options in the Company pursuant to the ESOS are as follows :

	Number of options over ordinary shares of RM0.50 each				
	At 1.1.2010	Granted	Exercised	Lapsed	At 31.12.2010
Chern Meng Gaik	-	600,000	140,000	-	520,000
Law Woo Hock	-	600,000	200,000	-	400,000
Loh Boon Sue	-	600,000	-	-	600,000
Tey Thiam Huat	-	600,000	-	-	600,000
Chan Foo Kheong	-	600,000	-	600,000	-
Jamiluddin Amini Bin Sulaiman	-	726,000	100,000	-	626,000
Ong Sian	-	600,000	100,000	-	500,000
Lee Thim Loy	-	825,000	275,000	-	550,000
Low Beng Peow	-	825,000	275,000	-	550,000

39. Supplementary information on the breakdown of realised and unrealised profits or losses

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued another directive on the disclosure and the prescribed format of presentation.

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2010, into realised and unrealised profits, pursuant to the directive, is as follows:

	Group 2010 RM'000	Company 2010 RM'000
The retained earnings/(accumulated losses) of the Company and its subsidiaries:		
- Realised	59,116	(23,614)
- Unrealised	118	(13,388)
	59,234	(37,002)

	Group 2010 RM'000	Company 2010 RM'000
Share of retained earnings of associate:		
- Realised	8,890	-
Share of retained earnings of joint venture:		
- Realised	1,496	-
	69,620	(37,002)
Less: Consolidation adjustments	(47,787)	-
Total retained earnings/(accumulated loss as per statement of equity	21,833	(37,002)

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements,* issued by Malaysian Institute of Accountants on 20 December 2010.

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 68 to 142 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2010 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 39 on page 143 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements,* issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

……………………………………………………….
Dato' Seri Goh Eng Toon

……………………………………………………….
Dato' Tee Tiam Lee

Kuala Lumpur,

Date: 28 April 2011

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

I, **Law Woo Hock,** the officer primarily responsible for the financial management of Salcon Berhad, do solemnly and sincerely declare that the financial statements set out on pages 68 to 143 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Federal Territory on 28 April 2011.

……………………………………………………….
Law Woo Hock

Before me:

Independent Auditors' Report to the members of Salcon Berhad

Report on the Financial Statements

We have audited the financial statements of Salcon Berhad, which comprise the statements of financial position as at 31 December 2010 of the Group and of the Company, and the statements of comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 68 to 142.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2010 and of their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

Independent Auditors' Report to the members of Salcon Berhad (cont'd)

b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 7 to the financial statements.

c) We are satisfied that the accounts 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 financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the accounts of the subsidiaries did not contain any qualification (other than a qualification that is not material in relation to the consolidated accounts) or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 39 on page 143 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context on Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Loh Kam Hian
Approval Number: 2941/09/12(J)
Chartered Accountant

Petaling Jaya, Selangor

Date: 28 April 2011

Particulars of Group Properties

The properties of the Group at 31 December 2010 and their net book values ("NBV") are indicated below:

Freehold Buildings and Land

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Envitech Sdn Bhd	HS(D) 102104, PT No. 15914, Pekan Damansara, Daerah Petaling/No. 64, Jalan Penyair U1/44, Temasya Industrial Park, Seksyen U1, 40150 Shah Alam, Selangor Darul Ehsan	149 sq. metres of intermediate unit 1½ storey terraced factory	14 years	14.03.2002	253
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	31 years	15.03.2002	827
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	117
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	117
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	116
					1,430

Long-Term Leasehold Properties

Company	Location/Address	Description/ Existing Use	Tenure	Date of Acquisition/ Revaluation	NBV RM'000
Shandong Changle Salcon Water Co. Ltd.	LeGuoYong2003, CL640 No. B003, Changle County, Nanliu Village, Shandong Province, People's Republic of China.	10,872 sq. metres for public and municipal utilities use.	50 years leasehold expiring on 19.01.2053	16.11.2003	1,848

Particulars of Group of Properties (cont'd)

Long-Term Leasehold Properties (cont'd)

Company	Location/Address	Description/ Existing Use	Tenure	Date of Acquisition/ Revaluation	NBV RM'000
Shandong Changle Salcon Water Co. Ltd.	LeGuoYong2003, CL641 No. B005, Changle County, Nanliu Village, Shandong Province, People's Republic of China.	4,082 sq. metres for public and municipal utilities use.	50 years leasehold expiring on 19.01.2053	16.11.2003	1,276
Shandong Changle Salcon Water Co. Ltd.	Western end north side of outside ring road of Changle County, Shandong Province, People's Republic of China.	32,617 sq. metres for public and municipal utilities use.	30 years leasehold expiring on 05.01.2036	05.01.2006	3,654
Shandong Changle Salcon Water Co. Ltd.	2 Floor Building NO.8 NO.211, Limin Street, Changle County, Shandong Province, People's Republic of China.	448.22 sq. metres for public and municipal utilities use.	40 years leasehold expiring on 20.06.2048	18.01.2010	1,316
Shandong Changle Salcon Water Co. Ltd.	1, 3, 4, & 5 Floor Building NO.8 NO.211, Limin Street, Changle County, Shandong Province, People's Republic of China.	1,792.88 sq. metres for public and municipal utilities use.	40 years leasehold expiring on 20.06.2048	18.01.2010	2,954
Linyi Salcon Water Co. Ltd.	Dong Bei Yuan Water Plant Northern Yi Meng Road, Linyi City, Shandong Province, People's Republic of China.	34,467 sq. metres for public and municipal utilities use.	30 years leasehold expiring on 07.11.2035	07.11.2005	18,864
Haining Salcon Water Co. Ltd.	No. 37 Nan Xu Jia Men, Shuang Xi Qiao Village, Hai Chang Street, Haining City, Zhejiang Province, People's Republic of China.	20,386 sq. metres for public and municipal utilities use.	30 years leasehold expiring on 09.09.2036	10.09.2006	7,003
Haining Salcon Water Co. Ltd.	Shuang Xi Qiao East Shuang Xi Qiao Village, Hai Chang Street, Haining City, Zhejiang Province, People's Republic of China.	119,394 sq. metres for public and municipal utilities use.	27 years leasehold expiring on 27.09.2036	10.12.2009	60,560
Yizheng Rong Xin Wastewater Treatment Co. Ltd.	Shi Er Wei, Hong Qi Village, YiZheng City, Jiangsu Province. People's Republic of China.	51,188 sq. metres for public and municipal utilities use.	20 years leasehold expiring on 30.12.2024	12/11/2010	20,834
					118,309

Analysis of Shareholdings & Warrantholdings

as at 29 April 2011

Analysis of Shareholdings

Authorised share capital		:	RM500,000,000
Issued and paid-up share capital		:	RM237,153,902
Class of shares		:	Ordinary share of RM0.50 each
Voting rights :	On show of hands	:	One vote for each shareholder
	On poll	:	One vote for each ordinary share

Distribution of Shareholdings

Size of Shareholdings	Number of Shareholders	Number of Shares	Percentage of Issued Capital
Less than 100	1,424	72,882	0.015
100 - 1,000	929	519,522	0.110
1,001 - 10,000	4,057	24,258,887	5.115
10,001 - 100,000	2,631	87,794,042	18.510
100,001 - less than 5% of issued shares	394	238,759,071	50.338
5% and above of issued shares	3	122,903,400	25.912
Total	**9,438**	**474,307,804**	**100.00**

List of Substantial Shareholders

Name of Substantial Shareholder	Direct Interest		Indirect Interest	
	No. of Shares	Percentage of Issued Capital	No. of Shares	Percentage of Issued Capital
Naga Muhibah Sdn Bhd	66,709,600	14.065	-	-
Dato' Seri (Dr.) Goh Eng Toon	-	-	66,709,600 (1)	14.065
Datin Seri Kee Seok Ai	-	-	66,709,600 (2)	14.065
Datin Goh Phaik Lynn	-	-	200,000 (3)	0.042
			700,000 (4)	0.148
			66,709,600 (5)	14.065
Dato' Leong Kok Wah	700,000	0.148	200,000 (6)	0.042
			66,709,600 (7)	14.065
Infra Tropika Sdn Bhd	29,397,400	6.198	-	-
Dato' Tee Tiam Lee	26,796,400	5.650	29,397,400 (8)	6.198
Tee Xun Hao	-	-	29,397,400 (9)	6.198

Analysis of Shareholdings & Warrantholdings as at 29 April 2011 (cont'd)

Notes:

(1) (i) Deemed interested through shareholding in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(ii) Deemed interested through shares held by spouse (Datin Seri Kee Seok Ai) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(iii) Deemed interested through shares held by child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(2) (i) Deemed interested through shareholding in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(ii) Deemed interested through shares held by spouse (Dato' Seri (Dr.) Goh Eng Toon) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(iii) Deemed interested through shares held by child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(3) Deemed interested through the shares held by children (Leong Yi Shen and Leong Yi Ping) pursuant to Section 6A of the Companies Act, 1965

(4) Deemed interested through the shares held by spouse (Dato' Leong Kok Wah) pursuant to Section 6A of the Companies Act, 1965

(5) Deemed interested through shareholding in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(6) Deemed interested through the shares held by children (Leong Yi Shen and Leong Yi Ping) pursuant to Section 6A of the Companies Act, 1965

(7) Deemed interested through the shares held by spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(8) Deemed interested through the shares held in Infra Tropika Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(9) Deemed interested through the shares held in Infra Tropika Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

List of 30 Largest Shareholders

No.	Name of Shareholders	No. of shares	Percentage of Issued Capital
1	NAGA MUHIBAH SDN BHD	66,709,600	14.065
2	INFRA TROPIKA SDN BHD	29,397,400	6.198
3	DATO' TEE TIAM LEE	26,796,400	5.650
4	TENG LI LING	18,015,300	3.798
5	HSBC NOMINEES (ASING) SDN BHD RBS COUTTS SG FOR BEADLE GROUP LIMITED	11,157,300	2.352
6	KONG SUM MOOI	10,630,500	2.241
7	PEMBINAAN PUNCA CERGAS SDN. BHD.	10,000,000	2.108
8	HSBC NOMINEES (ASING) SDN BHD RBS COUTTS SG FOR GRANDLY STAR CAPITAL LIMITED	9,700,000	2.045
9	HOW TENG TENG	9,638,400	2.032
10	WARISAN HARTA SABAH SDN BHD	5,785,200	1.220

List of 30 Largest Shareholders (cont'd)

No.	Name of Shareholders	No. of shares	Percentage of Issued Capital
11	SHERMAN KAM HOCK LEONG	5,231,200	1.103
12	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	4,833,300	1.019
13	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HARI NARAYANAN A/L GOVINDASAMY (SIN 90558-4)	4,400,000	0.928
14	CHIN LAI YING	3,897,300	0.822
15	CARTABAN NOMINEES (ASING) SDN BHD RBC DEXIA INVESTOR SERVICES BANK FOR SAM SUSTAINABLE WATER EVOLUTION FUND (JB MULTIFLEX)	3,500,000	0.738
16	KOPERASI PERMODALAN FELDA MALAYSIA BERHAD	3,000,000	0.633
17	TAN KAH HOCK	3,000,000	0.633
18	LEONG LAI SHEN	2,626,833	0.554
19	HDM NOMINEES (TEMPATAN) SDN BHD HDM CAPITAL SDN BHD FOR TAN KOO CHING	2,500,000	0.527
20	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MAAKL PROGRESS FUND (4082)	2,080,000	0.439
21	CHIN KONG FAR	2,033,000	0.429
22	UNIVERSAL TRUSTEE (MALAYSIA) BERHAD TA DANA FOKUS	2,009,500	0.424
23	DATO' CHOONG MOH KHENG	2,000,000	0.421
24	JFCB HOLDINGS SDN BHD	2,000,000	0.421
25	LEONG FEE FOON	2,000,000	0.421
26	TAN KOK SING	2,000,000	0.421
27	ANTARA CONSOLIDATED SDN BHD	1,600,000	0.337
28	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHAN SENG FATT	1,580,000	0.333
29	HOW SEE HOCK	1,473,400	0.311
30	BHLB TRUSTEE BERHAD EXEMPT AN FOR EMPLOYEES PROVIDENT FUND (PCM)	1,462,100	0.308
	TOTAL	**251,056,733**	**52.931**

Analysis of Shareholdings & Warrantholdings
as at 29 April 2011
(cont'd)

Analysis of Warrantholdings

Number of outstanding warrants 2007/2014		:	104,912,701
Exercise price		:	RM0.75
Exercise period		:	18 May 2007 to 17 May 2014
Exercise rights		:	Each warrant entitles the holder to subscribe for one new ordinary share of RM0.50 each in the Company
Voting rights	: On show of hands	:	One vote for each warrantholder
	On poll	:	One vote for each warrant

Distribution of Warrantholdings

Size of Warrantholdings	Number of Warrantholders	Number of Warrants	Percentage of Outstanding Warrants
Less than 100	362	16,776	0.016
100 - 1,000	321	177,192	0.169
1,001 - 10,000	530	2,532,380	2.414
10,001 - 100,000	313	10,602,860	10.106
100,001 - less than 5% of outstanding warrants	66	44,733,675	42.639
5% and above of outstanding warrants	5	46,849,818	44.656
Total	**1,597**	**104,912,701**	**100.00**

List of 30 Largest Warrantholders

No.	Name of Shareholders	No. of shares	Percentage of outstanding Issued Capital
1	NAGA MUHIBAH SDN BHD	16,704,800	15.923
2	LEONG LAI SHEN	10,827,088	10.320
3	INFRA TROPIKA SDN BHD	7,370,650	7.026
4	TENG LI LING	6,641,500	6.331
5	HSBC NOMINEES (ASING) SDN BHD RBS COUTTS SG FOR BEADLE GROUP LIMITED	5,305,780	5.057
6	CHAI SEONG MIN	5,028,450	4.793
7	KONG SUM MOOI	4,764,750	4.542
8	CHAI MOY FONG	3,867,615	3.687
9	DATO' LEONG KOK WAH	3,600,000	3.431
10	HSBC NOMINEES (ASING) SDN BHD RBS COUTTS SG FOR GRANDLY STAR CAPITAL LIMITED	2,500,000	2.383

List of 30 Largest Warrantholders (cont'd)

No.	Name of Shareholders	No. of shares	Percentage of outstanding Issued Capital
11	SERAYA ACRES SDN BHD	2,500,000	2.383
12	HOW TENG TENG	2,409,600	2.297
13	SHUM YUEN MING	1,417,000	1.351
14	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR PRUDENTIAL FUND MANAGEMENT BERHAD	1,292,100	1.232
15	MAYBAN NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM GIM LEONG	1,239,800	1.182
16	HDM NOMINEES (ASING) SDN BHD UOB KAY HIAN (HONG KONG) LTD FOR K.I.P. INVESTMENT HOLDINGS LTD	1,000,400	0.954
17	LEONG FEE FOON	1,000,000	0.953
18	TAN KOK SING	1,000,000	0.953
19	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HARI NARAYANAN A/L GOVINDASAMY (SIN 90558-4)	850,000	0.810
20	LOO SAY PENG	600,000	0.572
21	JAGJIVAN SINGH SINDHU	572,500	0.546
22	LEE THIAM LAI	500,000	0.476
23	ONG AUN KUNG	500,000	0.476
24	MAHADEVAN A/L KATHIRGAMATHAMBY	482,950	0.460
25	HOW SEE HOCK	469,950	0.448
26	ER WAN INN	430,000	0.410
27	SJ SEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN HUN MENG (SMT)	417,000	0.397
28	TAN HOCK HIN	406,000	0.387
29	ANTARA CONSOLIDATED SDN BHD	350,000	0.333
30	SOON CHEE TATT	350,000	0.333
	TOTAL	**84,397,933**	**80.446**

Analysis of Shareholdings & Warrantholdings as at 29 April 2011 (cont'd)

Directors' Shareholdings

Name of Directors	Direct Interest No. of Shares	Direct Interest Percentage of Issued Capital	Indirect Interest No. of Shares	Indirect Interest Percentage of Issued Capital
Dato' Seri (Dr.) Goh Eng Toon	-	-	66,709,600 (1)	14.065
Dato' Tee Tiam Lee	26,796,400	5.650	29,397,400 (2)	6.198
Dato' Leong Kok Wah	700,000	0.148	200,000 (3)	0.042
			66,709,600 (4)	14.065
Dato' Dr Freezailah bin Che Yeom	50,400	0.011	-	-
Ho Tet Shin	-	-	21,400 (5)	0.005
Dato' Choong Moh Kheng	2,040,000	0.430	10,000,000 (6)	2.108

Notes:

(1) (i) Deemed interested through shareholding in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(ii) Deemed interested through shares held by spouse (Datin Seri Kee Seok Ai) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(iii) Deemed interested through shares held by child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(2) Deemed interested through the shares held in Infra Tropika Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(3) Deemed interested through the shares held by children (Leong Yi Shen and Leong Yi Ping) pursuant to Section 6A of the Companies Act, 1965

(4) Deemed interested through the shares held by spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(5) Deemed interested through the shares held under the estate of his spouse (Wong Sook Kuen)

(6) Deemed interested through the shares held in Pembinaan Punca Cergas Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

Directors' Warrantholdings

Name of Directors	Direct Interest No. of warrants	Direct Interest Percentage of outstanding warrants	Indirect Interest No. of warrants	Indirect Interest Percentage of outstanding warrants
Dato' Seri (Dr.) Goh Eng Toon	-	-	16,704,800 (1)	15.923
Dato' Tee Tiam Lee	-	-	7,370,650 (2)	7.026
Dato' Leong Kok Wah	3,600,000	3.431	16,704,800 (3)	15.923
Dato' Dr Freezailah bin Che Yeom	12,700	0.012	-	-
Ho Tet Shin	-	-	10,700 (4)	0.010
Dato' Choong Moh Kheng	-	-	-	-

Analysis of Shareholdings & Warrantholdings
as at 29 April 2011
(cont'd)

Notes:

(1) (i) Deemed interested through shareholding in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(ii) Deemed interested through shares held by spouse (Datin Seri Kee Seok Ai) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(iii) Deemed interested through shares held by child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(2) Deemed interested through the shares held in Infra Tropika Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(3) Deemed interested through the shares held by spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(4) Deemed interested through the shares held under the estate of his spouse (Wong Sook Kuen)

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salcon

PROXY FORM

I/We ....
(PLEASE USE BLOCK/CAPITAL)

of ....
(FULL ADDRESS)

being a member/members of **SALCON BERHAD** hereby appoint ....

of ....

....or failing whom, ...of

....or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf, at the Eighth Annual General Meeting of the Company to be held at Classics Ballroom 2, Level 3, Holiday Villa Hotel & Suites Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Thursday, 23 June 2011 at 10.30 a.m. and at any adjournment thereof.

NO.	RESOLUTIONS	*FOR	*AGAINST
1.	To approve the payment of the first and final single tier tax exempt dividend of 1.5 sen per ordinary share in respect of the financial year ended 31 December 2010.		
2.	To approve the payment of Directors' fees for the financial year ended 31 December 2010.		
3.	To re-elect Mr. Ho Tet Shin as Director.		
4.	To re-elect Dato' Choong Moh Kheng as Director.		
5.	To re-appoint Dato' Seri (Dr.) Goh Eng Toon as Director.		
6.	To re-appoint Dato' Dr Freezailah Bin Che Yeom as Director.		
7.	To re-appoint Messrs KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration.		
8.	To grant the authority to allot and issue shares in general pursuant to Section 132D of the Companies Act, 1965.		

*(*Please indicate with an "X" in the space provided above how you wish your vote to be cast. If no instruction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.)*

Dated this _______ day of ____________2011.

Number of shares held:
If more than 1 proxy, please specify number of shares represented by each proxy **Name of Proxy 1:** **Name of Proxy 2:**

____

Signature of Shareholder or Common Seal

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/her stead. A proxy need not be a member of the Company and Section 149 (1)(b) 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. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.

4. The instrument appointing a proxy must be deposited at the Registered Office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.

1st FOLD HERE

STAMP

SALCON BERHAD (593796-T)
15th Floor, Menara Summit
Persiaran Kewajipan, USJ1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Malaysia

2nd FOLD HERE

SALCON BERHAD (593796-T)
15th Floor, Menara Summit
Persiaran Kewajipan USJ1
47600 UEP Subang Jaya
Selangor Darul Ehsan
MALAYSIA

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

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