

2. Significant accounting policies (continued)

(b) Foreign currency (continued)

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

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

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

(iii) *Net investment in foreign operations*

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

(c) Property, plant and equipment

(i) *Recognition and measurement*

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

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

2. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(i) *Recognition and measurement (continued)*

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

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

Property, plant and equipment under the revaluation model

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

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

(ii) *Subsequent costs*

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

2. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) Depreciation

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

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

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

The depreciable amount is determined after deducting the residual value.

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

(d) Leased assets

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

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

2. Significant accounting policies (continued)

(d) Leased assets (continued)

Accounting policy note on Leasehold land / Prepaid lease payments

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

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

Revalued leasehold land

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

(e) Intangible assets

(i) *Goodwill*

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

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

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

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

2. Significant accounting policies (continued)

(e) Intangible assets (continued)

(i) *Goodwill (continued)*

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

Amortised goodwill and negative goodwill

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

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

(ii) *Amortisation*

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

(iii) *Acquisition of minority interest*

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

2. Significant accounting policies (continued)

(f) Investments in equity securities

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

Subsequent to initial recognition:

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

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

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

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

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

(g) Investments property

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

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

2. Significant accounting policies (continued)

(g) Investments property (continued)

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

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

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

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

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

First adoption of FRS 140, Investment Property

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

2. Significant accounting policies (continued)

(h) Inventories

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

(i) Receivables

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

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

Receivables are not held for the purpose of trading.

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

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

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

(k) Cash and cash equivalents

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

2. Significant accounting policies (continued)

(I) Impairment of assets

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

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

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

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

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

2. Significant accounting policies (continued)

(m) Share capital

Shares issue expenses

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

(n) Loans and borrowings

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

(o) Employee benefits

(i) Short term employee benefits

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

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

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

(ii) Share-based payment transactions

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

2. Significant accounting policies (continued)

(p) Provisions

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

Contingent liabilities

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

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

(q) Payables

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

(r) Revenue

(i) Goods sold

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

2. Significant accounting policies (continued)

(r) Revenue (continued)

(ii) Construction contracts

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

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

(iii) Dividend income

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

(s) Lease payment

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

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

(t) Interest income and borrowing costs

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

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

2. Significant accounting policies (continued)

(u) Tax expense

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

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

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

Deferred tax liability is recognised for all taxable temporary differences.

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

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

(v) Earnings per share

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

2. Significant accounting policies (continued)

(w) Segment reporting

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

3. Property, plant and equipment

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

3. Property, plant and equipment (continued)

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

3. Property, plant and equipment (continued)

Assets under hire purchase

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

Property, plant and equipment under the revaluation model

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

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

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

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

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

4. Goodwill

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

5. Prepaid lease payments

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

5. Prepaid lease payment (continued)

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

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

6. Investment properties

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

Included in the above are:

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

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

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

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

7. Investments in subsidiaries

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

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

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest	
			2006	2005
Salcon Engineering Berhad	Malaysia	<ul style="list-style-type: none"> - Design, construction, operation and maintenance of municipal potable water, sewerage and waste water facilities; - Provision of mechanical and electrical engineering services for general industries; and - Investment holding. 	100%	100%
Integrated Water Services (M) Sdn. Bhd	Malaysia	Operation and maintenance of a water treatment plant.	51%	51%
Salcon Water (HK) Limited ^	Hong Kong	Investment holding company involve in water supply projects in the People's Republic of China via its subsidiary.	100%	100%
Salcon Yunnan (HK) Limited ^	Hong Kong	Investment holding company involve in water supply projects in the People's Republic of China via its subsidiary.	100%	100%

7. Investments in subsidiaries (continued)

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

7. Investments in subsidiaries (continued)

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

7. Investments in subsidiaries (continued)

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

^ Audited by other firm of accountants.

8. Investment in associates

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

Summary financial information on associates:

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

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

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

9. Investment in jointly controlled entities

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

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

Details of jointly controlled entities are as follows:

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

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

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

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

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

10. Other investments

	Group		Company	
	2006 RM'000	2005 RM'000 restated	2006 RM'000	2005 RM'000 restated
<i>At cost</i>				
Quoted shares in Malaysia	175	175	-	-
Unquoted shares	6,475	6,475	-	-
Other investment	4,640	4,640	4,500	4,500
	<u>11,290</u>	<u>11,290</u>	<u>4,500</u>	<u>4,500</u>
Allowance for diminution in value				
- Quoted shares in Malaysia	(157)	(157)	-	-
- Other investments	(54)	(54)	-	-
	<u>11,079</u>	<u>11,079</u>	<u>4,500</u>	<u>4,500</u>
Market value:				
Quoted shares in Malaysia	<u>18</u>	<u>18</u>	<u>-</u>	<u>-</u>

11. Deferred tax assets and liabilities

Recognised deferred tax assets/(liabilities)

Deferred tax assets are attributable to the following:

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

11. Deferred tax assets and liabilities (continued)

Recognised deferred tax assets/(liabilities) (continued)

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

Unrecognised deferred tax assets

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

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

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

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

11. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

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

12. Receivables, deposits and prepayments

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

12. Receivables, deposits and prepayments (continued)

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

Amount due from contract customers

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

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

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

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

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

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

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

13. Inventories

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

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

14. Cash and cash equivalents

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

15. Capital and reserves

Share capital

	Group and Company			
	Amount 2006 RM'000	Number of shares 2006 '000	Amount 2005 RM'000 restated	Number of shares 2005 '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				
On issue at 1 January / 1 August	106,023	212,046	96,384	192,768
Issued for cash	-	-	9,639	19,278
	106,023	212,046	106,023	212,046
	106,023	212,046	106,023	212,046

15. Capital and reserves (continued)

Share capital (continued)

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

Translation reserve

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

Revaluation reserve

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

16. Borrowings

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

16. Borrowings (continued)

Term and debt repayment schedule

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

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

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

The above facilities are guaranteed by the Company.

Hire purchase creditors

Hire purchase creditors are payable as follows:

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

16. Borrowings (continued)

Terms and debt repayment schedule

Group	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
2006						
Bank overdraft		2,878	2,878	-	-	-
Bankers' acceptances	2007	2,625	2,625	-	-	-
Revolving credits	2007	250	250	-	-	-
Term loans						
- RM	2007 - 2009	72,000	17,000	10,000	45,000	-
- RMB	2007 - 2010	28,430	3,953	20,338	4,139	-
Hire purchase creditors	2007 - 2010	248	100	138	10	-
		106,431	26,806	30,476	49,149	-
2005						
Bank overdraft		43	43	-	-	-
Bankers' acceptances	2006	5,279	5,279	-	-	-
Revolving credits	2006	7,880	7,880	-	-	-
Term loans						
- RM	2009	45,000	-	-	45,000	-
- RMB	2009	2,177	-	-	2,177	-
Hire purchase creditors	2007 - 2010	342	160	141	41	-
		60,721	13,362	141	47,218	-
Company						
2006						
Term loans						
- RM	2007 - 2009	72,000	17,000	10,000	45,000	-
2005						
Term loan						
- RM	2009	45,000	-	-	45,000	-

17. Employee benefits

Equity compensation benefits

Share option plan

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

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

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

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

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

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

17. Employee benefits (continued)

Terms of the options outstanding at 31 December 2006:

Expiry date	Exercise price	Number
30 October 2008	RM1.87	2,507,500

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

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

18. Payables and accruals

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

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

18. Payables and accruals (continued)

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

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

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

19. Revenue

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

20. Operating loss

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

20. Operating loss (continued)

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

21. Key management personnel compensation

The key management personnel compensation is as follows:

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

22. Tax expense

Recognised in the income statement

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

Major components of tax expense include:

Current tax expense

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

22. Tax expense (continued)

Recognised in the income statement (continued)

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

23. Earnings per ordinary share - Group

Basic earnings per share

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

Weighted average number of ordinary shares

	2006 '000	2005 '000
Issued ordinary shares at 1 January / 1 August	212,045	192,769
Effect of shares issued	-	3,461
	<hr/>	<hr/>
Weighted average number of ordinary shares at 31 December	212,045	196,230
	<hr/> <hr/>	<hr/> <hr/>
	2006 sen	2005 sen
Basic earnings/(loss) per share	2.04	(14.15)
	<hr/> <hr/>	<hr/> <hr/>

Diluted earnings per share

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

24. Dividends

Dividends recognised by the Company are:

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

25. Segment reporting

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

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

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

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

Business segments

The Group comprises the following main business segments:

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

Geographical segments

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

WWD segment is mainly operated in Malaysia.

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

BSD segment is mainly operated in Malaysia.

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

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

25. Segment reporting (continued)

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

25. Segment reporting (continued)

2005 <i>Business segments</i>	WD RM'000	WWD RM'000	AID RM'000	BSD RM'000	TSD RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000 restated
Total external revenue	109,211	42,394	-	-	10,774	-	-	162,379
Inter segment revenue	-	-	-	-	643	750	(1,393)	-
Total revenue	109,211	42,394	-	-	11,417	750	(1,393)	162,379
Segment result	(29,790)	1,656	-	-	508	(64)	-	(27,690)
Results from operating activities								(27,690)
Interest income								544
Finance costs								(5,062)
Share of profit of equity accounted associates								8,019
Share of profit of joint venture								95
Tax expense								(2,281)
Loss for the period								(26,375)
Segment assets	148,304	28,617	2	4,381	4,390	10,564	-	196,258
Investment in associates	43,217	-	18,839	-	-	-	-	62,056
Total assets	191,521	28,617	18,841	4,381	4,390	10,564	-	258,314
Segment liabilities	103,699	14,222	51	6,187	4,540	24	-	128,723
Capital expenditure	6,095	183	-	-	49	175	-	6,502
Depreciation	2,193	562	-	-	57	377	-	3,189
Amortisation of goodwill	741	-	1,190	-	-	-	-	1,931
Amortisation of prepaid lease payments	37	-	-	-	-	-	-	37
Non-cash expense other than depreciation and amortisation	(11)	15	-	-	-	-	-	4

25. Segment reporting (continued)

	Malaysia RM'000	Vietnam RM'000	Indonesia RM'000	Thailand RM'000	India RM'000	China RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
2006									
<i>Geographical segments</i>									
Revenue from external customers	88,577	2,325	4,880	823	-	23,341	1,344	-	121,290
Segment assets	102,383	214	207	4,557	10,376	162,686	26	-	280,449
Investment in associates	-	35,197	-	-	20,243	-	-	-	55,440
Total assets	102,383	35,411	207	4,557	30,619	162,686	26	-	335,889
Capital expenditure	439	-	-	-	-	36,888	-	-	37,327
2005									
<i>Geographical segments</i>									
Revenue from external customers	135,422	1,962	3,340	15,166	-	5,809	680	-	162,379
Segment assets	120,804	482	618	10,884	10,376	53,013	81	-	196,258
Investment in associates	-	43,217	-	-	18,839	-	-	-	62,056
Total assets	120,804	43,699	618	10,884	29,215	53,013	81	-	258,314
Capital expenditure	1,495	-	-	58	-	4,949	-	-	6,502

26. Financial instruments

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

Credit risk

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

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

Interest rate risk

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

26. Financial instruments (continued)

Effective interest rates and repricing analysis

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

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

26. Financial instruments (continued)

Effective interest rates and repricing analysis (continued)

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

26. Financial instruments (continued)

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

26. Financial instruments (continued)

Effective interest rates and repricing analysis (continued)

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

26. Financial instruments (continued)

Effective interest rates and repricing analysis (continued)

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

26. Financial instruments (continued)

Currency risk

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

Liquidity risk

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

Fair values

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

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

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

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

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

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

26. Financial instruments (continued)

Estimation of fair values

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

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

27. Contingencies (unsecured)

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

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

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

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

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

28. Related parties

Identity of related parties

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

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

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation is disclosed in Note 21.

Other related party transactions

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

29. Acquisition of subsidiaries

Business combination

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

29. Acquisition of subsidiaries (continued)

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

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

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

30. Subsequent events

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

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

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

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

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

31. Changes in accounting policies

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

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

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

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

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

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

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

32. Comparative figures

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

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

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

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