

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

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

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

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

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

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

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

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



SALCON BERHAD

(Company No.: 593796-T)

(Incorporated in Malaysia under the Companies Act, 1965)

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

Adviser and Underwriter



MIMB INVESTMENT BANK BERHAD (10209-W)

(formerly known as Malaysian International Merchant Bankers Berhad)

A Participating Organisation of Bursa Malaysia Securities Berhad

IMPORTANT RELEVANT DATES:-

Entitlement Date	:	Monday, 23 April 2007 at 5.00 p.m.
Last date and time for sale of provisional allotment of Rights Shares with Warrants	:	Monday, 7 May 2007 at 5.00 p.m.
Last date and time for transfer of provisional allotment of Rights Shares with Warrants	:	Thursday, 10 May 2007 at 4.00 p.m.
Last date and time for acceptance and payment of Rights Shares with Warrants *	:	Tuesday, 15 May 2007 at 5.00 p.m.
Last date and time for application and payment of excess Rights Shares with Warrants *	:	Tuesday, 15 May 2007 at 5.00 p.m.

* or any such later date and time as may be determined and announced by the Directors of Salcon not less than two (2) market days from the stipulated closing dates.

This Abridged Prospectus is dated 27 April 2007

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

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

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

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

DEFINITIONS

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

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

DEFINITIONS (Cont'd)

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

DEFINITIONS (Cont'd)

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

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

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

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

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

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

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**SALCON BERHAD**

(Company No.: 593796-T)

(Incorporated in Malaysia under the Companies Act, 1965)

CORPORATE INFORMATION**BOARD OF DIRECTORS**

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

AUDIT COMMITTEE

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

- REGISTERED OFFICE/
CORPORATE OFFICE** : 15th Floor Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Tel No: 603-8024 8822
Fax No: 603-8024 8811
E-mail: salconen@tm.net.my
Website: <http://www.salcon.com.my>
- COMPANY SECRETARIES** : Ng Yen Hoong (LS 008016)
Lim Poh Yen (MAICSA 7009475)
PFA Corporate Services Sdn. Bhd.
Level 14, Uptown 1, No.1, Jalan SS 21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan
Tel No. 603- 7725 2888
- SHARE REGISTRAR** : PFA Registration Services Sdn. Bhd.
Level 13, Uptown 1, No.1, Jalan SS 21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan
Tel No. 603-7725 4888
- AUDITORS AND REPORTING
ACCOUNTANTS** : KPMG (AF 0758)
Chartered Accountants
Wisma KPMG, Jalan Dungun
Damansara Heights
50490 Kuala Lumpur
Tel No. 603- 2095 3388
- PRINCIPAL BANKERS** : EON Bank Berhad
Menara EON
288 Jalan Raja Laut
50350 Kuala Lumpur
Tel No. 603- 2694 2288
- Malayan Banking Berhad
1st & 2nd Floor, Wisma IJM Annexe
Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Tel No. 603- 7956 4090
- Standard Chartered Bank Malaysia Berhad
Menara Standard Chartered
30 Jalan Sultan Ismail
50250 Kuala Lumpur
Tel No. 603- 2117 7777
- United Overseas Bank (Malaysia) Berhad
Menara UOB
Jalan Raja Laut
50350 Kuala Lumpur
Tel No. 603- 2692 7722

Company No: 593796-T

**SOLICITORS FOR THE
RIGHTS ISSUE WITH
WARRANTS**

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

ADVISER AND UNDERWRITER

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

**STOCK EXCHANGE LISTING
AND LISTING SOUGHT**

: Main Board of Bursa Securities

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

Registered Office:

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

27 April 2007

Board of Directors:-

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

To: The Shareholders of Salcon Berhad

Dear Sir/Madam,

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

1.0 INTRODUCTION

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

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

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

2.0 DETAILS OF THE RIGHTS ISSUE WITH WARRANTS

2.1 Details of the Rights Issue with Warrants

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

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

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

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

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

2.2 Basis of the Issue and Exercise Prices

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

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

2.3 Ranking of Shares

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

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

2.4 Shareholders' Entitlements

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

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

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

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

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

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

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

2.5 Principal Terms of the Warrants

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

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

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

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

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

2.6 Quotation and Dealings

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

3.0 OTHER CORPORATE EXERCISES

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

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

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4.0 PROCEDURES FOR APPLICATION, ACCEPTANCE AND PAYMENT

4.1 General

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

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

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

4.2 Last Date and Time for Acceptance and Payment

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

4.3 NPA

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

4.4 Procedure for Application and Acceptance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.5 Procedure for Part Acceptance

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

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

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

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

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

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

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

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

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4.7 Procedure for Acceptance by Renounees

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

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

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

4.8 Procedure for Excess Application

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

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

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

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

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

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

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

4.9 Form of Issuance

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

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

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

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

4.10 Laws of Foreign Jurisdictions

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

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

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

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

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

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

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

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

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

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

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

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

5.1 Rationale for the Rights Issue with Warrants

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

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

5.2 Utilisation of the Proceeds

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

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

Notes:-

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

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

- (b) General working capital for our Group

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

(c) Repayment of bank borrowings

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

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

Note 1:

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

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

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

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

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

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

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

6.0 RISK FACTORS AND INVESTMENT CONSIDERATIONS

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

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

6.1 Risks relating to our Group

(a) Business Risks

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

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

(b) Quality of Treated Water

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

(i) Advanced Treatment Technology

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

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

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

(c) **Financing Risk**

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

(d) **Covenants on Borrowings**

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

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

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

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

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

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

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

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

(f) Dependence on Directors and Key Management

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

6.2 Risks relating to our industry

(a) Competition

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

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

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

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

(b) Registration/Permits/Licenses

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

(c) **Political and Economic Considerations**

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

6.3 **Risks relating to the Rights Issue with Warrants**

(a) **There is no Prior Market for the Warrants**

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

(b) **Volatility in Market Prices**

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

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

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

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

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

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

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

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

(d) Forward Looking Statements

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

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7.0 EFFECTS OF THE RIGHTS ISSUE WITH WARRANTS

7.1 On Share Capital

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

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

7.2 On Earnings

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

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

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7.3 On NTA and Gearing

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

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

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

7.4 On Dividends

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

8.0 PROFIT AND DIVIDEND RECORDS

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

9.0 INDUSTRY REVIEW AND FUTURE PROSPECTS

9.1 Overview of the Malaysian Economy

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

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

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

9.2 Industry Review

Enhancing the Water Delivery System

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

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

Water Supply

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

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

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

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

Sewerage

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

(Source: Ninth Malaysian Plan 2006-2010)

9.3 **Prospects of the Sector**

Water Supply

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

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

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

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

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

Sewerage

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

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

(Source: Ninth Malaysian Plan 2006-2010)

9.4 Our Future Prospects

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

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

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

(Source: The Board of Salcon)

10.0 WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL CAPITAL COMMITMENTS**10.1 Working Capital**

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

10.2 Borrowings

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

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

Note:

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

(a) RMB0.4651 : RM1.00

(b) USD1.00 : RM3.6319

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

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

10.3 Contingent Liabilities

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

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

10.4 Material Capital Commitments

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

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

11.0 SHAREHOLDER'S UNDERTAKINGS AND UNDERWRITING ARRANGEMENT**11.1 Shareholder's Undertakings**

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

Naga Muhibah

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

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11.2 Underwriting Arrangement

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

12.0 TERMS AND CONDITIONS

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

13.0 FURTHER INFORMATION

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

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



Jagjit Singh a/l Tara Singh
Executive Director

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

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

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

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

ORDINARY RESOLUTION

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

RESOLVED:-

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

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

SALCON BERHAD (593796-T)
**EXTRACT OF MINUTES OF THE EXTRAORDINARY GENERAL MEETING HELD ON 30
MARCH 2007**

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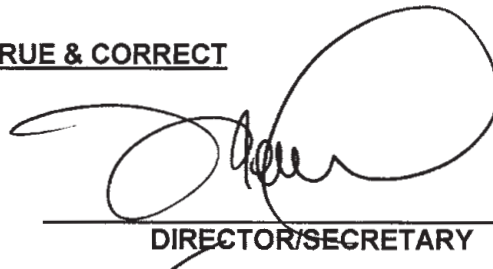
- (iii) allot and issue new ordinary shares of RM0.50 each in the Company pursuant to the exercise of any Warrant, (subject to any adjustments to the subscription rights attached to and the number of the Warrants made in accordance with the Deed Poll) and the new ordinary shares of RM0.50 each in Salcon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

Dated this 3rd day of April, 2007.

CERTIFIED TRUE & CORRECT



DIRECTOR



DIRECTOR/SECRETARY

INFORMATION ON SALCON

1. HISTORY

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

2. PRINCIPAL ACTIVITIES

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

3. SHARE CAPITAL

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

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

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

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

4. SUBSTANTIAL SHAREHOLDERS

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

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

Notes:-

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

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

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5. BOARD OF DIRECTORS

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

Name, Age (Designation)	Profession	Nationality	Address	Number of Shares held as at 30 March 2007		Number of Shares held after the Rights Issue with Warrants	
				Direct	Indirect	Direct	Indirect
Tan Sri Razali Ismail, 68 (Chairman, Independent Non-Executive Director)	Entrepreneur	Malaysian	Desa Kudalari 1802, No. 3 Lorong Kuda 50450 Kuala Lumpur	572,000	0.27	1,144,000	0.27
Dato' Seri Goh Eng Toon, 74 (Vice Chairman, Non-Independent Non-Executive Director)	Director	Malaysian	5 Jesselton Avenue 10450 Georgetown Penang	-	33,300,000 ¹	-	66,600,000 ¹
Jagjit Singh a/l Tara Singh, 60 (Executive Director)	Director	Malaysian	41, Jalan Seruling 41 Kawasan 3, Taman Klang Jaya 41200 Klang, Selangor	1,745,000	0.82	3,490,000	0.82
Dato' Dr Freezailah Bin Che Yeom, 68 (Independent Non-Executive Director)	Consultant	Malaysian	6 Jalan Kent Enam, Off Jalan Maktab, 54000 Kuala Lumpur	25,000	0.01	50,000	0.01
Dato' Seri Megat Najmuddin Bin Datuk Seri Dr Hj Megat Khas, 63 (Independent Non-Executive Director)	Director	Malaysian	No. 2, Jalan 12/7 46200 Petaling Jaya Selangor Darul Ehsan	-	45,000 ²	-	90,000 ²

Company No: 593796-T

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

Notes:-

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

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6. SUBSIDIARY AND ASSOCIATED COMPANIES

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

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

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

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

Notes:

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

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

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

Notes:

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

9 Cross Continental Investments hold 96.47% of this company

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7. PROFIT AND DIVIDEND RECORD

7.1 Summary of Results

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

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

Notes:-

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

7.2 Brief commentary on past financial performances

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

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

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

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

The revenue increased from RM146.766 million in FYE2004 to RM162.379 million in 17ME2005. However, on an annualised basis, the revenue for 17ME2005 was RM114.621 million, lower by RM32.145 million compared to FYE2004. Such decline is attributable to the tail-end effect of some existing projects and new projects were secured only at the later part of the period. Nevertheless, the Group successfully completed RM118 million worth of projects which include the Lancang Treatment Works and Bulk Transfer (Package B) project in Melaka, New River Gate project at Sungai Sungkai, Perak and the Min Buri Water Distribution Pumping Station in Bangkok, Thailand.

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

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

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

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

8. **SHARE PRICES**

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

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

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

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

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

(Source: Bursa Securities).

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

(Prepared for inclusion in this Abridged Prospectus)



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

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Internet www.kpmg.com.my

Report of the auditors to the members of Salcon Berhad

(Company No. 593796-T)
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 11 to 85. The preparation of the financial statements is the responsibility of the Company's Directors.

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

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

In our opinion,

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



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

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

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

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

KPMG
Firm Number: AF 0758
Chartered Accountants

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

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

Kuala Lumpur,

Date: 30 March 2007

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

Balance sheets at 31 December 2006

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

Balance sheets at 31 December 2006

(continued)

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

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

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

Income statements for the year ended 31 December 2006

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

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

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

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

Group	<i>Attributable to Shareholders of the Company</i>				Total RM'000	Minority interest RM'000	Total equity RM'000
	<i>Non-distributable</i>	<i>Distributable</i>	Retained profits/ (Accumulated losses)	Total			
	Share capital RM'000	Share premium RM'000	Translation reserve RM'000	Revaluation reserve RM'000	RM'000	RM'000	RM'000
At 1 August 2004	96,384	18,891	97	-	130,869	7,482	138,351
Issue of shares	9,639	193	-	-	9,832	-	9,832
Private placement expenses	-	(73)	-	-	(73)	-	(73)
Dividend	-	-	-	-	(5,012)	-	(5,012)
Foreign exchange translation differences	-	-	17	-	17	-	17
Net gain recognised directly in equity	-	-	17	-	17	-	17
(Loss)/Profit for the period	-	-	-	-	(27,774)	1,399	(26,375)
Total recognised income and expense for the period	-	-	17	-	(27,774)	1,399	(26,358)
Acquisition of subsidiaries	-	-	-	-	-	13,650	13,650
Dividends to minority interest	-	-	-	-	-	(1,480)	(1,480)
At 31 December 2005	106,023	19,011	114	-	107,859	21,051	128,910

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

(continued)

Group	<i>Attributable to Shareholders of the Company</i>				Total equity RM'000
	<i>Non-distributable</i>	<i>Distributable</i>	Retained profits/ (Accumulated losses)	Minority interest	
	Share premium RM'000	Translation reserve RM'000	Revaluation reserve RM'000	RM'000	RM'000
At 31 December 2005					
- as previously reported	19,011	114	-	(17,289)	107,859
- effect of adopting FRS 3	-	-	-	681	681
At 1 January 2006 (restated)	19,011	114	-	(16,608)	108,540
Foreign exchange translation differences	-	(138)	-	-	(138)
Revaluation of property, plant and equipment	-	-	18	-	18
Net gains recognised directly in equity	-	(138)	18	-	(120)
Profit for the year	-	-	-	4,327	4,327
Total recognised income and expense for the year	-	(138)	18	4,327	4,207
Acquisition of subsidiaries	-	-	-	-	-
Dividends to minority interest	-	-	-	-	16,668
				(896)	(896)
At 31 December 2006	19,011	(24)	18	(12,281)	112,747
					37,735
					150,482

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

(continued)

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

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

Salcon Berhad
(Company No. 593796-T)
(Incorporated in Malaysia)
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Cash flow statements for the year ended 31 December 2006

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

Cash flow statements for the year ended 31 December 2006

(continued)

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

Cash flow statements for the year ended 31 December 2006

(continued)

Cash and cash equivalents

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

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

Acquisition of property, plant and equipment

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

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

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

Notes to the financial statements

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

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

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

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

1. Basis of preparation

(a) Statement of compliance

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

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

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

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

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

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

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

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

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

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

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

(b) Basis of measurement

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

- Investment properties

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

1. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

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

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

2. Significant accounting policies

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

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

(a) Basis of consolidation

(i) *Subsidiaries*

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

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

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

(ii) *Associates*

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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) *Associates (continued)*

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

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

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

(iii) *Joint ventures*

Jointly-controlled entities

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

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

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

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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) *Joint ventures (continued)*

Jointly-controlled operation and assets

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

(iv) *Changes in Group composition*

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

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

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

(v) *Minority interest*

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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(v) *Minority interest (continued)*

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

(vi) *Transactions eliminated on consolidation*

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

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

(b) Foreign currency

(i) *Foreign currency transactions*

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

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