

12. ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus)



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

P.O. Box 10047
50702 Kuala Lumpur
Malaysia

Tel + (603) 2095 3388
Fax + (603) 2095 0971
Email: info@kpmg.com.my

www.kpmg.com.my

The Board of Directors
Salcon Berhad
17th Floor, Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan

22 July 2003

Dear Sirs

Accountants' Report

This report has been prepared by KPMG, an approved company auditor, for inclusion in the Prospectus of Salcon Berhad ("Salcon" or the Company) to be dated 28 July 2003 in connection with the public issue of 29,200,000 new ordinary shares of RM0.50 each at an issue price of RM1.20 per ordinary share and offer for sale of 17,920,000 existing ordinary shares at a placement price of RM1.20 each per ordinary share and the listing and quotation of the entire enlarged issued and paid up share capital of 191,262,502 ordinary shares of RM0.50 each in Salcon on the Main Board of Kuala Lumpur Stock Exchange.

1. General Information

1.1 Background

Salcon Berhad was incorporated in Malaysia under the Companies Act, 1965 on 25 September 2002 as a private limited company under the name of Salcon Sdn Bhd. Subsequently on 24 February 2003, it was converted to a public company and assumed its current name. Salcon is principally an investment holding company.

Salcon was incorporated with an authorised share capital of RM100,000 comprising 200,000 ordinary shares of RM0.50 each. The authorised share capital was subsequently increased to RM500,000,000 comprising 1,000,000,000 ordinary shares of RM0.50 each.

Pursuant to the Workout Proposal of SHCB, Salcon will be acquiring the entire issued and paid-up share capital of SHCB involving the issuance of 833,250 new ordinary shares of RM0.50 each in Salcon ("Salcon Shares") at an issue price of RM0.50 per Salcon Share to the existing shareholders of SHCB on the basis of one (1) new Salcon Share for every twenty four (24) ordinary shares of RM1.00 each in SHCB held. The acquisition of SHCB is expected to be completed before the transfer of listing status from SHCB to Salcon and from the Second Board to the Main Board of the KLSE.

The Restructuring Scheme of SHCB also involves Salcon acquiring the entire issued and paid-up share capital of Salcon Engineering Berhad ("SEB") from SEB Vendors for a total consideration of RM80,198,000 to be satisfied by the issuance of 160,396,000 Salcon Shares at an indicative issue price of RM0.50 per Salcon Share.



KPMG, a partnership established under Malaysian law, is a member of KPMG International, a Swiss association.



12. ACCOUNTANTS' REPORT (Cont'd)

Upon completion of the acquisitions, SEB will become a wholly owned subsidiary company of Salcon. Pursuant to the Workout Proposal, the principal activities of the SEB Group will be the core business of the Salcon group of companies ("Salcon Group") going forward.

1.2 Share Capital

1.2.1 The authorised and issued and paid up capital of Salcon as at the date of this report are as follows:-

	No. of ordinary shares of RM0.50 each	Total RM'000
Authorised	1,000,000,000	500,000

The changes in the issued and paid-up capital of Salcon since its incorporation are as follows: -

Date of Allotment	No. of Shares Issued	Par Value RM	Consideration	Cumulative Issued and Paid up Capital RM
25.09.02	2	0.50	Cash	1
21.07.03	160,396,000	0.50	Acquisition of Salcon Engineering Berhad via new shares issued at par	80,198,001
	833,250 [#]	0.50	Acquisition of Seng Hup Corporation Berhad via new shares issued	80,614,626
	29,200,000 [#]	0.50	Cash at premium	95,214,626
	833,250 [#]	0.50	Debt settlement to SHCB's creditors via new shares issued at par	95,631,251
	19,126,000 [#]	0.50	Proposed ESOS	105,194,251

[#] To be increased in due course pursuant to the restructuring exercise of SHCB.

1.3 Restructuring Scheme of SHCB

The Restructuring Scheme is based on the Workout Proposals of SHCB. The scheme will undertake the following restructuring exercise:-

(a) Share Swap with shareholders' of SHCB

Salcon will acquire the entire issued and paid-up capital of SHCB involving the issuance of 833,250 new ordinary shares of RM0.50 each in Salcon at an issue price of RM0.50 per Salcon Share to the existing shareholders of SHCB on the basis of one (1) new Salcon Share for every twenty four (24) ordinary shares of RM1.00 each in SHCB held.

Upon completion of the Share Exchange, SHCB will become a wholly-owned subsidiary company of Salcon. It is the intention of Salcon to acquire and hold SHCB exclusively for the implementation of the Restructuring Scheme with a view of its subsequent liquidation.

12. ACCOUNTANTS' REPORT (Cont'd)

Pursuant to the Workout Proposals, the shareholders of SHCB will receive 833,250 new Salcon Shares of RM0.50 each in exchange for 19,998,000 shares of RM1.00 each in SHCB held by them.

The share swap is expected to be completed before the listing of Salcon on the Main Board of KLSE.

(b) Acquisition of SEB by Salcon

Salcon will acquire the entire issued and paid-up share capital of SEB from Kumpulan Emas Berhad ("KEB"), Mampu Alam Sdn Bhd ("MASB") and Eminent Triumph Sdn Bhd ("ETSB") (collectively known as "SEB Vendors") for a total consideration of RM80,198,000 to be satisfied by the issuance of 160,396,000 Salcon Shares at an indicative issue price of RM0.50 per Salcon Share.

Upon completion of the acquisitions, SEB will become a wholly owned subsidiary company of Salcon. Pursuant to the Workout Proposals, the principal activities of the SEB Group will be the core business of the Salcon group of companies ("Salcon Group") going forward.

The acquisition of SEB is expected to be completed before the listing of Salcon on the Main Board of KLSE.

(c) Exemption on the remaining Salcon Shares

Upon completion of the acquisition in (b) above, SEB Vendors will hold 160,396,000 Salcon Shares representing approximately 83.86% of the enlarged issued and paid-up share capital of 191,262,502 Salcon shares prior to the Proposed ESOS.

Pursuant to Part II Section 6 of the Malaysian Code on Take-Overs and Mergers 1998, SEB Vendors and Parties Acting In Concert are required to extend an unconditional mandatory General Offer for all the remaining Salcon Shares not already owned by them in Salcon after the acquisition.

An application by SEB Vendors and Parties Acting In Concert to seek a waiver from this obligation under Practice Note 2.9.3 of the Code will be made to the Securities Commission ("SC") to exempt the aforementioned parties from having to undertake a mandatory take-over upon completion of the acquisition.

(d) Public Issue of Salcon Shares

As part of the Workout Proposals, Salcon will undertake a public issue of 29,200,000 new Salcon Shares to the eligible directors and employees of SEB group of companies and the Malaysian public upon completion of the acquisition in (b) above.

The public issue of 29,200,000 Salcon Shares will be allocated in the following manner: -

- (i) 2,800,000 of the new ordinary shares of RM0.50 each will be reserved for the eligible employees and Directors of the Salcon Group as well as the business associates of the Salcon Group; and
- (ii) 26,400,000 of the new ordinary shares of RM0.50 each will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions.

12. ACCOUNTANTS' REPORT (Cont'd)**(e) Offer For Sale**

In order to comply with the 25% public shareholding spread requirement and to give SEB Vendors an avenue to realise part of their Salcon Shares, SEB Vendors will undertake an offer for sale/placement of 17,920,000 Salcon Shares held by the SEB Vendors to the Malaysian public and potential investors.

The proceeds arising from the Offer For Sale/Placement will accrue to the SEB Vendors. No part of the proceeds will be received by Salcon.

(f) Debt Settlement for SHCB

The proceeds amounting to RM28,000,000 raised from the Public Issue and proceeds from the Share Sale by the Special Administrators ("SA") and/or creditors' agent will be utilised for settlement to the SHCB Creditors. The Debt Settlement entails the following: -

(i) Issue of Shares to SHCB Creditors

Issue of Shares to the SHCB Creditors involves the issuance of 833,250 new Salcon Shares at an issue price of RM0.50 per Salcon Share, to be held by the SA and/or creditors' agent for the benefit of the SHCB Creditors, as part settlement to the SHCB Creditors.

(ii) Share Sale by SA and/or Creditors' Agent

Subsequent to the Issue of Shares to SHCB Creditors, the SA and/or creditors' agent will dispose of 833,250 Salcon Shares in the open market upon the listing of and quotation for Salcon Shares at a price no lower than RM1.20 per Salcon Share. The proceeds raised from the said disposal will be distributed to the SHCB Creditors on a pro-rated basis.

The proceeds to be raised from the proposed public issue of shares in Salcon will enable Salcon to raise RM35 million, of which RM28 million cash will be utilised in the proposed debt settlement to pay SHCB Creditors.

The RM35 million is proposed to be utilised as follows:

	RM'000
Debt settlement to SHCB Creditors	28,000
Working capital	4,540
Estimated restructuring and listing expenses	2,500
	<u>35,040</u>

(g) Transfer of Listing Status

Transfer of listing status from SHCB to Salcon resulting in SHCB to be delisted from the Second Board of the KLSE and Salcon listed on the Second Board of the KLSE.

(h) Disposal of SHCB to SPV

Disposal of the entire issued and paid-up share capital of SHCB to a special purpose vehicle ("SPV") for a consideration of RM1.00 and subsequent liquidation of SHCB and all of its subsidiary companies.

(Collectively referred to as the "Restructuring Exercise")

12. ACCOUNTANTS' REPORT (Cont'd)**(i) Transfer to Main Board**

Subsequent to the transfer of listing status from SHCB to Salcon, Salcon Shares will be transferred to the Main Board of KLSE.

(j) Proposed Employee Share Option Scheme ("Proposed ESOS")

Salcon proposes to offer to eligible employees (including eligible executive directors) of Salcon, options to subscribe for new ordinary shares of RM0.50 each in Salcon. The maximum number of new Salcon Shares offered under the Proposed ESOS shall not exceed ten per cent (10%) of the issued and paid-up share capital of Salcon at any point in time during the duration of the Proposed ESOS.

The Proposed ESOS shall be in force for a period of five (5) years from its commencement. However, Salcon may extend the Proposed ESOS scheme for a further five (5) years.

All new ordinary shares issued pursuant to the restructuring exercise rank pari-passu in all respects with the existing ordinary shares of Salcon.

The restructuring scheme was approved by the Foreign Investment Committee on 26 December 2002, the Ministry of International Trade and Industry on 27 December 2002 and the Securities Commission on 26 and 31 December 2002 as well as on 2 and 30 June 2003.

1.4 Subscription of shares in Cross Continental Investment ("CCI") and Investment in PalmTech India Ltd ("PTIL")

SEB had on 30 July 2002 entered into a Subscription Agreement ("the Agreement") with its holding company, KEB, and CCI in relation to the following: -

- a) Subscription of 1,225 new ordinary shares at USD1.00 each in CCI representing 49% of the enlarged issued and paid up capital of CCI.

At the request of SEB and with the consent of KEB, CCI agreed to issue and allot in favour of SEB 1,225 new ordinary shares, representing 49% of the enlarged issued and paid-up capital of 2,500 shares of CCI after the issuance and allotment.

In consideration of KEB agreeing to exercise its voting rights to authorise and approve the abovementioned subscription, SEB agreed to pay RM16,635,520 to KEB upon execution of the Agreement.

- b) Subscription of 813,502 6% cumulative redeemable preference shares of Rs100 each in PTIL representing 49% of the total cumulative redeemable preference shares of PTIL.
- c) SEB will made an advance of a sum of USD1,013,647 to CCI.

The above are conditional upon the following approvals being obtained: -

- i) Bank Negara Malaysia - Approval from Bank Negara Malaysia will have to be obtained with regard to the regulation on foreign exchange control for advance to CCI;
- ii) Mauritius authorities - Under the provisions of the Mauritius Offshore Business Activities Act 1992, approval will have to be obtained from the Mauritius authorities for SEB to be introduced as a shareholder; and

12. ACCOUNTANTS' REPORT (Cont'd)

- iii) Indian Authorities - Approval from the Reserve Bank of India will have to be obtained for the proposed allotment of the preference shares.

Should the approvals from the relevant authorities be not obtained, the consent fee of RM16,635,520 is refundable to SEB.

As of 31 January 2003, subscription of shares in CCI and advance made to CCI had been completed. The subscription for the 6% cumulative redeemable preference shares of Rs100 each in PTIL had been fully paid on 6 March 2003.

1.5 Subsidiary and Associated Companies

The subsidiary and associated companies of Salcon as at the date of this report and their principal activities are as follows:

Name of company	Date of incorporation	Share Capital		Principal activities	Equity interests (%)
		Authorised RM	Issued and fully paid-up RM		
SEB	3.4.1974	50,000,000	20,000,000	<ul style="list-style-type: none"> ▪ Design, building, operation and maintenance of municipal potable water, sewerage and industrial waste water facilities; ▪ Design, building and commissioning of palm oil mills; ▪ Provision of mechanical and electrical engineering services for general industries; and ▪ Investment holding. 	100
<u>Subsidiary Companies of SEB</u>					
SCESB	3.5.1979	10,000,000	3,000,000	Trading and servicing equipment for water and palm oil industries.	100
SRSB	12.9.1975	1,000,000	500,000	Property investment.	100
PMSB	28.4.1983	300,000	200,000	Dormant.	100
BTESB	12.5.1980	2,000,000	1,700,000	Investment holding.	100
ESB	30.8.1984	5,000,000	3,500,000	Design, building, operation and maintenance of wastewater and sewerage treatment plants.	60

12. ACCOUNTANTS' REPORT (Cont'd)

Name of company	Date of incorporation	Share Capital		Principal activities	Equity interests (%)
		Authorised RM	Issued and fully paid-up RM		
IWSSB	4.7.1985	500,000	20,000	Operation and maintenance of water treatment plants.	51
SASB	22.2.1992	25,000	2	Dormant.	100
SSSB	13.10.1999	100,000	2	Dormant.	100
SCSB	26.07.1991	25,000	2	Dormant	100
SESSB	27.10.1992	1,000,000	250,001	Operation and maintenance of water treatment plants	100
SWHK	23.04.2003	HK10,000	HK2	Dormant	100
<u>Subsidiary Companies of BTESEB</u>					
SKSB	28.5.1970	3,000,000	1,000,000	Dormant.	100
SBSSB	9.12.1980	5,000,000	1,400,000	Provision of engineering services for general industries	100
EMCCSB	13.05.1991	1,000,000	555,000	Dormant.	60
<u>Associated Company of SEB</u>					
EUCSB	03.09.1987	OS 2,000,000	OS 2,000,000	Investment holding company in respect of a water supply project in Vietnam.	40
		RPS 1,000,000	RPS 47,000		
		-----	-----		
		3,000,000	2,047,000		
		=====	=====		
CCI	25.06.1998	USD100,000	USD2,500	Investment holding	49
<u>Associated Company of EUCSB</u>					
BAWC	15.03.1995	USD35,800,000	USD10,800,000	Production and supply of treated water to Ho Chi Minh City.	90% held by EUCSB

12. ACCOUNTANTS' REPORT (Cont'd)

Name of company	Date of incorporation	Share Capital		Principal activities	Equity interests (%)
		Authorised RM	Issued and fully paid-up RM		
<u>Associated Company of CCI</u>					
PTIL	06.04.1993	Rs	Rs	Oil palm plantation development and manufacture and sale of crude palm oil and related products.	94.8% held by CCI
		OS 60,000,000	OS 53,500,000		
		CRPS 190,000,000	CRPS 137,898,400		
		-----	-----		
		250,000,000	191,398,400		
		=====	=====		

Note: -

- OS - Ordinary Share
RPS - Redeemable Preference Share
CRPS - 6% Cumulative Redeemable Preference Share

1.6 Financial Statements and Auditors

The financial year end of the Salcon Group is 31 July.

We have acted as auditors of SEB, its subsidiary and associated companies for all the financial years relevant to this report except as highlighted. KPMG Vietnam have acted as auditors of BAWC and KPMG Mauritius have acted as auditors of CCI for all the financial years relevant to this report.

We have not acted as auditors of IWSSB for the financial years/period ended 2 January 1996 to 1998 and 31 July 1999.

We have not acted as auditors of ESB for the financial years ended 31 December 1997 to 31 July 2002.

We have not acted as auditor of PTIL for the financial years ended 31 March 1998 to 31 July 2002 and financial period ended 31 January 2003.

The financial statements of EMCCSB for the financial years ended 31 July 1998 and 2002 and financial period ended 31 January 2003 had not been adopted as the Company was not in a capacity to hold the Annual General Meeting to approve the financial statements due to two foreign directors of the Company were not contactable. The Company is currently seeking approval under Section 144 of the Companies Act, 1965 to hold an Extraordinary General Meeting to approve the financial statements.

The financial statements of companies in the Salcon Group have been prepared based on accounting policies adopted by Salcon Group and in compliance with approved accounting standards in Malaysia applicable to the relevant financial years/periods.

The auditors' reports for all the relevant financial years/period under review have been reported on without any qualification.

12. ACCOUNTANTS' REPORT (Cont'd)**1.7 Dividends**

Details of dividends declared by SEB in respect of the five financial years ended 31 July 1998 to 2002 and six-month ended 31 January 2003 are as follows:

Financial year/period ended	Issued and paid up ordinary share capital RM'000	Dividend Rate %	Net dividend RM'000
31 July 1998	20,000	36.00	5,184
31 July 1999	20,000	25.00	5,000
31 July 2000	20,000	25.00	5,000
31 July 2001	20,000	16.70	3,340
31 July 2002	20,000	25.00	5,000
31 January 2003	20,000	-	-

12. ACCOUNTANTS' REPORT (Cont'd)**2. Group Financial Performance**

We set out below the summarised proforma consolidated results of Salcon Group for the financial years ended 31 July 1998 to 2002 and six-month ended 31 January 2003 after making such adjustments to exclude the results and the effects of those investments disposed of during the past five financial years from the proforma consolidated results.

2.1 Summarised Proforma Results

	← Proforma →					
	← Year ended 31 July →					6 months ended 31 January 2003
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	RM'000
Revenue	125,963	102,415	104,003	129,775	153,460	123,285
EBIDTA***	9,354	13,239	12,918	16,959	16,185	18,781
Interest expense	(1,093)	(711)	(635)	(465)	(1,823)	(1,093)
Depreciation	(502)	(458)	(835)	(892)	(944)	(767)
Amortisation	(12)	(18)	(530)	(530)	(605)	(494)
	(1,607)	(1,187)	(2,000)	(1,887)	(3,372)	(2,354)
Operating profits	7,747	12,052	10,918	15,072	12,813	16,427
Share of profit/(loss) of associated company	(7)	(1)	2,098	1,827	4,070	2,052
Share of profit in joint venture	-	-	-	-	-	85
Profit from ordinary activities	7,740	12,051	13,016	16,899	16,883	18,564
Exceptional items	-	-	(947)	-	-	-
Profit before taxation	7,740	12,051	12,069	16,899	16,883	18,564
Taxation*	(1,667)	-	1,010	(3,668)	(3,138)	(4,836)
Profit after exceptional items and taxation	6,073	12,051	13,079	13,231	13,745	13,728
Minority interest	-	-	(206)	(734)	(1,283)	(2,266)
Profit attributable to shareholders	6,073	12,051	12,873	12,497	12,462	11,462
Effective tax rate (%)**	21.54	-	(7.57)	18.75	21.42	26.24
Pre-tax profit margin (%)	6.14	11.77	12.52	13.02	11.00	15.06
Interest coverage ratio (times)	8.08	17.95	21.50	37.34	10.26	17.98
After tax return to shareholders' funds (%)	11.63	18.05	17.45	15.55	14.67	13.06
Number of ordinary shares in issue during the year ('000)	20,000	20,000	20,000	20,000	20,000	20,000
Earnings per share (sen)						
- Gross***	38.70	60.26	64.05	80.83	78.00	92.82
- Net****	30.37	60.26	69.10	62.49	62.31	68.64

12. ACCOUNTANTS' REPORT (Cont'd)



Note: There is no extraordinary item for the year/period under review.

^ Share of profit of joint venture had been proportionately taken up in the revenue and contract cost recognised as an expense.

** Taxation has been adjusted for over/under provision in the respective years.*

*** Effective tax rate is calculated based on restated taxation.*

**** Gross earnings per share has been calculated based on proforma profit before exceptional items and taxation but after minority interest on the number of ordinary shares issued.*

***** Net earnings per share has been calculated based on proforma profit before exceptional items but after taxation and minority interest on the number of ordinary shares issued.*

The summarised proforma consolidated results have been prepared on the following assumptions:-

- (i) The results and the effects of those investments disposed of during the past five financial years have been excluded from the proforma consolidated results.*
- (ii) The current structure of the Group has been in existence throughout the years under review.*

12. ACCOUNTANTS' REPORT (Cont'd)**2.2 Summarised Consolidated Results**

We set out below the summarised audited consolidated results of SEB Group for the financial years ended 31 July 1998 to 2002 and six-month ended 31 January 2003.

	← Audited →					
	← Year ended 31 July →					6 months ended 31 January 2003
	1998	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	132,606	102,415	104,003	129,775	153,460	123,285
EBIDTA***	9,472	13,239	12,918	16,959	16,185	18,781
Interest expense	(1,093)	(711)	(635)	(465)	(1,823)	(1,093)
Depreciation	(502)	(458)	(835)	(892)	(944)	(767)
Amortisation	(12)	(18)	(530)	(530)	(605)	(494)
	(1,607)	(1,187)	(2,000)	(1,887)	(3,372)	(2,354)
Operating profits	7,865	12,052	10,918	15,072	12,813	16,427
Share of profit of associated company	1,166	450	2,426	2,717	5,204	2,052
Share of profit in joint venture	-	-	-	-	-	85
Profit from ordinary activities	9,031	12,502	13,344	17,789	18,017	18,564
Exceptional items	-	7,061	(947)	-	-	-
Profit before taxation	9,031	19,563	12,397	17,789	18,017	18,564
Taxation	(2,143)	(55)	1,010	(3,668)	(3,138)	(4,836)
Profit after exceptional items and taxation	6,888	19,508	13,407	14,121	14,879	13,728
Minority interest	-	-	(206)	(734)	(1,283)	(2,266)
Profit attributable to shareholders	6,888	19,508	13,201	13,387	13,596	11,462
Effective tax rate (%)	16.96	0.28	0.71	18.75	21.42	26.24
Pre-tax profit margin (%)	6.81	12.21	12.83	13.71	11.74	15.06
Interest coverage ratio (times)	9.26	18.58	22.01	39.26	10.88	17.98
After tax return to shareholders' funds (%)	13.19	29.23	17.89	16.59	15.88	13.06
Number of ordinary shares in issue during the year ('000)	20,000	20,000	20,000	20,000	20,000	20,000
Earnings per share (sen)						
- Gross	45.16	62.51	66.72	88.94	90.08	92.82
- Net	34.44	62.24	71.77	70.61	74.40	68.64

12. ACCOUNTANTS' REPORT (Cont'd)



*** *Earnings before interest, depreciation, taxation and amortisation*

There is no extraordinary item for the year/period under review.

Notes: -

- a) Previously share of profit of joint venture were proportionately taken up in the revenue and contract cost recognised as an expense.
- b) Exceptional items arose from the disposal of subsidiary and associated companies, allowance for diminution in value of investment, foreign currency exchange differences and settlement of account.
- c) Generally, the effective tax rates for 1998, 2001, 2002 and 2003 were lower than the statutory tax rate as income derived from overseas projects were tax exempted.

No taxation was provided in 1999 in view of tax waiver in 1999 pursuant to Income Tax (Amendment) Act, 1999. The taxation in 1999 represented under-provision in prior years.

Whereas the taxation in 2000 represented over-provision in prior years.

- d) Gross earnings per share has been calculated based on profit before exceptional items and taxation on the number of ordinary shares issued.
- e) Net earnings per share has been calculated based on profit before exceptional items but after taxation on the number of ordinary shares issued.

(The remaining page is intentionally left blank)

12. ACCOUNTANTS' REPORT (Cont'd)

The exceptional item represents the following: -

	← Year ended 31 July →					6 months ended 31 January 2003
	1998	1999	2000	2001	2002	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gain on disposal of: -	-	-	-	-	-	-
- subsidiary company	-	7,552	-	-	-	-
- associated company	-	1,509	-	-	-	-
Unrealised foreign exchange loss	-	(1,600)	(1,180)	-	-	-
Provision for foreseeable loss	-	(400)	-	-	-	-
Foreseeable loss written back	-	-	233	-	-	-
	-	7,061	(947)	-	-	-

12. ACCOUNTANTS' REPORT (Cont'd)**3 Financial Performance**

We set out below the summarised results of the individual subsidiary companies based on their audited financial statements for the years ended 31 July 1998 to 2002 and six-month ended 31 January 2003.

3.1 SEB

	← Audited →					6 months ended 31 January 2003
	← Year ended 31 July →					
	1998	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	123,188	80,497	92,935	116,692	130,316	88,987
EBIDTA***	8,883	8,707	12,109	14,663	12,026	8,988
Interest expense	(993)	(702)	(429)	(332)	(1,733)	(1,072)
Depreciation	(448)	(409)	(546)	(574)	(525)	(414)
	(1,441)	(1,111)	(975)	(906)	(2,258)	(1,486)
Operating profits	7,442	7,596	11,134	13,757	9,768	7,502
Share of profit of jointly controlled entities	-	-	-	-	-	85
Profit from ordinary activities	7,442	7,596	11,134	13,757	9,768	7,587
Exceptional items	-	7,882	(947)	-	-	-
Profit before taxation	7,442	15,478	10,187	13,757	9,768	7,587
Taxation	(1,667)	-	964	(3,597)	(1,964)	(2,011)
Profit after exceptional items and after taxation	5,775	15,478	11,151	10,160	7,804	5,576
Dividends	(5,184)	(5,000)	(5,000)	(3,340)	(5,000)	-
	591	10,478	6,151	6,820	2,804	5,576
Number of ordinary shares of RM1.00 each in issue at year end ('000)	20,000	20,000	20,000	20,000	20,000	20,000
Earnings per share (sen)						
- Gross	37.21	37.98	55.67	68.79	48.84	37.94
- Net	28.88	37.98	60.49	50.80	39.02	27.88
Effective tax rate (%)	14.12	-	0.28	24.46	28.97	26.51

*** Earnings before interest, depreciation, taxation and amortisation

There is no amortisation charge or extraordinary item for the year/period under review.

12. ACCOUNTANTS' REPORT (Cont'd)



Notes: -

- a) Previously share of profits of jointly controlled entities were proportionately taken up in the revenue and contract cost recognized as an expense.
- b) Exceptional items arose from the disposal of subsidiary and associated companies, allowance for diminution in value of investment, foreign currency exchange differences and settlement of account.
- c) Generally, the effective tax rates were lower than the statutory tax rate as income derived from overseas projects were tax exempted. No taxation was provided in 1999 in view of tax waiver in 1999 pursuant to Income Tax (Amendment) Act, 1999.
- d) Gross earnings per share has been calculated based on profit before exceptional items and taxation on the number of ordinary shares issued.
- e) Net earnings per share has been calculated based on profit before exceptional items but after taxation on the number of ordinary shares issued.

(The remaining page is intentionally left blank)

12. ACCOUNTANTS' REPORT (Cont'd)**3.2 SCESB**

	← Audited →					6 months
	← Year ended 31 July →					ended 31
	1998	1999	2000	2001	2002	January
	RM'000	RM'000	RM'000	RM'000	RM'000	2003
						RM'000
Revenue	5,219	6,409	7,817	12,093	7,457	3,850
EBIDTA***	224	165	247	1,014	632	99
Interest expense	(103)	(9)	(11)	(12)	(59)	(45)
Depreciation	(48)	(42)	(39)	(60)	(45)	(23)
	(151)	(51)	(50)	(72)	(104)	(68)
Profit before taxation	73	114	197	942	528	31
Taxation	-	-	35	-	(310)	(9)
Profit after taxation	73	114	232	942	218	22
Number of ordinary shares of RM1.00 each in issue ('000)	3,000	3,000	3,000	3,000	3,000	3,000
Earnings per share (sen)						
- Gross	2.43	3.80	6.57	31.40	17.60	1.03
- Net	2.43	3.80	7.73	31.40	7.27	0.73
Effective tax rate (%)	-	-	(15.74)	14.44	32.20	29.03

*** Earnings before interest, depreciation, taxation and amortisation

There is no amortisation charge or extraordinary item for the year/period under review.

Notes: -

- a) No taxation was provided for 1998 and the effective tax rates for 2000 and 2001 were lower than the statutory tax as a result of the utilisation of capital allowances brought forward and unabsorbed tax losses.

No taxation was provided for in 1999 in view of tax waiver in 1999 pursuant to Income Tax (Amendment) Act, 1999.

The effective tax rates for 2002 and 2003 were higher than the statutory tax rates due to certain expenses disallowed for taxation deduction.

- b) There were no exceptional items for all the years/period under review.
- c) Gross and net earnings per share are calculated based on profit before taxation and after taxation, respectively, on the number of ordinary shares in issue.

12. ACCOUNTANTS' REPORT (Cont'd)**3.3 SRSB**

	←———— Audited —————→					
	←———— Year ended 31 July —————→					6 months ended 31 January 2003
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	RM'000
Revenue	-	-	794	794	794	397
EBIDTA***	(2)	(2)	428	445	984	172
Interest expense	-	-	(195)	(121)	(50)	(2)
Depreciation	-	-	(247)	(257)	(263)	(132)
	-	-	(442)	(378)	(313)	(134)
(Loss)/profit before taxation	(2)	(2)	(14)	67	671	38
Taxation	-	-	-	(153)	(117)	(60)
(Loss)/profit after taxation	(2)	(2)	(14)	(86)	554	(22)
Number of ordinary shares of RM1.00 each in issue ('000)	500	500	500	500	500	500
Earning per share (sen)						
- Gross	(0.4)	(0.4)	(2.8)	13.4	134.2	7.6
- Net	(0.4)	(0.4)	(2.8)	(17.2)	110.8	(4.4)
Effective tax rate (%)	-	-	(450.00)	138.81	16.99	157.89

*** Earnings before interest, depreciation, taxation and amortisation

There is no amortisation charge or extraordinary item for the year/period under review.

Notes: -

- a) There was no taxation charge for 1998 and 1999 as SRSB incurred losses.

The effective tax rate was higher than statutory tax rate in 2000, 2001 and 2003 due to certain expenses that are not deductible for tax purposes.

However, the effective tax rate is lower than statutory tax rate in 2002 as gain arising from sale of property is not subject to corporate tax but Real Property Gain Tax (RPGT). RPGT rate is lower than the statutory tax rate.

- b) There were no exceptional items for all the years/period under review.

- c) Gross and net earnings per share are calculated based on profit before taxation and after taxation, respectively, on the number of ordinary shares in issue.

12. ACCOUNTANTS' REPORT (Cont'd)**3.4 ESB**

	← Audited Consolidation Level →					Audited Company Level	
	← Year ended 31 December →					7 months ended 31 July	6 months ended 31 January
	1997	1998	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	17,853	23,933	36,507	23,374	25,833	23,494	30,378
EBIDTA***	1,135	1,372	4,822	3,729	3,626	2,499	7,119
Interest expense	(85)	(80)	(46)	(31)	(12)	(14)	(7)
Depreciation	(201)	(171)	(178)	(177)	(335)	(187)	(197)
	(286)	(251)	(224)	(208)	(347)	(201)	(204)
Profit from ordinary activities	849	1,121	4,598	3,521	3,279	2,298	6,915
Exceptional items	-	-	864	-	-	-	-
Profit before taxation	849	1,121	5,462	3,521	3,279	2,298	6,915
Taxation	(216)	(343)	(223)	(999)	(938)	(804)	(2,110)
Profit after exceptional items and taxation	633	778	5,239	2,522	2,341	1,494	4,805
Number of ordinary shares of RM1.00 each in issue at year/ period end ('000)	1,300	1,300	2,600	2,600	3,500	3,500	3,500
Earnings per share (sen)							
- Gross	65.31	86.23	176.85	135.42	93.69	65.66	197.57
- Net	48.69	59.85	168.27	97.00	66.89	42.69	137.28
Effective tax rate (%)	35.57	49.78	(0.42)	28.88	30.53	34.99	29.34

*** Earnings before interest, depreciation, taxation and amortisation

There is no amortisation charge or extraordinary item for the year/period under review.

Notes: -

- a) Consolidated financial statements were prepared for the years ended 31 December 1997 to 2001, whereas the financial statements for the period ended 31 July 2002 and 31 January 2003 were prepared on the Company level basis due to the disposal of all its subsidiary companies during the financial period ended 31 July 2002.
- b) The effective tax rates were higher than the statutory tax rate due to certain expenses not allowable for tax purposes.

No taxation was provided for in 1999 in view of tax waiver in 1999 pursuant to Income Tax (Amendment) Act, 1999.

12. ACCOUNTANTS' REPORT (Cont'd)



- c) Exceptional items represents contract revenue undertaken up in previous year.
- d) Gross earnings per share has been calculated based on profit before exceptional items and taxation on the number of ordinary shares issued.
- e) Net earnings per share has been calculated based on profit before exceptional items but after taxation on the number of ordinary shares issued.

(The remaining page is intentionally left blank)

12. ACCOUNTANTS' REPORT (Cont'd)**3.5 PMSB**

	← Audited →					6 months ended 31 January 2003 RM'000
	← Year ended 31 July →					
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	
Revenue	1,055	31,605	1,110	-	-	-
EBIDTA***	260	2,375	2,424	1	(4)	(1)
Depreciation	(7)	(6)	(3)	-	-	-
Profit/(Loss) before taxation	253	2,369	2,421	1	(4)	(1)
Taxation	-	-	10	(53)	-	-
Profit/(Loss) after taxation	253	2,369	2,431	(52)	(4)	(1)
Number of ordinary shares of RM1.00 each in issue at year end ('000)	200	200	200	200	200	200
Earnings per share (sen)						
- Gross	126.5	1,184.5	1,210.5	0.50	(2.0)	(0.5)
- Net	126.5	1,184.5	1,215.5	(26.0)	(2.0)	(0.5)
Effective tax rate (%)	-	-	-	5,300	-	-

*** Earnings before interest, depreciation, taxation and amortisation

There is no interest expense, amortisation charge or extraordinary item for the year/period under review.

Notes: -

- a) There were no revenue for the financial years ended 31 July 2001 and 2002 and financial period ended 31 January 2003 as PMSB remained dormant subsequent to the completion of a project in Vietnam.
- b) There was no tax charge from 1998 to 2000 despite the profitability due to tax exemption on foreign income remitted. The RM10,000 tax credit in 2000 was in respect of over-provision of taxation in prior years.
No taxation was provided for in 1999 in view of the tax waiver pursuant to the Income tax (Amendment) Act, 1999. The RM53,000 tax charge in 2001 was in respect of under-provision of taxation in prior years.
There was no tax charge in 2002 and 2003 as PMSB remained dormant.
- c) There were no exceptional items for all the years/period under review.
- d) Gross and net earnings per share are calculated based on profit before taxation and after taxation, respectively, on the number of ordinary shares in issue.

12. ACCOUNTANTS' REPORT (Cont'd)**3.6 BTESB**

	←———— Audited —————→					
	←———— Year ended 31 July —————→					6 months ended 31 January 2003
	1998	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	-	24,536	153	-	-	-
(Loss)/profit before taxation	(2)	1,997	26	-	(4)	(1)
Taxation	-	-	-	148	-	-
(Loss)/profit after taxation	(2)	1,997	26	148	(4)	(1)
Number of ordinary shares of RM1.00 each in issue at year end ('000)	1,700	1,700	1,700	1,700	1,700	1,700
Earnings per share (sen)						
- Gross	(0.12)	117.47	1.53	-	(0.24)	(0.06)
- Net	(0.12)	117.47	1.53	8.71	(0.24)	(0.06)

There is no depreciation, interest expense, amortisation charge or extraordinary item for the year/period under review.

Notes: -

a) There was no revenue for financial years ended 31 July 2001 and 2002 and financial period ended 31 January 2003 as BTESB remained dormant subsequent to the completion of a project in Vietnam.

b) No taxation was provided for in 1998, 2001, 2002 and 2003 as BTESB was dormant.

No taxation was provided for in 1999 in view of the tax waiver for 1999 pursuant to Income Tax (Amendment) Act 1999.

There was no taxation charge in 2000 due to tax exemption on foreign income remitted.

In 2001, there was an overprovision of taxation from previous years.

c) There were no exceptional items for all the years/period under review.

d) Gross and net earnings per share are calculated based on profit before taxation and after taxation, respectively, on the number of ordinary shares in issue.

12. ACCOUNTANTS' REPORT (Cont'd)**3.7 IWSSB**

	← Audited →					
	Year ended 2 January 1998** RM'000	18 months ended 31 July 1999** RM'000	← Year ended 31 July →			6 months ended 31 January 2003 RM'000
			2000 RM'000	2001 RM'000	2002 RM'000	
Revenue	-	-	1,345	1,471	1,633	695
Profit before taxation	-	-	1,336	1,510	1,632	707
Taxation	-	-	-	(12)	(2)	(4)
Profit after taxation	-	-	1,336	1,498	1,630	703
Number of ordinary shares of RM1.00 each in issue at year end ('000)	*	*	20	20	20	20
Weighted average number of ordinary shares of RM1.00 each in issue ('000) including the issue of RM19,998 ordinary shares of RM1.00 each on 12 April 2000	*	*	13.25	20	20	20
Earnings per share (sen)						
- Gross	-	-	6,680	7,550	8,160	3,535
- Net	-	-	6,680	7,490	8,150	3,515

There is no depreciation, interest expense, amortisation charge or extraordinary item for the year/period under review.

* Represents 2 ordinary shares of RM1.00 each.

** No income statements were prepared for the years/period ended 1998 and 1999 as IWSSB had not commenced operations.

Notes: -

- a) Currently, IWSSB has an operation and maintenance contract with BAWC, Vietnam commencing from 1.8.1999 for 20 years.
- b) There was no/minimal tax charge, as IWSSB's revenue arose mainly from foreign income remitted, which is exempted from income tax.
- c) There were no exceptional items for all the years/period under review.
- d) Gross and net earnings per share are calculated based on profit before taxation and after taxation, respectively, on the number of ordinary shares in issue.

12. ACCOUNTANTS' REPORT (Cont'd)**3.8 EUCSB**

	←———— Audited —————→					6 months ended 31 January 2003
	←———— Year ended 31 July —————→					
	1998	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	-	-	26,874	29,412	32,669	13,905
EBIDTA***	1,346	(39)	18,796	20,246	24,246	10,807
Interest expense	-	-	(6,067)	(5,660)	(2,646)	(988)
Depreciation	-	-	(7,008)	(6,938)	(6,970)	(3,847)
Amortisation	(1)	-	(164)	(164)	(164)	(82)
	(1)	-	(13,239)	(12,762)	(9,780)	(4,917)
Profit/(Loss) before taxation	1,345	(39)	5,557	7,484	14,466	5,890
Taxation	-	-	(2)	-	(125)	-
Profit/(Loss) after taxation before minority interest	1,345	(39)	5,555	7,484	14,341	5,890
Minority interests	-	-	(457)	(686)	(1,453)	(337)
Profit attributable to shareholders	1,345	(39)	5,098	6,798	12,888	5,553
Number of ordinary shares of RM1.00 each in issue at year end ('000)	2,000	2,000	2,000	2,000	2,000	2,000
Earnings per share (sen)						
- Gross	67.25	(1.95)	277.9	374.2	723.3	294.5
- Net	67.25	(1.95)	277.8	374.2	717.1	294.5

There is no extraordinary item for the year/period under review.

*** *Earnings before interest, depreciation, taxation and amortisation*

Notes: -

- a) The principal activity of EUCSB is investing in a subsidiary company which undertakes the development of a water treatment plant on a build-operate-transfer basis in Ho Chi Minh City, Vietnam.
- b) BAWC, a 90% subsidiary company owned by EUCSB, was incorporated in Vietnam as a 100% foreign owned company. The principal activities of BAWC are to produce and supply treated water to Ho Chi Minh City and the neighbouring Industrial Zones, under the licence issued by the Ministry of Planning and Investment. The licence is valid for 20 years from the date of commencement of operations. The construction of the plant was completed during the financial year 1999 and BAWC commenced operations on 1.8.1999.

12. ACCOUNTANTS' REPORT (Cont'd)



- c) Effective tax rate is lower than the statutory tax rate as revenue derived from BAWC is exempted from corporate income tax (as stipulated in BAWC's investment license) for four years starting from the first profit making year and is entitled to 50% reduction of tax payable for the subsequent four years. A 10% business income tax will apply for the remaining years of the project.
- d) There were no exceptional items for all the years/period under review.
- e) Gross and net earnings per share are calculated based on profit before taxation and after taxation, respectively, on the number of ordinary shares in issue.

(The remaining page is intentionally left blank)