4. INFORMATION ON THE SALCON GROUP *(Cont'd)*

Name of Project	Description of Project	Type of Project	Project Owner	Location	Commencement Date	Estimated Completion Date
Contract value >= RM50 million						
Lancang Treatment Works	Construction of Jus Dam, Lancang Plant and Baru Gadek Plant and other related works relating to Package B-Lancang Treatment Works & Bulk Transfer	Water Treatment Plant	Pembinaan Air Melaka	Lancang, Melaka	18.02.2002	17.02.2004
Privatisation of the management, operation and maintenance of Sg. Terip Water Treatment Plant including monitoring and inspection of Sg. Terip Dam, Sg. Kelinchi Dam, Upper Muar Dam, Gemenchih Dam, Pedas Dam and Sg Kelinchi Raw Water Pumping Station in Negeri Sembilan	Privatisation of the management, operation and maintenance of Sg. Terip Water Treatment Plant including monitoring and inspection of Sg. Terip Dam, Sg. Kelinchi Dam, Upper Muar Dam, Gemenchih Dam, Pedas Dam and Sg Kelinchi Raw Water Pumping Station in Negeri Sembilan	O&M	Jabatan Bekalan Air Negeri Sembilan	Seremban, Negeri Sembilan	01.10.2002	01.09.2012

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4.5.1 Research and Development

Research and development ("R&D") activities are undertaken by the Engineering Department in the Salcon Group, focusing largely on the water sectors, the mainstay of the Salcon Group's business.

The main objective is to improve the design of process plants which the Salcon Group adopted in various water treatment plants. At present, studies are conducted to optimise the efficiency of the sand removal system (ejector system). In addition, optimisation of the sludge removal efficiency of the lamella clarifier is an on-going activity. Both studies are performed on existing water treatment plants.

As part of future R&D plans, the Salcon Group has included the following programmes:

(a) Optimisation of elements in the design of dissolved air flotation system such as chemical dosage, sludge removal system and water recycle rate. The estimated time frame to conduct the study is 12 months.

(b) Optimisation of elements in the design of filtration system. The estimated time frame to conduct the study is 24 months.

The Salcon Group is also considering programmes in collaboration with institutions of higher education as well as with foreign corporations in the areas of expertise and technology for which they are known for.

4.5.2 Quality Management Programmes and Systems

The Salcon Group is focused on providing quality service and constantly improving the systems and work proceses in the projects it undertakes. The Quality Assurance, Safety, Health and Environment Department is responsible for ensuring that the work is undertaken in accordance with relevant quality management systems. It is also the role of this department to monitor the continuing compliance of the Salcon Group with the ISO9001:2000 and ISO14001:1996 standards.

The WED unit was awarded the ISO9001:2000 accreditation by the Bureau Veritas Quality International for the design, procurement, construction, testing & commissioning and maintenance of water and wastewater treatment plants in 1999. Staying true to its environmental philosophy "Environmental Conservation through Sustainable Development", the WED was awarded the ISO14001:1996 certification in 2002 for its commitment to the prevention of pollution and continuous improvement of environmental performance throughout its business operations.

Meanwhile the Salcon Group also conforms to the Occupational Safety and Health OSHA 18001 (1994) requirements, with the development of a Corporate Safety and Health Manual for implementation on the project sites and the corporate office. At the same time, the Group also established a Safety and Health Policy Statement acknowledging top management's commitment in maintaining stringent safety work practices on and off the project sites. Furthermore, a Safety and Health Committee is also in place to periodically review, update and continuously improve the effectiveness of the Safety and Health Management System adopted by the organisation.

The Salcon Group continuously keeps abreast of the latest development and technology; it maintains a library cum resource centre and subscribes to relevant technical magazines and periodicals to keep abreast of industry standards and codes of practice.

All staff are also encouraged to attend and participate in relevant industry conferences and exhibitions. A mentoring system is also in place where junior staff are closely supervised, guided and trained by experienced and senior staff. Emphasis is also placed on providing relevant and continuous training to employees including in the areas of risk and project management as well as in the use of information technology within the Salcon Group.

In its overseas operations, the Salcon Group has set up country offices that are headed by its senior personnel who are experienced and familiar with the management and operating standards required by the Salcon Group. In this manner, the Salcon Group ensures that the required level of quality is maintained. At the same time, a proactive approach towards risk assessment is adopted and business opportunities in these countries are identified and communicated immediately to enable timely decision-making.

4.5.3 Employees

As at 15 July 2003, the Group has 211 employees. The management of the Group enjoys a good relationship with the employees and there have been no disputes with the employees over the years. The employees do not belong to any trade union. The categories of employees and their number of years in service with the Group are tabulated below:

Category of employees	Years of Service					
	< 1	1 -3	4 - 5	6 – 10	> 10	Total
Senior Management	-	10	1	2	4	17
Managerial	5	9	2	7	9	32
Supervisory	11	22	5	13	12	63
General	66	8	3	11	11	99
Total	**82**	**49**	**11**	**33**	**36**	**211**

4.5.4 Interruptions In Business During the Past Twelve Months

There has been no interruption to the Group's business or operations in the past twelve(12) months.

4.5.5 Key Achievements of the Group

Key achievements of each SBU are summarised as follows:

WED

(i) First BOT in Malaysian Water Industry

SEB is a partner in a consortium involved in the privatisation of Greater Ipoh Water Supply II, a major BOT water development programme (valued at RM308 million) involving sourcing, treatment and supply of water to Lembaga Air Perak.

(ii) First BOT in Vietnam

SEB is a lead member in a consortium which is involved in the finance, design, construction and commissioning of the first BOT project in Vietnam. The project is valued at USD35.8 million.

(iii) First Integrated Dissolved Air Flotation System in Malaysia

Salcon is proud to implement the first integrated Dissolved Air Flotation System in Malaysia. The technology was utilised in the 120 Mld treatment plant in Bertam, Melaka.

(iv) Advanced Lamella Plate Technology

Salcon also has the ability to implement new technologies, and a recent sample of this is the use of Lamella Plate Technology in the 45 Mld Kuala Jelai Water Treatment Plant in Negeri Sembilan.

(v) Largest Sludge De-watering Plant in Johor Bahru

The construction of the largest sludge de-watering plant in Johor Bahru for the Public Utilities Board of Singapore.

AID

AID has successfully completed no less than 80 palm oil mill projects in Malaysia and overseas with capacities ranging between 10 and 120 tonnes FFB/hr.

AID was the first to build one of the largest palm oil mills in Malaysia (80 tonnes FFB per hour) on a turnkey basis in Sabah, during the financial year ended 1998.

In 1999, the AID completed its first turnkey palm oil mill project in India (Andhra Pradesh) within a record time of 13 months, in comparison to the normal completion period of 16 to 18 months.

In Nigeria, SEB completed an integrated palm oil mill complex comprising a crude palm oil mill, refinery and kernel crushing plant.

4.5.6 Market and Competitive Conditions

The Salcon Group is one of the most established engineering companies in the water, wastewater and palm oil mill industry in Malaysia with more than 28 years of operating experience and the Group has been and is in a position to compete in the market place.

The market for engineering and construction sector is competitive especially with many Malaysian and foreign companies being involved. The strategy of competition is on price, quality and timely completion. Having been involved in the water and palm oil mill industries for almost three decades, the Group has the requisite knowledge, skills and capabilities, and is able to work more effectively and efficiently. In addition, organising the Group in SBU basis allows specialisation to deliver quality products and services. The Group is also continuously improving its methods, systems and procedures in line with market demands.

The complexity and nature of work requiring fast completion, has also created a high barrier to entry for new players in the market. By maintaining flexibility to offer services at all levels, the Group is able to compete.

Water Sector

In the water sector, the main players who have been in the industry with this technical specialisation are few. In the recent years, there were few entrants to the market to compete for large turnkey projects. Those without technical specialty have teamed up with foreign players to compete. However, in practice, it requires years of active market penetration to reach the level of involvement achieved by the Group at present.

The Government expenditure for water infrastructure of nearly RM4.0 billion in the Eighth Malaysia Plan is expected to extend into the Ninth Malaysia Plan. As water consumption for domestic and industrial use is expected to increase by 5.4% as stated in the Eighth Malaysia Plan and while existing and planned capacity will be sufficient to meet this increase, attention will be given to long-term water resources planning and development. The Government is adopting the same approach as for toll roads i.e. to privatise the water sector to minimise direct funding. Therefore, the availability of work from the public as well as the private sectors will continue.

Wastewater Sector

The market for the industry is competitive yet fragmented with the participation of both local and foreign companies. The players compete in terms of price and quality. Therefore, price must be competitive and the quality of work is of critical importance besides technological innovation, timeliness and flexibility in producing output as well as effectiveness and efficiency in delivering after-sales service. By leveraging existing capabilities of ESB with continuous improvement and responsiveness to market demands, the Group is well-poised to compete in the market place.

Palm Oil Mill Industry

Since Malaysia is the world's largest producer and exporter of palm oil for the past decade, expertise in palm oil mill contracting is evidently and has been predominantly in Malaysia. With nearly three decades of experience in constructing mills and refineries in countries ranging from Indonesia to Africa, the Salcon Group has achieved an enviable track record to secure future contracts in areas where new palm oil mill expansion is expected.

In South East Asia, the palm oil mill growth is projected to be in East Malaysia and Indonesia where the Malaysian palm oil conglomerates are taking the lead which the Salcon Group is familiar with. The Salcon Group is well positioned to tap the opportunities present in the growth areas having completed mills in East Malaysia and Indonesia.

The experience gained in the palm oil mill business over the years has enabled AID to have the know-how to complete a palm oil mill project within a record time of 13 months, in comparison to the normal completion period of 16 to 18 months which clients favour. This achievement has provided AID an advantage over other competitors.

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4.5.7 Governing Laws and Regulations

Water Supply Industry

Malaysia was among the first Southeast Asian nations to give priority to the environment in its industrialisation program. The Malaysian government formalised its environmental management policies in its Third Malaysian Plan (1976-1980) as early as the mid-1970s and again in the late 1980s in response to international concern. Since 1989, the government has placed greater emphasis on environmental problems due largely to rapid industrialisation and urbanisation. These include water supply and wastewater treatment, air pollution control, hazardous waste management, and more recently, solid waste management. Water authorities require that treatment plants produce potable water to WHO standards.

The Salcon Group will continue to carry out its business in accordance with sound environmental standards and to give priority to protecting the environment.

The legislation relevant to the water sources and water supplies are as follows:

(i) Water Act, 1920 (Revised 1989)

Under the Water Act, 1920 (Revised 1989), the entire property in and control of all rivers in any State is vested solely in the Ruler of such State.

No person may in any manner obstruct or interfere with any river except under and in accordance with the terms of a license under this Act. A license to divert water from a river in any district for private or domestic purposes, or to use water in the cultivation of rice, industrial and other purposes may be granted by the District Officer of such district with the approval of the State Authority.

This Act only applies to the States of Negeri Sembilan, Pahang, Perak, Selangor (including the Federal Territory of Kuala Lumpur), Melaka and Pulau Pinang. For the other States, there are similar provisions in the State Enactments.

(ii) Geological Survey Act, 1974

The legislation governing the extraction of groundwater is the Geological Survey Act, 1974 which requires that any person who develops a well for the purpose of extracting water has to notify the Director General of the Geological Survey Department. This requirement does not apply to any well which is less than 30 feet (9.15m) in depth without reaching bedrock or yield less than 500 gallons (2,273 litres) of water per day and is used only for domestic purposes.

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(iii) Environment Quality Act, 1974

The Environment Quality (Prescribed Activities) (Environmental Impact Assessment) Order, 1987 enforced under the Environmental Quality Act, 1974 governs the environmental impacts due to the prescribed activities. One of which is the construction of dams or impounding reservoirs with a surface area of 200 hectares or more. Environmental Impact Assessment is also required for the groundwater development for industrial, agricultural or urban water supply for quantity greater than 4,500 m^3 per day.

The legislation relevant to public water supply are:

(a) Water Supply Enactments

The Water Supply Enactment, 1955 empowers the State Water Supply Authorities ("SWSA") to supply water to domestic and trade consumers. This Enactment also empowers the SWSA to lay water mains and distribution pipes across or under any street and through or under any enclosed land making reasonable compensation for any damage done. This Enactment only applies to the States of Pahang and Perak. For other States there are similar provisions in the State Enactments.

In Johor, Terengganu and Pulau Pinang, private limited companies were formed to take over the water supply services through the process of corporatisation and privatisation. These were established under the provisions of the revised Water Supply Enactments in the respective States.

(b) The Proposed Safe Drinking Water Act

At present, the quality of treated water supplied by the SWSA/companies is based on WHO standards. To further enforce compliance of quality, the Ministry of Health is in the process of drafting the "Safe Drinking Water Act" to control the quality of drinking water supplied to the public. Under this proposed Act, the supply of drinking water, which does not satisfy specific standards would be an offence.

(Source: Malaysia Water Industry Guide 2001, Malaysian Water Association in collaboration with the Water Supply Branch, Public Works Department, Malaysia)

4.5.8 Environmental Concerns

Salcon is committed to producing safe drinking water and treating wastewater, which satisfies all stringent quality standards set by international bodies such as WHO and the Environmental Protection Agency. SEB's concern to the environment is reflected in its environmental philosophy of "Environmental Conservation through Sustainable Development". SEB has been awarded the ISO14001:1996 certification in 2002 for its commitment to the prevention of pollution and continuous improvement of environmental performance throughout its business operations.

4.6 Industry Overview

(The information stated herein are representations from the management of Salcon save for those indicated otherwise. The said representations are based on Salcon's own research and have been compiled and collated after exercising reasonable due diligence and care)

4.6.1 Water Sector

Overview

In the early 19th century, water supply systems started to be implemented in the Federated Malay States and the Straits Settlements. During the Japanese Occupation between 1941 and 1945, there was no expansion in the water supply systems. Immediately after the war, the development of water supply continued, and by the year 1950, the country had one hundred treatment plants producing 195 Mld supplying a population of 1.15 million. Major developments, however, took an upturn during the era after the nation gained independence from the British in 1957 with the implementation of the National Five Year Development Plans in which the Government laid particular emphasis on the development of various sectors such as water supply, roads, education and health, all of which are essential for national development.

As the country moves into the 21st century, emphasis will be given to increasing the capacity and accessibility in less developed areas while in urban areas, the focus will be to enhance efficiency and improve public transport services. The provision of utilities such as communications, water and sewerage will be given priority to increase coverage and improve the quality of life which will be implemented under the 8th Malaysia Plan period (2001 – 2005).

(Source: Eighth Malaysia Plan)

The commissioning of new water supply projects will further improve supply to meet demand throughout the country. The production capacity increased from 9,442 Mld in 1995 to about 11,917 Mld in 2000. While the quantity supplied to consumers is expected to increase from 7,662 Mld to about 9,655 Mld during the same period. The urban coverage is expected to reach 100 per cent in most states, while the rural coverage is expected to increase from 77 percent in 1995 to 91 per cent in year 2005.

(Source: Eighth Malaysia Plan & Malaysia Water Industry Guide 2002, Malaysian Water Association in collaboration with the Water Supply Branch, Public Works Department, Malaysia).

Industry Segments

The water supply industry can be broadly separated into two distinct segments, i.e. production and distribution. The production aspects generally encompasses the upstream activities, from the abstraction of raw water to the treatment and sales of bulk treated water whereas the distribution sub-sector involves delivery of treated water to customers, as well as collection of bills.

Water Production

Water production is either undertaken by the government via the water authorities or by the private sector through privatised concessions. Under each category, there are opportunities in terms of new capacity as well as upgrading of existing facilities. These in turn will consist of construction work or O&M. The construction of the facilities can further be split into several disciplines, of which two major portions are civil and structural works as well as M&E works.

Water Authorities

Under the Federal Constitution of Malaysia, water supply matters are the responsibility of the states. State Governments are responsible for the development, operation and maintenance of water supplies. The States exercise this responsibility through the state Public Works Department, State Water Supply Department, State Water Board or the State Water Corporation or privatised and/or corporatised companies.

The state water supply authorities have a monopoly in carrying out the task of public water supply in the respective states. The scope of responsibility of public water supply involves planning, financing, development, O&M of water supply and consumer services.

The development aspect involves source works such as dams, construction of water treatment plants, trunk mains and service reservoirs, water supply distribution systems and connections to consumers. The O&M aspect involves all components of the water supply system i.e. to ensure that the facilities operate efficiently and are capable of satisfying specific levels of service.

Privatisation in the Water Supply Industry

Participation by the private sector will continue to be encouraged under the Eighth Malaysia Plan (2001 – 2005), with the Government assuming an increasingly important role in the supervision and setting of performance standards of infrastructure facilities and services to support the growth and competitiveness of other sectors. In this regard, privatisation will continue to be implemented to facilitate economic growth. The implementation of the privatisation programme continued to be guided by the Privatisation Master plan and aimed at benefiting all Malaysians. Steps will be taken to further strengthen and streamline the implementation process as well as regulatory framework to ensure the effectiveness of the privatisation programme.

During the Eighth Malaysia Plan period, the states of Melaka, Negeri Sembilan, Pahang, Perak and Sabah are expected to complete the privatisation or corporatisation of water supply authorities. Privatisation of water supply authorities will be conducted in an integrated manner to include treatment works, distribution of water, billing and customer services. State water regulatory bodies will be set up with sufficient power for the enforcement of economic and safety regulations to ensure that the private companies adhere to the conditions in the privatisation agreement. In enhancing the effectiveness of the state's regulatory mechanism, the Water and Sanitation Commission will be set up to advise state governments on matters relating to social obligations to be performed by the concessionaire as well as on legal aspects.

(Source: Eighth Malaysia Plan)

4. INFORMATION ON THE SALCON GROUP *(Cont'd)*

As at end of 2000, there were 463 water treatment plants in Malaysia as compared to 462 as at the end of 1999. The total production capacity was about 11,917,054 m^3 per day as compared to the average production of 9,655,104 m^3 per day. The operation and maintenance of these treatment plants are the responsibility of the respective State Water Authorities/companies in the states.

(Source: Malaysia Water Industry Guide 2001 & 2002, Malaysian Water Association in collaboration with the Water Supply Branch, Public Works Department, Malaysia)

In some other states, some aspects of the services such as the operation and maintenance of treatment plants have been privatised in the initial stage. Under this concept, the private operator is only responsible to treat the raw water and then sells it to the State Water Authorities. The distribution of the treated water to the consumers, billings and collection of revenue remain the responsibility of the State Water Authorities.

For the states which have only privatised some of their water supply services, the process of privatisation is still ongoing and ultimately all the water supply functions will be fully privatised.

(Source: Malaysia Water Industry Guide 2001, Malaysian Water Association in collaboration with the Water Supply Branch, Public Works Department, Malaysia)

Financing

The Government will continue to provide a substantial allocation for infrastructure and utilities development. A total of RM27 billion will be allocated by the Government, with RM4.0 billion for water supply and RM1.6 billion for sewerage. The substantial investment in infrastructure and utilities projects will further improve the transport network as well as the availability and reliability of public utilities.

Water supply expenditures for capital works under the 5-Year Malaysia Plans:

5-year plan	Period	Total Expenditure (RM'000)
Third Malaysia Plan	1976 - 1980	538
Fourth Malaysia Plan	1981 - 1985	2,085
Fifth Malaysia Plan	1986 - 1990	2,348
Sixth Malaysia Plan	1991 - 1995	2,089
Seventh Malaysia Plan	1996 - 2000	2,385
Eighth Malaysia Plan	2001 - 2005	3,966*

* *Budget Allocation (Revised)*

(Source: Malaysia Water Industry Guide 2001, Malaysian Water Association in collaboration with the Water Supply Branch, Public Works Department, Malaysia & Eighth Malaysia Plan (2001-2005))

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Water Supply Resources and Development Plans

Water Supply

The thrust of the sub-sector will focus on the need to efficiently manage the national water resources so that the nation will have an adequate supply of safe water. For this purpose, the proposed National Water Policy and the new National Water Resources Master Plan, which cover the planning horizon up to year 2050, will provide the strategies and guiding principles for the future development and conservation of national water resources. These principles will be based on, among others, integrated development, equitable regional allocation of water resources, environmental integrity, uniform water regulation and practices, economic value of water and uniform water tariff structure. In this respect, the proposed Water and Sanitation Commission will enforce compliance to meet environmental and water quality objectives through the regulatory mechanism. In addition, the Government will incorporate watershed planning as a decision-making tool involving land-use policies to reflect the economic value of water catchments, forest reserves and other protected areas, as well as to gazette water catchment areas, dam sites and riparian areas to preserve water supply for future use. Adequate funding and resources will be provided to carry out these programmes effectively. These will be coordinated by the National Water Resources Council through greater cooperation and coordination via federal-state Government and industry players' dialogues and partnerships.

Besides ensuring an efficient and reliable water supply system, priority will be given to minimise wastage and losses. During the plan period, an effective and comprehensive demand management and conservation strategy will be introduced. The NRW is thus expected to be reduced from 36 percent in 2000 to 31 percent in 2005. The public awareness campaign on the importance of conserving water will be intensified. Building by-laws will be amended to ensure that new houses and industrial premises are fitted with water conservation devices. Efforts will also be undertaken to improve the monitoring and surveillance of dams. These measures will include those monitoring of dam characteristics such as hydrological yield, storage volume, critical level and mode of release of water for better balancing of supply and demand, particularly during the dry season. In addition, the construction of more storage bunds will be carried out.

Demand for water for domestic and industrial use is expected to increase by 5.4 percent per annum during the Plan period. The national water supply coverage is expected to increase to 95%, with almost 100 percent coverage of urban areas and 91 percent of rural areas in 2005. Besides meeting the increasing demand in urban areas, the Government will continue to provide good quality drinking water to small rural communities. In this regard, the development of infrastructure facilities will continue to be undertaken to tap groundwater and treat water from rivers and streams to supplement piped water. Supply of water will be further improved in states that have low water coverage in rural areas. In addition, the utilisation of downstream surface water for industrial and non-critical purposes will be implemented.

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The implementation of water supply projects will be further accelerated, such as the construction of the Chereh Dam and the Greater Kuantan Water Supply and the Tanjung Malim Water Supply Scheme. The construction of two major source works, the Sungai Selangor Phase III project (SSP3) and the Pahang-Selangor Raw Water Transfer Scheme, will commence during the Plan period to cater for the increase in water demand in the Klang Valley. Besides the Sungai Selangor Dam, the SSP3 includes Stage 1 of the Bukit Badong Water Treatment Plant with a capacity of 400 Mld which is expected to be completed by 2002 and Stage 2 with a capacity of 400 Mld by 2004. the Pahang-Selangor Raw Water Transfer project is designed to transfer a maximum capacity of 2,400 Mld of raw water by means of pipelines and a tunnel from Pahang to Selangor as well as the Federal Territory of Kuala Lumpur and subsequently to Negeri Sembilan.

The use of information and communications technologies ("ICT") will be expanded with the establishment of a standardised national information system with a network of databases at the Federal and state levels. Apart from data on water availability and actual usage, the system will also include projections of demand for water. In addition, to enhance the management and operation of water distribution, the application of Geographical Information System, SCADA, telemetry systems as well as customer information and billing systems will be expanded. These systems will, among others, alleviate the problem of NRW through the early detection of problem areas.

(Source: Eighth Malaysia Plan)

Prospects

Despite the fact that Malaysia is blessed with abundant rainfall, with average annual rainfall varying from 2,000 to 2,500 mm, the country still experienced water shortages from time to time. As such, the government has given considerable emphasis on the provision of basic amenities and utility services to alleviate the situation. In particular, to overcome the problem of water shortage especially in rapidly developing areas, interstate water transfer programmes as well as the utilisation of surface downstream water for industrial and non-critical purposes will be implemented. Efforts will also be taken to identify potential groundwater sources as a supplementary source of surface water, especially during dry seasons. To improve water demand management, programmes to reduce non-revenue water and increase pubic awareness on conservation will be further intensified. Hence, there is tremendous scope for participation by the private sector in areas of water treatment, storage as well as distribution.

(Source: The Third Outline Perspective Plan 2001-2010, Economic Planning Unit, Prime Minister's Department, Malaysia)

The demand for water is dependent on economic and population growth of the country. The Malaysian economy ranked the one of the strongest economies in the Asean region, experiencing a sustained growth of 8% per annum prior to the financial crisis. In 2003, a growth rate of 4.5% was forecasted.

During the Third Outline Perspective Plan period of between 2001-2010, Malaysia's GDP is targeted to grow at an average annual rate of 7.5% in real terms, taking into account the projected trends in the world economy, growth in domestic savings and investment as well as expected productivity improvements.

(Source: The Third Outline Perspective Plan 2001-2010, Economic Planning Unit, Prime Minister's Department, Malaysia)

MALAYSIA: KEY ECONOMIC INDICATORS	2003f	2002p	2001	2000
Real GDP (RM billion)	229.2	219.3	210.5	209.5
Growth Rate (%)	4.5	4.2	0.4	8.3

p : preliminary
f : forecast

(Source: Bank Negara Malaysia Annual Report 2002)

Future Demand

Demand for water for domestic and industrial use is expected to increase by 5.4 percent per annum during the Eighth Malaysia Plan period. The national water supply coverage is expected to increase to 95%, with almost 100 percent coverage of urban areas and 91 percent of rural areas in 2005. These estimates are unlikely to vary much from the actual as Malaysia is expected to continue its rapid pace of socio-economic and industrial development as the economy recovers. Even with the present economic slowdown, the Government still expects to witness positive growth albeit only at a modest quantum.

The population in Malaysia is expected to grow at an average of 2.3 per cent per year over the five period of the Eighth Malaysia Plan. This will result in a population of 26 million by the end of 2005. Although the population growth in the more industrialised states tend to be lower as they stabilise and become more developed, the demand for water continues to increase.

(Source: Eighth Malaysia Plan)

Regional Water Supply Industry

Introduction

The World Commission on Water estimated that a total of one billion people, largely from less developed countries lack access to safe water. As the global population increases, the situation will worsen in the next two decades. Water use will increase by about 40% and 17% more water will be needed to grow food for the enlarged population. According to the United Nations, by 2025 two-thirds of the world's population will face water shortages.

The World Bank estimates that approximately USD600 billion will be invested between 1995 and 2005 to avoid severe water shortages. It is becoming increasingly difficult to match water supply facilities with the rapid increase in population. Statistics have shown that water utilisation has grown at more than twice the population increases. Much of the growth is expected to take place in developing countries, as governments commit more public investment in water and sewerage.

Water Investments in Asia

Rapid economic expansion and swelling populations are creating surging demand for water, which very often cannot be met sufficiently. Many Asian cities have less than 24-hour supplies of water.

Therefore there is tremendous scope for the private sector to help alleviate these shortages, because many governments do not have the resources to pay for expansion. Given below is a review on the potential of some possible markets in the region.

(i) Vietnam

Despite the adverse economic situation in the Asian region over the last few years, Vietnam has been relatively insulated against outside shocks its neighbours are facing. Although overall growth contracted to 7% in 2002, the overall macro-economic profile is still promising on the back of sound fundamentals i.e. maintainable GDP growth, inflation rate well contained below 10%, increasing industrial production (14%-15% growth) and sustainable national savings.

The Vietnamese Government aims to simplify the business environment for overseas investors which includes a spectrum of measures in terms of profit tax rates, import duties, land use permits and a range of other incentives for priority sectors.

(ii) Thailand

The Thai Government maintains an open, market-oriented economy and encourages foreign direct investment. Although the on-going regional economic crisis has slowed the flow of new investment, the Government is now in the process of adjusting its legal and regulatory regime with the objective of creating a more competitive climate for foreign investment. Although it will take some time for confidence to be restored, many international companies are already establishing contacts and exploring the potential that lies ahead. The prospects for growth will be dependent on continued progress in finance sector reform and corporate debt restructuring.

Sourcing and distribution of water is mainly under the responsibility of the Metropolitan Waterworks Authority ("MWA") and Provincial Waterworks Authority ("PWA"). In 2002, MWA produced 2.9 million cubic meters per day and PWA 2.03 million cubic meters per day. The Seventh Development Plan aims to increase water supply through the development of new water supply sources and improvement of the water-distribution system. It targets to increase water supply from 2.9 to 3.2 million m^3/day in the Bangkok Metropolitan Administration.

(iii) China

Statistics from the Chinese Economies Research Centre have revealed that since 1993, China has become the second largest FDI recipient in the world and the single largest host country among the developing countries. In fact, a total of USD21.6 billion has been invested by the Chinese Central Government into water conservation projects over the past five years.

4. INFORMATION ON THE SALCON GROUP *(Cont'd)*

The demand for municipal water and wastewater services in China has increased sharply with high population growth rates, rapid industrialisation and economic development. China's ascension to WTO also means more environmental equipment can be exported to Chinese market and more water wastewater treatment projects can be available to foreign companies.

Against this scenario, the opportunities in the water and wastewater industry in China are definitely huge; Salcon has allocated the necessary resources to tap into this market and proactively seek out feasible project opportunities.

Key Players in the Water Supply Industry

The following are some of the comparative performance indices of the Salcon Group and companies with similar activities listed on the KLSE:

Name of Company	Salcon Group	Loh & Loh Corporation Berhad	Road Builder (M) Holdings Bhd	Puncak Niaga Holdings Berhad	Ranhill Bhd
Year Ended	Proforma 31 Jan 2003* RM '000	31 Dec 2002 RM '000	30 June 2002 RM '000	31 Dec 2002 RM '000	30 June 2002 RM '000
Issued & Paid-up Share Capital	95,631	68,000	327,006	437,500	79,000
Net EPS (sen)	15.63**	22.00	40.00	40.99	69.90
NTA per share (RM)	0.42	1.97	3.03	2.68	2.61
Debt Equity Ratio (Times)	0.59	0.02	0.23	1.30	0.63
Current Ratio (Times)	1.15	1.91	1.98	3.66	1.63
Price as at 15 July 2003 (RM)	1.20***	2.97	3.80	2.90	4.60
PE multiple (Times)	7.68	13.50	9.50	7.07	6.58
Price / NTA (Times)	2.86	1.51	1.25	1.08	1.76

Notes:

* *After the Public Issue and Debt Settlement but before ESOS*

** *Based on profit forecast for the financial year ending 31 July 2004*

*** *Based on the Public Issue/Offer price*

(Source: Respective Companies' Audited Accounts and Annual Reports)

International Players

Foreign companies in the water sector are actively pursuing projects in Malaysia and in the region. Some of the large integrated water companies are competing for tenders in construction as well as privatisation concessions and O&M contracts. Among others are Thames Water Plc (UK), United Utilities Plc (UK), Anglian Plc (UK), Biwater (UK), Lyonaise des Eaux (France) and Vivendi (France). In order to compete, most international players tend to collaborate with local companies.

Barriers to entry

- Specialised technology and expertise required
- High start-up cost

4.6.2 Wastewater Sector

Overview of the Wastewater Industry

The provision of proper sanitation is an important urban service that is crucial towards promoting economic growth and improving the quality of life of the people. It consists of facilities for the collection, treatment and disposal of human waste and other wastewater generated from urban dwellings and commercial facilities.

Prior to the 70's, septic tanks formed the bulk of sewerage systems. Pour flush latrines and pit latrines were common facilities in the rural areas. As the urban population grew, centralised systems evolved. The bucket system or night soil collection system prevailed for a very long time until as late as 1990. Drastic measures were needed. The Government launched many strategies to combat the deteriorating urban sanitation situation.

The National Sewerage development programme was launched in the 70's, with the aim to develop modern sewerage systems for each major urban centre in a planned and systematic manner. Under this programme 19 sewerage master plans were prepared.

However, funds to implement these comprehensive master plans were limited. Only 9 of these urban centres could partially implement the master plan proposals. The revenue base of local authorities also could not support the huge expenditures involved. Subsequently efforts were directed towards decentralising sewerage facilities. In order to reduce the backlog of urban sanitation facilities, the Ministry of Health spearheaded efforts to ensure that all new developments had sewerage systems incorporated as part of the overall development. This then left only the older urban areas that needed refurbishment with new sewerage facilities. This is when many oxidation ponds, and aerated lagoons were constructed as low cost sewage treatment and disposal facilities. With time, these gave way to more sophisticated systems such as rotating biological contactors, activated sludge plants, extended aeration activated sludge system, oxidation ditch, trickling filter, sequencing batch reactor Intermittently Decanted Extended Aeration system and others.

(Source: "Affordable Water Supply and Sanitation: Privatisation of Sewerage Services in Malaysia"; Datuk Ir. Dr. M.S.Pillay, Ministry of Health, Malaysia; 20th Water Engineering and Development Centre Conference, Colombo, Sri Lanka; 1994)

Industry Segments

Due to the current structure of the industry in Malaysia, the wastewater industry can be broadly divided into three segments:

- Capital development of new sewage treatment plants, sewer networks and sludge treatment and disposal facilities;
- Refurbishment, upgrading and O&M of existing sewage treatment plants including billing and collection; and
- Development of new sewage treatment plants by housing developers.

Currently the Salcon Group is actively involved in the design and construction of sewage treatment plants utilising various systems and technology for property developers and municipalities.

Privatisation in the Wastewater Industry

Over the last two decades there have been great improvements in urban sanitation. Nevertheless, the need to operate and maintain the growing number of communal sewage treatment plants, the shortage of funds, the increasing environmental damage to rivers and beaches, lack of manpower and expertise and rapid urbanisation, put a heavy burden on local authorities throughout the country.

In order to fulfil the urgent need to provide for an integrated accelerated development programme to upgrade and extend sewerage services to all urban areas and in keeping with the National Privatisation Policy, the Government of Malaysia awarded the concession for the privatisation of sewerage services nationwide to IWK in December 1993. The concession was for a period of 28 years for 144 local authorities operational areas in Malaysia.

(Source: "Affordable Water Supply and Sanitation: Privatisation of Sewerage Services in Malaysia"; Datuk Ir. Dr. M.S.Pillay, Ministry of Health, Malaysia; 20th Water Engineering and Development Centre Conference, Colombo, Sri Lanka; 1994)

Wastewater Authorities

To enable privatisation of sewerage services, the Sewerage Services Act 1993 ("SSA") was enacted. Under the SSA, responsibility and authority pertaining to all sewerage matters was transferred from the local authority to the Federal Government. This transfer also includes the transfer of all local authority staff to IWK.

A Sewerage Services Department was also created in the Ministry of Housing and Local Government, headed by a Director-General, to carry out the regulatory function, macro planning, research and development, policy formulation review and coordination. The Sewerage Services Department is also responsible for the implementation of public sewerage systems in accordance to a Capital Works Programme.

(Source: "Affordable Water Supply and Sanitation: Privatisation of Sewerage Services in Malaysia"; Datuk Ir. Dr. M.S.Pillay, Ministry of Health, Malaysia; 20th Water Engineering and Development Centre Conference, Colombo, Sri Lanka; 1994)

Takeover by the Government

However, the national sewerage privatisation project had encountered many problems. In June 2000, as testimony of the Government's seriousness in ensuring that a proper and efficient sewerage system will be successfully put in place and maintained, the Government, through the Minister of Finance Incorporated, took over the entire equity in IWK from its previous private owners. IWK is now well-positioned to undertake the vital task of ensuring that Malaysians today and in the future will be able to enjoy a clean and healthy environment through a proper and well-maintained sewerage system.

(Source: Indah Water Konsortium website. www.iwk.com.my)

Financing

Industrial and municipal wastewater have been identified as one of the major sources of pollution in Malaysia, as reflected by the deterioration of our river water quality at an annual average rate of 1.2% in the last decade along with rapid industrialisation. Many of these wastewaters contain pollutants which are difficult to treat and are capable of creating a high oxygen demand when discharged.

(Source: "National Biotechnology Directorate. Priority Setting in Malaysia under the 8th Malaysia Plan" (First Edition), National Biotechnology and Bioinformatics Network Website, www.nbbnet.gov.my/Book/industri.htm)

As part of the measures to address this issue, the Government has provided a substantial allocation for infrastructure utilities development under the Eighth Malaysia Plan. As shown in the table below, RM1,583.6 million is allocated for sewerage, an increment of 136.9% (from RM668.5 million to RM1.583.6 million). The substantial investments in utilities projects are expected to further improve the availability and reliability of public utilities in the country.

5 year Plan	Period	Total Expenditure (RM'000)	Percentage increase (%)
Seventh Malaysia Plan	1996-2000	668.5	na
Eighth Malaysia Plan	2001-2005	1583.6*	136.9%

** Budget Allocation*

(Source: Eighth Malaysia Plan)

In terms of sewerage system, the provision of modern sewerage facilities will be accelerated to reduce water pollution and preserve the environment. To meet these objectives, centralised sewerage projects will be implemented with priority given to state capitals, major towns and tourist resorts. However, in locations where connections to the centralised system are too costly or have adverse impact on the environment such as hilly and isolated areas, individual sewerage systems will be implemented. The refurbishment and upgrading of the sewerage system will also be intensified.

(Source: The Third Outline Perspective Plan 2001-2010, Economic Planning Unit, Prime Minister's Department, Malaysia)

During the Eighth Malaysia Plan period, the Government will embark on an extensive sewerage capital development programme with the implementation of 13 sewerage work project. These include the upgrading of 10 sewage treatment plants and sewer networks and the provision of three new central sludge facilities to ensure the delivery of better service. The completion of these projects will provide sewerage services to an additional 1.8 million population.

The implementation of the refurbishment works programme on about 2,500 treatment plants will produce better quality effluent and improve the environment. The implementation of this programme is in line with the recommendations of the sewerage study where the existing concessionaire will undertake the O&M works for the sewerage services including billing and collection of charges. The Government, on the other hand, will be responsible for the capital expenditure required to expand, upgrade and rehabilitate the sewerage system. This option will, among others, ensure that the sewerage services will continue to be provided to the public at affordable rates and ensure safe wastewater disposal.

The taking over of new sewerage plants from the developers will increase the coverage of the population served by the concessionaire to about 14.4 million people by the year 2005. The implementation of the sewerage catchment plan will further reduce the number of localised treatment plants and optimise resources in the operation and maintenance of sewerage system. However, individual sewerage system will be implemented in locations such as hilly and isolated areas where connections to the centralised system are closely or have an adverse impact on the environment.

(Source: Eighth Malaysia Plan)

Competitors

Wastewater projects are expected to become a key element in the infrastructure sector in line with the government's effort in embarking on an extensive sewerage capital development programme. Participants in the wastewater industry are made up of many different companies from diverse sectors, mostly consist of civil, structural and M&E companies. ESB is currently building a strong niche market by contracting for sewage treatment projects from property developers.

Barriers to Entry

Barriers to entry for wastewater industry is high due to the following reasons:

- Specialised technology and expertise required
- High start-up cost

4.6.3 Palm Oil Mill Industry

The assessment of the industry in relation to the Group's business in the agro-industrial sector takes into account the trends of Malaysia and Indonesia palm oil industry. The bulk of AID business originates from the two countries and the growth of the industry affects the scope of the Group's business. As planted areas increase additional milling capacity is needed for increased production, thus the added demand for palm oil mills.

Background

World Major Producers of Palm Oil 2001/2002 ('000 tonnes)

Country	2001	2002 (e)	+/-%	2003 (f)	+/-%
Malaysia	11,804	11,989	1.6	12,249	2.2
Indonesia	7,950	8,850	11.3	9,150	3.4
Nigeria	770	775	0.6	785	1.3
Colombia	548	520	(5.1)	575	10.6
Cote d'Ivoire	247	270	9.3	277	2.6
Thailand	750	650	(13.3)	680	4.6
Papua New Guinea	177	163	(7.9)	168	3.1
Ecuador	240	245	2.1	246	0.4
Others	1,538	1,585	3.1	1,593	0.5
TOTAL	**24,024**	**25,047**	**4.3**	**25,723**	**2.7**

Notes:
(e) – estimate
(f) – forecast
Source: (i) Oil World (December 13, 2002), Oil World Annual 2002
(ii) Malaysian Palm Oil Board (for data on Malaysian palm oil and palm kernel oil)

(Source: Review of the Malaysian Oil Palm Industry 2002, Malaysian Palm Oil Board)

As shown in the table above, Malaysia is the world's largest producer and exporter of palm oil, producing 11.9 million tonnes of crude palm oil in 2002, an increase of 0.9% over year 2001. Indonesia is the second largest producer of palm oil with 9.15 million tonnes per annum. Together, Malaysia and Indonesia account for more than 80% of the world production of palm oil.

Malaysian Palm Oil Sector

In year 2002, total hectarage planted increased by 4.9% to 3.67 million hectares, taking into account new areas identified for the cultivation of oil palm, especially in Sabah and Sarawak. In year 2003, Malaysian production of crude palm oil is expected to increase by 2.5% to 12.2 million tonnes from 11.9 million tonnes in 2002. This is mainly attributed to an increase in the matured area from 3.19 million hectares in 2002 to 3.30 million hectares in 2003, thus resulting in total planted area expanding by 113,407 hectares in 2003.

(Source: Figures derived from Review of the Malaysian Oil Palm Industry 2002, Malaysian Palm Oil Board)

As at end-2002, 409 mills with a total annual capacity of 78.98 million tonnes of FFB were approved and 43 mills with a total capacity of 6.68 million tonnes were under planning and construction. *(Source: Figures derived from Review of the Malaysian Oil Palm Industry 2002, Malaysian Palm Oil Board)* This presents opportunities for the AID in the construction and commissioning of new palm oil mills or upgrading of existing mills.

Indonesian Palm Oil Sector

The recent events in Indonesia created uncertainty over the role which Indonesia will play in meeting the global supply of palm oil. But as part of the International Monetary Fund's initiated reform, the export duty structure that was once very high was reduced to ensure that the palm oil produced finds its market overseas and that the country obtains its much required foreign exchange. In addition, there was always the pressure on the industry to meet domestic demand in view of the fact that Indonesia has a large population of over 220 million people. Nevertheless, the country's production of oil palm is anticipated to trend upwards in line with the increase of relatively new immature areas coming into maturity and as the productivity of the palms increases with age.

(Source: Datuk Dr. Yusof Basiron, "Palm Oil and its Global Supply and Demand Prospects", Malaysian Palm Oil Board, 2002)

Competitors

The agro-industrial industry is very competitive with a few established players dominating the market. Larger players competing in Malaysia and Indonesia include CB Industrial Bhd, Mascot Engineering Sdn Bhd, Besteel Engineering Sdn Bhd,Technomas Engineering Sdn Bhd and PT Palmec.

The players are principally involved in the manufacturing of processing equipment and spare parts for palm oil mills and originally include provision of engineering services, project management and turnkey palm oil mill construction. There are also a few foreign competitors such as De Smet Group of Belgium, which is active in the oleochemical industry.

Palm Oil Mills - Future Trends

Over the medium-term, world production and consumption of vegetable oils are projected to increase to about 140 million tonnes due largely to the continued rise in per capita disposable incomes and a demand for improved diets. Palm oil is forecast to become the dominant vegetable oil by around 2020 as palm tree plantations expand into South America, Africa, and Southeast Asia.

In Malaysia, the milling capacity utilisation rate for 2002 declined by 6.85% to 83.82% from 90.67% in 2001, mainly due to the expansion of processing capacity from existing mills as well as from new mills. (*Source: Review of the Malaysian Oil Palm Industry 2002, Malaysian Palm Oil Board)* Nevertheless, as planted areas in Sabah and Sarawak increases, it is anticipated that the demand for new milling capacity will increase in tandem. This is true for Indonesia as well as other palm oil producing countries.

4.6.4 Building Services Division

Construction Sector

In 1998, output of the industry contracted by 23 per cent, after a robust and double-digit growth rate of 14.2 per cent per year in the period from 1990 to 1997.

As a result of the crisis, some of the investment and activity in the sector halted because of the excess capacity and deferment of major construction projects in the country. Because of the excess capacity and delay in project implementation, output of the industry continued to fall in the first and second quarters of 1999. However, the drop was at a smaller rate of 5.6 per cent which indicated that the construction industry was responding positively to measures to revive the economy in 1999 when the economy turned around with a GDP growth of 5.8 per cent. In 2001, the industry continued to show a promising trend and registered a positive growth of 4.9 per cent compared with 1.0 per cent in 2000.

Growth in the construction sector continued to be bolstered by projects implemented under the fiscal stimulus programme and housing development, thus contributing to a stronger growth of 3.8% in 2002 (2001:2.3%). At the same time, the Government reviewed procedures, rules and guidelines as well as established a special task force to ensure that the implementation of public and privatised projects are carried out as scheduled and, therefore, produce the intended impact.

(Source: Economic Report 2002/2003)

In 2002, growth in the construction sector was maintained at 2.3%. This growth was mainly supported by higher government expenditure on infrastructure projects and household demand for residential property.

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In the civil engineering sub-sector, growth was stimulated by higher Federal Government development expenditure on construction-related projects, especially for projects related to the transportation, education, housing and public utilities sub-sector. One of the major ongoing public projects is the electrified double tracking of the railway track between Rawang and Ipoh. Privatised road projects such as the Kajang Ring Road, Butterworth Outer Ring Road, Guthrie Corridor Expressway, New Pantai Highway, Package C of the SPRINT Expressway and the Kajang-Seremban Expressway further supported activity in the construction sector. Ongoing projects were related to the construction of power plants, rail, ports and sewerage projects.

(*Source: Bank Negara Malaysia Annual Report 2002*)

Future Trends

The construction sector is forecast to record a higher growth of 4.5% in 2003 from 3.8% in year 2002. Public sector projects in health and education as well as rural development would continue to drive the sector. Massive projects like the Bakun Hydro-electric Dam and the on-going double tracking rail projects will further drive the sector. Housing development would also contribute to growth in view of increasing demand for low and medium cost houses.

There are several indicators pointing to a further rebound in the confidence in the construction industry. These indicators include higher number of sales and advertising permits, rise in the number of houses approved, increase production of construction materials, higher new loans approved to the construction sector and higher import of construction materials and minerals.

(Source: "Market Watch Malaysia 2003 – Construction Industry", The Malaysian-German Chamber of Commerce and Industry website, www.mgcc.com.my)

Furthermore, with the Government's continuing effort to allocate more funds for spending in this sector, the construction sector will continue to achieve positive growth, giving rise to opportunity in the construction related products, equipment and services supply chain.

4.7 Details of Major Licences and Permits

The major licences and permits held by the Salcon Group are listed in Section 7.

4.8 Major Customers

Being in business for over 28 years, the Group has an extensive clientele base both public and private sectors/enterprises, and thus is not over dependent on any single customer.

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For the six(6) months ended 31 January 2003, 72.39% of total revenue was generated from the top six(6) customers as follows:

No.	Major Customer	Revenue for the 6 months ended 31 Jan 2003 % of Revenue	Length of Relationship Years
1.	Perbadanan Air Melaka	24.45	>5
2.	Active Review (M) Sdn Bhd	20.23	2
3.	Jabatan Bekalan Air Negeri Sembilan	10.31	3
4.	Lembaga Air Perak	8.17	>5
5.	Trans MSB Sdn Bhd	4.76	>5
6.	Pembinaan Tegup Tunas Sdn Bhd	4.47	>3
	Total	**72.39**	

The Salcon Group's business is on a project to project basis, that varies in value from time to time. Thus, the Salcon Group may have certain projects that may contribute significantly to its turnover and profit at certain times or periods. Based on its proven record in procuring new projects, a healthy level of projects is always maintained, thus ensuring a stable generation of income.

4.9 Major Contractors/Suppliers

The Group is not dependent on any single supplier for products/services purchased. The Group has established long term relationships with some of its major suppliers over the past 28 years.

For the six(6) months ended 31 January 2003, the list of top ten(10) suppliers are as follows:

No.	Major Suppliers	Products/Services Provided	Purchases for the 6 months ended 31 Jan 2003 % of Cost of Sales	Length of Relationship Years
1.	Trans MSB Sdn Bhd	Civil Works – Water Treatment Plants	13.83	>5
2.	Ondeo Degremont (M) Sdn Bhd	Process equipment supplier	5.82	>5
3.	Toroshima Pump Manufacturing Ltd	Pumps	4.12	>2
4.	Sam McCoy Engineering Sdn Bhd	Pumps	1.84	>5
5.	YMC Technologies Sdn Bhd	Butterfly valves	1.27	>2
6.	Rotork (M) Sdn Bhd	Actuators	1.17	>5
7.	SAE Electrical & Trading Sdn Bhd	Electrical works	0.76	>4
8.	Nasmech Technology Sdn Bhd	Fabricator works	0.47	>3
9.	Visage Engineering Sdn Bhd	Civil Works – Water Treatment Plants	0.43	>3
10.	Petro-Pipe Industries (M) Sdn Bhd	Pipes	0.41	>4

4.10 Future Plans and Strategies of the Salcon Group

The Salcon Group is actively moving towards expanding the scope of its business from merely an engineering based turnkey contractor to become a Total Solutions Provider in the water sector. To achieve this end, Salcon is positioning itself as a developer, Engineering, Procurement and Construction ("EPC") contractor and an O&M operator in the water and wastewater treatment industry.

The Salcon Group's role(s) in each project will vary depending on the size and nature of each project.

The management's plans and strategies for the various business units are as follows:

Water and Environmental Division

The Salcon Group will participate actively in the water infrastructure projects for domestic and regional markets. The strategies include:

(i) To actively pursue water privatisation projects in Malaysia and other countries in Asia as well as O&M works. The opportunities are from both new capital works as well as from upgrading and refurbishment works.

(ii) To become a one-stop solutions provider for water schemes by providing engineering and contracting services which include the design and construction of water treatment plants, refurbishment and upgrading as well as O&M of existing facilities.

(iii) The Salcon Group will participate actively in the downstream activities which include transmission and distribution of water to consumers as well as new market segments such as NRW works.

Wastewater Division

To actively pursue wastewater/ sewerage projects throughout South East Asia in the areas of capital development of new sewage treatment plants, sewer networks and sludge treatment and disposal facilities; refurbishment, upgrading, O&M of existing sewage treatment plants and development of new sewage treatment plants for property developers, sewerage concessionaires and government municipalities.

Agro-Industrial Division

(i) To continue pursuing palm oil mill projects in the South East Asian region, in particular in Malaysia and Indonesia by tapping on opportunities in these countries.

(ii) To make inroads into the non-traditional markets particularly in India.

Building Services Division

(i) To provide M&E services to the Salcon Group.

(ii) To become a recognised contractor in the provision of M&E services to general industries through undertaking various works in project management, maintenance services, co-ordination and site management as well as planning and implementation of M&E related projects.

Trading Services Division

(i) To develop synergistic support to the Salcon Group by supplying the necessary equipment for the other business units. Generic expansion will be led by marketing of equipment to the palm oil sector and water particularly in the ASEAN region.

(ii) To provide value-added services to clients through the supply of key equipment and the provision of after-sales services on equipment sold.

4.11 Settlement of Amount Owing to SEB

The amount due from related companies of the SEB Group namely, KEB and its subsidiary companies resulting from non-trade transactions as at 15 July 2003 is RM17,999,324.26. As at 15 July 2003, the amount owing by Sejati Builders Sdn Bhd, being a related company to the directors of SEB Group prior to 30 December 2002, resulting from non-trade transactions is RM1,148,575. These amount have no fixed terms of repayment and are either interest free or subject to interest at prevailing market rates.

KEB and Sejati Builders Sdn Bhd have vide their letters dated 1 October 2002 and 8 October 2002 respectively, given their undertaking that they will repay the outstanding balances within fourteen(14) days from the date of listing of Salcon on the KLSE.

In respect of trade debtors which exceed the six(6) months credit period, provisions will be made save and except for amount owing by the government and debtors where settlement arrangements are in place. Full and immediate provisions for the debts owing by the government and debtors where settlement arrangements are in place will be made as soon as the SEB Group is aware that the collectibility of the said debts are doubtful.

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