



**SALCON BERHAD** (Company No: 593796-T)  
(Incorporated in Malaysia)

**UNAUDITED FOURTH QUARTER REPORT ENDED 31 JULY 2004  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	31/07/2004 RM'000	31/07/2003 RM'000
<b>Property, plant and equipment</b>	26,194	16,939
<b>Investment in associates</b>	62,567	61,370
<b>Other investments</b>	11,093	6,790
<b>Goodwill</b>	3,309	3,506
	<hr/>	<hr/>
	103,163	88,605
<b>Current assets</b>		
Inventories	1,337	393
Trade and other receivables	147,813	222,622
Tax recoverable	3,605	-
Cash and cash equivalents	37,625	34,303
	<hr/>	<hr/>
	190,380	257,318
<b>Current liabilities</b>		
Trade and other payables	90,627	191,700
Borrowings	16,587	56,752
Taxation	59	3,314
Dividend payable	-	1,500
	<hr/>	<hr/>
	107,273	253,266
<b>Net Current assets</b>	<hr/>	<hr/>
	83,107	4,052
	<hr/>	<hr/>
	186,270	92,657
<b>Financed by :-</b>		
<b>Capital and reserves</b>		
Share capital	96,384	81,031
Reserves	34,486	6,231
	<hr/>	<hr/>
	130,870	87,262
<b>Minority shareholders' interests</b>	7,482	4,370
<b>Long term and deferred liabilities</b>		
Borrowings	47,709	903
Deferred taxation	209	122
	<hr/>	<hr/>
	47,918	1,025
	<hr/>	<hr/>
	186,270	92,657

The Condensed Consolidated Balance Sheets should be read in conjunction with the Annual Financial Report for the period ended 31 July 2003.



**SALCON BERHAD** (Company No: 593796-T)  
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**UNAUDITED FOURTH QUARTER REPORT ENDED 31 JULY 2004**  
**CONDENSED CONSOLIDATED INCOME STATEMENTS**

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year ToDate	Preceding Year Corresponding Period
	31/07/2004 RM'000	31/07/2003 RM'000	31/07/2004 RM'000	31/07/2003 RM'000
Revenue	47,354	7,510	146,766	7,510
Operating expenses	(50,864)	(5,333)	(135,867)	(5,333)
Other operating expenses	(197)	(59)	(197)	(59)
Other operating income	54	35	259	35
Operating (loss) / profit	<b>(3,653)</b>	<b>2,153</b>	<b>10,961</b>	<b>2,153</b>
Interest expense	(824)	(70)	(2,409)	(70)
Interest income	134	58	745	58
Share of profit of associates	1,860	272	5,547	272
Share of (loss) / profit of jointly controlled entity	(497)	745	(497)	745
Exceptional items	-	3,945	-	3,945
(Loss) / Profit before tax	<b>(2,980)</b>	7,103	<b>14,347</b>	7,103
Tax credit / (Tax expense)	913	(865)	<b>(3,273)</b>	(865)
(Loss) / Profit after tax	<b>(2,067)</b>	6,238	<b>11,074</b>	6,238
Less: Minority interests	144	(7)	<b>(1,808)</b>	(7)
Net (loss) / profit for the period	<b>(1,923)</b>	6,231	<b>9,266</b>	6,231
Basic earnings per ordinary share (sen)	<b>(1.00)</b>	108.66	<b>4.86</b>	108.66
Diluted earnings per ordinary share (sen)	-	12.94	-	12.94

The Condensed Consolidated Income Statements should be read in conjunction with the Annual Financial Report for the period ended 31 July 2003.



**SALCON BERHAD** (Company No: 593796-T)  
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**UNAUDITED FOURTH QUARTER REPORT ENDED 31 JULY 2004**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	←	Non – distributable		→	Distributable	Total
	Share Capital RM'000	Share Premium RM'000	Exchange Equalisation RM'000		Retained Profits RM'000	RM'000
At date of incorporation	-	-	-		-	-
Issue of shares	81,031	-	-		-	81,031
Net profit for the period	-	-	-		6,231	6,231
At 31 July 2003	<u>81,031</u>	<u>-</u>	<u>-</u>		<u>6,231</u>	<u>87,262</u>
At 1 August 2003	81,031	-	-		6,231	87,262
Issue of shares						
- Public issues	14,600	20,440	-		-	35,040
Listing expenses	-	(3,612)	-		-	(3,612)
Exchange differences on translation of the financial statements of foreign subsidiaries	-	-	98		-	98
Employees' Share Option Scheme	753	2,063	-		-	2,816
Net profit for the period	-	-	-		9,266	9,266
At 31 July 2004	<u>96,384</u>	<u>18,891</u>	<u>98</u>		<u>15,497</u>	<u>130,870</u>

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Financial Report for the period ended 31 July 2003.



**SALCON BERHAD** (Company No: 593796-T)  
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**UNAUDITED FOURTH QUARTER REPORT ENDED 31 JULY 2004**  
**CONDENSED CONSOLIDATED CASHFLOW STATEMENT**

	12 months ended	11 days ended
	31/07/2004	31/07/2003
	RM'000	RM'000
<b><u>Cash flows from operating activities</u></b>		
Profit before tax	14,347	7,103
Adjustments for :		
- Non-cash items	3,342	(4,871)
- Non-operating items	(3,836)	12
Operating profit before working capital changes	13,853	2,244
Changes in working capital	18,219	(4,215)
Cash generated from operating activities	32,072	(1,971)
Income taxes paid	(10,075)	(69)
Interest paid	(2,409)	(70)
<b>Net cash generated from / (used in ) operating activities</b>	<b>19,588</b>	<b>(2,110)</b>
<b><u>Cash flows from investing activities</u></b>		
- Equity investments	(206)	10,076
- Other investments	(4,500)	-
- Purchase of fixed assets	(2,316)	-
- Proceed from disposal of fixed assets	279	-
- Transfer of listing status	(28,000)	-
- Fixed deposit pledged	597	-
- Interest received	745	58
<b>Net cash (used in) / generated from investing activities</b>	<b>(33,401)</b>	<b>10,134</b>
<b><u>Cash flows from financing activities</u></b>		
- Proceeds from issuance of share capital	13,244	24,622
- Listing expenses	(3,612)	-
- Proceeds from bank borrowings	80,044	1,557
- Redemption of preference shares from associates co.	3,400	-
- Repayments from bank borrowings	(72,777)	-
- Dividends paid to previous shareholder of SEB	(1,500)	-
- Dividends paid to minority shareholders	(539)	(1,038)
- Payment of hire purchase liabilities	(423)	(32)
<b>Net cash generated from financing activities</b>	<b>17,837</b>	<b>25,109</b>
Net increase in cash and cash equivalents	4,024	33,133
Effects of exchange rate changes	40	-
Cash and cash equivalents at beginning of period	33,133	-
<b>Cash and cash equivalents at end of period</b>	<b>37,197</b>	<b>33,133</b>



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The cash and cash equivalents comprise the following balance sheet amounts :

	At end of period RM'000	At beginning of period RM'000
Cash and bank balances	36,933	33,646
Deposits placed with licensed banks	692	657
Bank overdrafts	<u>(428)</u>	<u>(573)</u>
	37,197	33,730
Fixed deposits pledged to banks	-	<u>(597)</u>
	<u>37,197</u>	<u>33,133</u>

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Annual Financial Report for the period ended 31 July 2003.



**SALCON BERHAD** (Company No: 593796-T)  
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**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH QUARTER ENDED 31 JULY 2004**

**A. DISCLOSURE REQUIREMENTS AS PER MASB 26**

**1. Basis of Accounting and Accounting Policies**

The interim financial statements have been prepared in accordance with MASB 26 Interim Financial Reporting and Chapter 9 Part K of the Listing Requirements of Bursa Malaysia Securities Berhad (BMSB).

**2. Preceding Annual Financial Statement**

The preceding comparative quarter is for a period of 11 days only as Salcon Berhad commenced operation on 21 July 2003.

**3. Seasonal or Cyclical Factors**

The principal activities of the Group are not subject to any seasonal or cyclical changes.

**4. Exceptional and Extraordinary Items**

There were no exceptional and extraordinary items of an unusual nature affecting the assets, liabilities, equity, net income or cashflows of the Group for the current quarter and financial year to-date.

**5. Material Changes in Estimates**

There were no changes in estimates of amounts in the current financial year under review.

**6. Debt and Equity Securities**

There were no issuance and repayment of debt securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current financial year under review except for the following:

- i) On 31 October 2003, the Company implemented its Employees Share Option Scheme (ESOS), which had been approved by shareholders on 22 July 2003. The Scheme is for a duration of 5 years from 31 October 2003. The Company may, if the Board and the Option Committee deem fit, extend the Scheme for another 5 years.
- ii) On 7 January 2004, 7,650,500 ordinary shares of RM0.50 each at RM1.87 per new ordinary share were offered to Executive Directors and eligible employees of the Company and its subsidiaries.
- iii) As at 31 July 2004, 1,506,100 ordinary shares of RM0.50 each at RM1.87 per new ordinary share were issued, pursuant to the ESOS offered on 7 January 2004.

**7. Dividends Paid**

There were no dividend paid during the quarter under review.



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**8. Segmental Reporting**

	Gross Operating Revenue RM'000	Profit/(Loss) Before Taxation RM'000
Water and Environmental Division	87,756	5,797
Wastewater Division	51,524	4,187
Building Services Division	271	(21)
Trading Services Division	6,421	273
Others	794	228
	<u>146,766</u>	<u>10,464</u>
Inter-segment elimination	-	-
Net financing costs	-	(1,664)
Share of profit of associates companies	-	5,547
	<u>146,766</u>	<u>14,347</u>

**9. Valuations of Property, Plant and Equipment**

There was no revaluation of property, plant and equipment during the current quarter. The valuation of land and building have been brought forward without amendment from the previous annual audited report.

**10. Material Events Subsequent to the End of the Interim Period**

There were no material events subsequent to the end of the interim period up to 10 September 2004 (being the last practicable date which is not earlier than 7 days from the date of issue of this quarterly report), that have not been reflected in the financial statement for the interim period.

**11. Effect of Changes in the Composition of the Group**

During the financial year to date, the following changes in composition of the Group were effected:

- Salcon Water (HK) Limited (SHK), a wholly-owned subsidiary of Salcon Berhad, on 22 December 2003, injected USD1.44 million into Shandong Changle Salcon Water Supply Company (SCSWS), a company classified as a foreign investment enterprise in the People's Republic of China. The USD1.44 million (RM5.472 million) cash investment represent a 75% shareholding in SCSWS which has a registered capital of USD1.92 million (RM7.296 million).  
The investment in SCSWS is not expected to have a material impact on the financial performance of Salcon Berhad for the year ended 31 July 2004. It is expected to contribute positively in future years.
- On 31 October 2003, Salcon Berhad's wholly owned subsidiary, Salcon Engineering Berhad, entered into an Agreement to subscribe for 200,000 new ordinary shares of RM1.00 each representing 40% equity in Tricol Engineering Sdn Bhd for RM200,000. The business operations under the Agro-industrial Division have since been transferred to this associated company. There is no material impact on the Group operations.



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**12. Changes in Contingent Liabilities/Contingent Assets**

Since the last annual financial statement as at 31 July 2003, the changes in contingent liabilities are as follows:

	Increase/ (Decrease) RM'000
Guarantees and contingencies relating to borrowings of Associates	(13,680)
Bank guarantees given to third parties relating to performance, tender and advance payment bonds	28,474
	<u>14,794</u>

**13. Trade and other receivables**

Trade and other receivables consist of the following:-

	RM'000
Trade receivables	102,350
Less: Allowance for doubtful debts	<u>(3,108)</u>
	99,242
Amount due from contract customers	34,937
Affiliated company	629
Associates	4,067
Other receivables, deposits and prepayment	<u>8,938</u>
	<u>147,813</u>

**14. Trade and other payables**

Trade and other payables consist of the following:-

	RM'000
Trade payables	60,086
Other payables and accruals	22,950
Associates	6,997
Amount due to contract customers	<u>594</u>
	<u>90,627</u>





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**B. ADDITIONAL DISCLOSURE PURSUANT TO CHAPTER 9, PART K OF THE LISTING REQUIREMENTS OF THE BURSA MALAYSIA SECURITIES BERHAD**

**1. Taxation**

	Current Quarter Ended 31/07/04 RM'000	Cumulative Current Period To date 31/07/04 RM'000
Current tax credit / (tax expense)	769	(3,417)
Deferred tax	144	144
	<u>913</u>	<u>(3,273)</u>

The Group's effective tax rate is lower than the statutory tax rate for the current quarter largely due to profits from overseas projects being exempted from Malaysian Taxation.

**2. Sale of Unquoted Investments and/or Properties**

There were no disposals of unquoted investments or properties during the current quarter.

**3. Purchase or Disposal of Quoted Investments**

There were no purchases or disposals of quoted investments during the quarter.  
Total investments in quoted securities as at 31 July 2004 are as follows:

	RM'000
At cost	32
At book value	32
At market value	30

**4. Status of Corporate Proposals**

There was no corporate proposal announced or pending during the financial year-to-date.



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**5. Group Borrowings and Debt Securities**

Total Group borrowings as at 31 July 2004 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Long Term Borrowings</u>			
Term loan	2,233	45,000	47,233
Hire purchase liabilities	476	-	476
	<u>2,709</u>	<u>45,000</u>	<u>47,709</u>
	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short Term Borrowings</u>			
Bank overdrafts	-	428	428
Revolving credits	-	0	0
Bankers acceptances	-	15,734	15,734
Hire purchase liabilities	425	-	425
	<u>425</u>	<u>16,162</u>	<u>16,587</u>
Total Group Borrowings	<u>3,134</u>	<u>61,162</u>	<u>64,296</u>

**6. Off Balance Sheet Financial Instruments**

The Group does not have any financial instruments with off balance sheet risk as at 10 September 2004 (being the last practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

**7. Changes in Material Litigation**

The material litigation as at 10 September 2004 (being the last practicable date which is not earlier than 7 days from the date of issue of this quarterly report) is as follows:

- (i) Salcon Engineering Berhad ("SEB") had on 29 September 1999 commenced legal action in the Kuala Lumpur High Court against Citramuda Sdn Bhd ("Citramuda") and Readybuilt (M) Sdn Bhd ("Readybuilt"), being parties to an unincorporated consortium ("the Consortium"), for the sum of RM2,171,488.57 due to works carried out by SEB pursuant to a subcontract agreement dated 5 November 1996.
- SEB obtained judgement in default against Citramuda on 15 December 1999. Citramuda was wound up by order of the Kuantan High Court on 20 June 2000. SEB attempted to enforce the judgement by way of garnishee proceedings against Kuala Lumpur International Airport Berhad, the employer of the Consortium but was not successful.
- Readybuilt has since been wound-up on 6 February 2004. As such, SEB has filed its Proof of Debts at the Official Receiver on 28 June 2004. Meanwhile, SEB is seeking leave of court to proceed further on the case as per Section 226(3) of the Companies Act, 1965 in order for judgment to be obtained. The matter is currently fixed for mention on 27 September 2004
- (ii) MQS Engineering Sdn Bhd ("MQS") had taken legal proceedings in Shah Alam High Court against SEB for an amount of RM4,745,035 pursuant to a Novation Agreement and Settlement Agreement both dated 23 November 2000.
- SEB has successfully applied to amend the Defence and to include a Counter-Claim of RM1,780,004.00 in the suit. The full trial is fixed on 21, 22 and 23 February 2005.



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**8. Material Changes in the Quarterly Results compared to the results of the Preceding Quarter**

The comparative quarter of preceding year is for a period of 11 days only as Salcon Berhad commenced operation on 21 July 2003.

**9. Review of Performance of the Company and its Principal Subsidiaries**

For the current quarter, the Group achieved a turnover of RM47.4 million. Two new projects namely, Sg Kinta Water Treatment Plant and PIT 711 Thailand contributed substantially to the higher turnover. However, higher material costs reduced the overall Group profitability on certain projects.

**10. Prospects for the Current Year**

While waiting for the outcome of the Malaysian Government's review on the water and sewerage industry, the management has embarked on securing new overseas markets particularly China to expand the Group's business activities. To date, the Group has commenced operations of the 50-year water concession in Changle, Shandong Province. In addition, several framework agreements have been signed with four counties/cities in Shandong and Kunming in Yunnan.

Firm agreements and commencement of construction works are expected in the financial year 2004/05.

Nevertheless, the Group will continue to implement the projects now in hand with a residual contractual value of RM320 million from the original portfolio of projects worth RM600 million. More than half of the current projects involve long term operation and maintenance contracts with a duration of 8 years or more.

**11. Variance of Profit Forecast / Profit Guarantee**

The comparative summary of the financial results of the Group for the year ended 31 July 2004 and forecast published in the prospectus dated 28 July 2003 is tabulated below:

31 July 2004				
	Actual	Forecast	Variance	
	RM'000	RM'000	RM'000	%
Turnover	146,766	388,575	(241,809)	(62)
Pre-tax profit ("PBT") after MI	12,539	42,089	(29,550)	(70)
PAT after MI	9,266	29,890	(20,624)	(69)

In the prospectus, the Group anticipated securing new contracts that would generate revenue amounting to RM 238 million but this did not materialize during the year under review due to deferral of decisions on project implementation by relevant authorities.

Since the release of the prospectus, structural conditions in the water sector are being reviewed by the Malaysian Government which affect market conditions.

The Group continues to pursue most of the projects in the forecast and actively seek new opportunities both in Malaysia and overseas.



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**12. Proposed Dividend**

No dividend has been proposed or declared for the fourth quarter and year ended 31 July 2004. The Board of Directors intend to propose a final tax exempt dividend of 2.6 sen per share in respect of the financial year ended 31 July 2004 for the approval of the shareholders at the Second Annual General Meeting.

**13. Earnings Per Share**

The basic and diluted earnings per share have been calculated based on the consolidated net profit attributable to ordinary shareholders for the year and the weighted average number of ordinary shares outstanding during the year as follow:



**SALCON BERHAD** (Company No: 593796-T)  
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**Basic earnings per share**

	Current Quarter Ended 31/07/04	Comparative Quarter Ended 31/07/03	12 months Cumulative Todate	
			31/07/04	31/07/03
<u>Earnings</u>				
Net profit attributable to ordinary shareholders (RM'000)	(1,923)	6,231	9,266	6,231
<u>Weighted average number of ordinary shares</u>				
Issued ordinary shares at beginning of period ('000)	192,769	-	162,062	-
Effect of shares issued during the period ('000)	-	5,734	28,418	5,734
Weighted average number of ordinary shares ('000)	<u>192,769</u>	<u>5,734</u>	<u>190,480</u>	<u>5,734</u>

**Diluted earnings per share**

	Current Quarter Ended 31/07/04	Comparative Quarter Ended 31/07/03	12 months Cumulative Todate	
			31/07/04	31/07/03
<u>Earnings (diluted)</u>				
Net profit attributable to ordinary shareholders (RM'000)	(1,923)	6,231	9,266	6,231
After tax effect of notional interest savings (RM'000)	80	762	318	762
Net profit attributable to ordinary shareholders (diluted-RM'000)	<u>(1,843)</u>	<u>6,993</u>	<u>9,584</u>	<u>6,993</u>
<u>Weighted average number of ordinary shares (diluted)</u>				
Weighted average number of ordinary shares as above ('000)	192,769	5,734	190,480	5,734
Effect of the public issue of shares ('000)	-	29,200	-	29,200
Effect of approved unexercised ESOS ('000)	6,144	19,126	6,144	19,126
Weighted average number of ordinary shares (diluted)	<u>198,913</u>	<u>54,060</u>	<u>196,624</u>	<u>54,060</u>
Diluted earnings per share (sen)	<u>-</u>	<u>12.94</u>	<u>-</u>	<u>12.94</u>

The diluted earnings per share for the current quarter is not shown as the effect is anti-dilutive.