



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

**UNAUDITED FIRST QUARTER REPORT ENDED 31 OCTOBER 2004
CONDENSED CONSOLIDATED BALANCE SHEETS**

	31/10/2004	31/07/2004
	RM'000	RM'000
Property, plant and equipment	27,180	26,194
Investment in associates	64,492	62,567
Other investments	11,093	11,093
Goodwill	3,355	3,309
	106,120	103,163
Current assets		
Inventories	1,376	1,337
Trade and other receivables	139,456	151,788
Tax recoverable	5,223	3,605
Cash and cash equivalents	22,203	37,625
	168,258	194,355
Current liabilities		
Trade and other payables	82,647	94,603
Borrowings	4,766	16,587
Taxation	304	59
	87,717	111,249
Net Current assets	80,541	83,106
	186,661	186,269
Financed by :-		
Capital and reserves		
Share capital	96,384	96,384
Reserves	34,737	34,485
	131,121	130,869
Minority shareholders' interests	7,787	7,482
Long term and deferred liabilities		
Borrowings	47,631	47,709
Deferred taxation	122	209
	47,753	47,918
	186,661	186,269

The Condensed Consolidated Balance Sheets should be read in conjunction with the Annual Financial Statements for the year ended 31 July 2004.



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**UNAUDITED FIRST QUARTER REPORT ENDED 31 OCTOBER 2004
CONDENSED CONSOLIDATED INCOME STATEMENTS**

	Individual Quarter	Preceding Year	Cumulative Quarter	Preceding Year
	Current Year Quarter	Corresponding Quarter	Current Year To date	Corresponding Period
	31/10/2004 RM'000	31/10/2003 RM'000	31/10/2004 RM'000	31/10/2003 RM'000
Revenue	21,319	36,148	21,319	36,148
Operating expenses	(21,515)	(30,644)	(21,515)	(30,644)
Other operating expenses	(54)	-	(54)	-
Other operating income	4	163	4	163
Operating profit / (loss)	(246)	5,667	(246)	5,667
Interest expense	(919)	(586)	(919)	(586)
Interest income	134	542	134	542
Share of profit of associates	2,324	2,037	2,324	2,037
Profit / (Loss) before tax	1,293	7,660	1,293	7,660
Tax expense	(735)	(1,677)	(735)	(1,677)
Profit / (Loss) after tax	558	5,983	558	5,983
Less: Minority interests	(306)	(581)	(306)	(581)
Net profit / (loss) for the period	252	5,402	252	5,402
Basic earnings per ordinary share (sen)	0.13	3.23	0.13	3.23
Diluted earnings per ordinary share (sen)	-	-	-	-

The Condensed Consolidated Income Statements should be read in conjunction with the Annual Financial Statements for the year ended 31 July 2004.



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**UNAUDITED FIRST QUARTER REPORT ENDED 31 OCTOBER 2004
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	←	Non – distributable	→	Distributable	
	Share Capital RM'000	Share Premium RM'000	Exchange Equalisation RM'000	Retained Profits RM'000	Total RM'000
At 1 August 2004	96,384	18,891	97	15,497	130,869
Net profit for the period	-	-	-	252	252
At 31 October 2004	<u>96,384</u>	<u>18,891</u>	<u>97</u>	<u>15,749</u>	<u>131,121</u>
At 1 August 2003	81,031	-	-	6,231	87,262
Issue of shares					
- Public issues	14,600	20,440	-	-	35,040
Listing expenses	-	(3,617)	-	-	(3,617)
Net profit for the period	-	-	-	5,402	5,402
At 31 October 2003	<u>96,631</u>	<u>16,823</u>	<u>-</u>	<u>11,633</u>	<u>124,087</u>

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Financial Statements for the year ended 31 July 2004.



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

	3 months ended 31/10/2004 RM'000	3 months ended 31/10/2003 RM'000
<u>Cash flows from operating activities</u>		
Profit before tax	1,293	7,660
Adjustments for :		
- Non-cash items	(1,347)	(1,446)
- Non-operating items	785	44
Operating profit before working capital changes	731	6,258
Changes in working capital	337	3,543
Cash generated from operations	1,068	9,801
Income taxes paid	(2,134)	(2,483)
Interest paid	(919)	(586)
Net cash generated from / (used in) operating activities	(1,985)	6,732
<u>Cash flows from investing activities</u>		
- Investments in subsidiary	(95)	-
- Other investments	1	(51)
- Purchase of fixed assets	(1,577)	-
- Transfer of listing status	-	(28,000)
- Interest received	134	542
Net cash (used in) / generated from investing activities	(1,537)	(27,509)
<u>Cash flows from financing activities</u>		
- Proceeds from issuance of share capital	-	10,428
- Listing expenses	-	(3,617)
- Proceeds from bank borrowings	2,085	33,179
- Repayments from bank borrowings	(17,275)	(47,382)
- Dividends paid to previous shareholder of SEB	-	(1,500)
- Payment of hire purchase liabilities	(110)	(104)
Net cash generated from / (used in) financing activities	(15,300)	(8,996)
Net increase / (decrease) in cash and cash equivalents	(18,822)	(29,773)
Cash and cash equivalents at beginning of period	37,197	33,133
Cash and cash equivalents at end of period	18,375	3,360



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

	3 months ended 31/10/2004 RM'000	3 months ended 31/10/2003 RM'000
Cash and bank balances	6,267	3,931
Deposits placed with licensed banks	15,936	664
Bank overdrafts	<u>(3,828)</u>	<u>(632)</u>
	18,375	3,963
Fixed deposits pledged to banks	-	<u>(603)</u>
	<u>18,375</u>	<u>3,360</u>

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Annual Financial Statements for the year ended 31 July 2004.



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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST QUARTER ENDED 31 OCTOBER 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).

The interim financial report should be read in conjunction with the annual financial statements of the Group for the financial year ended 31 July 2004.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the annual financial statements for the financial year ended 31 July 2004.

2. Preceding Annual Financial Statement

The audit report of the Group's annual financial statements for the year ended 31 July 2004 was not subject to any qualification.

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.

5. Material Changes in Estimates

There were no changes in the estimates of amounts reported in prior interim periods of the current financial period or changes in estimates of amounts reported in prior financial years that have a material effect in the current interim period.

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 quarter.

7. Dividends Paid

There were no dividends 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	15,220	(479)
Wastewater Division	5,155	563
Trading Services Division	945	63
Others	199	58
	<u>21,519</u>	<u>205</u>
Inter-segment elimination	(200)	-
Unallocated corporate expenses	-	(451)
Net financing costs	-	(785)
Share of profit of associates companies	-	2,324
	<u>21,319</u>	<u>1,293</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 buildings 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 15 December 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

There were no changes in the composition of the Group for the period ended 31 October 2004.

12. Changes in Contingent Liabilities/Contingent Assets

The changes in contingent liabilities since the last annual balance sheet date (as at 31 July 2004) to 15 December 2004 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report) are as follows:-

	Increase/ (Decrease) RM'000
Bank guarantees given to third parties relating to performance, tenders and advance payment bonds	<u>(29,279)</u>



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13. Trade and other receivables

Trade and other receivables consist of the following:-

	RM'000
Trade receivables	91,110
Less: Allowance for doubtful debts	<u>(3,102)</u>
	88,008
Amount due from contract customers	37,946
Affiliated company	127
Associates	4,305
Other receivables, deposits and prepayment	<u>9,070</u>
	<u>139,456</u>

14. Trade and other payables

Trade and other payables consist of the following:-

	RM'000
Trade payables	50,784
Other payables and accruals	22,797
Associates	8,046
Amount due to contract customers	<u>1,020</u>
	<u>82,647</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 31/10/04 RM'000	Cumulative Current Period To date 31/10/04 RM'000
Current tax expense	(735)	(735)
Deferred tax	-	-
	<u>(735)</u>	<u>(735)</u>

The effective tax rate of the current and cumulative quarter ended 31 October 2004 is higher than the statutory tax rate due mainly to the absence of Group relief for losses incurred by certain subsidiaries.

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 October 2004 are as follows:

	RM'000
At cost	175
At book value	32
At market value	39

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 October 2004 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Long Term Borrowings</u>			
Term loan	-	47,230	47,230
Hire purchase liabilities	401	-	401
	<u>401</u>	<u>47,230</u>	<u>47,631</u>
<u>Short Term Borrowings</u>			
Bank overdrafts	-	3,446	3,446
Revolving credits	-	-	-
Bankers acceptances	-	930	930
Hire purchase liabilities	390	-	390
	<u>390</u>	<u>4,376</u>	<u>4,766</u>
Total Group Borrowings	<u>791</u>	<u>51,606</u>	<u>52,397</u>

Included in the above Group borrowings are the following loans denominated in Chinese Renminbi (RMB) :

	Foreign currency RMB'000	Equivalent RM'000
<u>Unsecured borrowings</u>		
Long Term Borrowings	<u>4,793</u>	<u>2,229</u>

6. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off balance sheet risk as at 15 December 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 litigations as at 15 December 2004 (being the last practicable date which is not earlier than 7 days from the date of issue of this quarterly report) are 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. Consequently, SEB has filed its Proof of Debts to the Official Receiver on 28 June 2004 and is seeking leave of court to proceed further on the case in accordance with Section 226(3) of the Companies Act, 1965 in order to obtain judgment. The case is currently fixed for mention on 19 January 2005.



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- (ii) MQS Engineering Sdn Bhd ("MQS") instituted 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. In response, 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.

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

Compared to the preceding quarter, the Group's revenue recorded a decrease of 55% to RM21.3 million and its pre-tax profit increased by 143% to RM1.3 million. The higher pre-tax profit was attributable to higher contributions by the associated companies.

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

For the period under review, the Group recorded a turnover and pre-tax profit of RM21.3 million and RM1.3 million respectively, representing a decline of 41% and 83% from the previous corresponding period.

The decline in both the revenue and pre-tax profit is attributable to the lower number of projects being undertaken during this period as compared to the previous corresponding period.

10. Prospects for the Current Year

The Board expects the current year performance to be challenging given the deferment by the Malaysian Government in the construction and development of water projects pending the formation of National Water Commission. Nevertheless, stable earnings from long-term operation and maintenance contracts will cushion the impact on the Group's pre-tax earnings.

In view of certain recent developments in the Malaysian and overseas water industries, the Board is optimistic of securing more projects and achieving better results in the near future.

11. Variance of Profit Forecast / Profit Guarantee

Not applicable to the Group.

12. Proposed Dividend

No dividend has been declared nor recommended for the current quarter ended 31 October 2004.



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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 period and the weighted average number of ordinary shares outstanding during the period as follow:

Basic earnings per share

	Current Quarter Ended 31/10/04	Comparative Quarter Ended 31/10/03	3 months Cumulative Totade 31/10/04 31/10/03	
Net profit attributable to ordinary shareholders (RM'000)	252	5,402	252	5,402
<u>Weighted average number of ordinary shares</u>				
Issued ordinary shares at beginning of period ('000)	192,769	162,062	192,769	162,062
Effect of shares issued during the period ('000)	-	5,375	-	5,375
Weighted average number of ordinary shares ('000)	192,769	167,437	192,769	167,437
Basic earnings per share (sen)	0.13	3.23	0.13	3.23

Diluted earnings per share

	Current Quarter Ended 31/10/04	Comparative Quarter Ended 31/10/03	3 months Cumulative Totade 31/10/04 31/10/03	
Net profit attributable to ordinary shareholders (RM'000)	251	5,402	251	5,402
After tax effect of notional interest savings (RM'000)	65	330	65	330
Net profit attributable to ordinary shareholders (diluted-RM'000)	316	5,732	316	5,732
Weighted average number of ordinary shares as above ('000)	192,769	167,437	192,769	167,437
Number of approved unexercised ESOS	5,019	19,126	5,019	19,126
Number of ESOS that would have been issued at fair value ('000)	(9,202)	(17,214)	(9,202)	(17,214)
Weighted average number of ordinary shares - diluted ('000)	188,586	169,349	188,586	169,349
Diluted earnings per share (sen)	-	-	-	-

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