



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

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT 31 MARCH 2006**

	31/03/2006	31/12/2005
	RM'000	RM'000
NON-CURRENT ASSETS		
Property, plant and equipment	41,364	32,561
Investment in associates	62,536	62,056
Investment properties	2,318	2,318
Other investments	11,079	11,079
Goodwill	6,461	6,461
Deferred tax assets	77	77
	<u>123,835</u>	<u>114,552</u>
CURRENT ASSETS		
Inventories	846	756
Trade and other receivables	114,287	106,264
Tax recoverable	3,125	6,200
Cash and cash equivalents	19,626	29,861
	<u>137,884</u>	<u>143,081</u>
TOTAL ASSETS	<u><u>261,719</u></u>	<u><u>257,633</u></u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	106,023	106,023
Reserves	2,070	1,836
	<u>108,093</u>	<u>107,859</u>
Minority interests	21,056	21,051
TOTAL EQUITY	<u>129,149</u>	<u>128,910</u>
NON-CURRENT LIABILITIES		
Borrowings	48,772	47,359
CURRENT LIABILITIES		
Trade and other payables	71,357	67,763
Borrowings	12,202	13,362
Dividend payable	202	202
Taxation	37	37
	<u>83,798</u>	<u>81,364</u>
TOTAL LIABILITIES	<u>132,570</u>	<u>128,723</u>
TOTAL EQUITY AND LIABILITIES	<u><u>261,719</u></u>	<u><u>257,633</u></u>
Net assets per share (RM)	0.61	0.61

The Condensed Consolidated Balance Sheets should be read in conjunction with the Audited Financial Statements for the 17-month period ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.



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(Incorporated in Malaysia)

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2006**

	Individual Quarter		Cumulative Quarter	
	Current	Preceding Year	Current	Preceding Year
	Year	Corresponding	Year	Corresponding
	Quarter	Quarter	ToDate	Period
	31/03/2006	31/03/2005	31/03/2006	31/03/2005
	RM'000	RM'000	RM'000	RM'000
Revenue	33,083	N/A	33,083	N/A
Cost of sales	<u>(26,599)</u>	N/A	<u>(26,599)</u>	N/A
Gross Profit	6,484	N/A	6,484	N/A
Other income	277	N/A	277	N/A
Distribution costs	(758)	N/A	(758)	N/A
Administrative expenses	(6,279)	N/A	(6,279)	N/A
Other expenses	<u>(3)</u>	N/A	<u>(3)</u>	N/A
Loss from operations	(279)	N/A	(279)	N/A
Interest expense	(1,011)	N/A	(1,011)	N/A
Interest income	63	N/A	63	N/A
Share of profit after tax of jointly controlled entity	1,200	N/A	1,200	N/A
Share of profit after tax and minority interest of associates	<u>480</u>	N/A	<u>480</u>	N/A
Profit before tax	453	N/A	453	N/A
Tax expense	<u>(289)</u>	N/A	<u>(289)</u>	N/A
Profit for the period	164	N/A	164	N/A
Attributable to:				
Equity holders of the parent	159	N/A	159	N/A
Minority interests	5	N/A	5	N/A
Profit for the period	164	N/A	164	N/A
Basic earnings per ordinary share (sen)	0.075	N/A	0.075	N/A
Diluted earnings per ordinary share (sen)	-	N/A	-	N/A

Note:

The comparative figures are not applicable due to the change of financial year as detailed in Note14 of Part B to the attached Explanatory Note.

The Condensed Consolidated Income Statements should be read in conjunction with the Audited Financial Statements for the 17-month period ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.



SALCON BERHAD (Company No: 593796-T)
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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FIRST QUARTER ENDED 31 MARCH 2006**

	← Attributable to Equity Holders of the Parent →				Total RM'000	Minority Interests RM'000	Total Equity RM'000
	Share Capital RM'000	Share Premium RM'000	Translation Reserve RM'000	Non – distributable Distributable Retained Profits/ (Accumulated losses) RM'000			
At 1 January 2006							
As previously stated	106,023	19,011	114	(17,289)	107,859	21,051	128,910
Prior year adjustments							
- effects of adopting FRS 121	-	-	(38)	38	-	-	-
At 1 January 2006 (restated)	106,023	19,011	76	(17,251)	107,859	21,051	128,910
Foreign currency translation	-	-	(358)	-	(358)	-	(358)
Exchange differences on translation of the financial statements of foreign subsidiaries	-	-	433	-	433	-	433
Net gains recognised directly in equity	-	-	75	-	75	-	75
Profit for the period	-	-	-	159	159	5	164
Total recognised income and expense for the period	-	-	75	159	234	5	239
At 31 March 2006	106,023	19,011	151	(17,092)	108,093	21,056	129,149

Note:

The comparative figures are not applicable due to the change of financial year as detailed in Note 14 of Part B to the attached Explanatory Note.

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Audited Financial Statements for the 17-month period ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.



SALCON BERHAD (Company No: 593796-T)
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**UNAUDITED CONDENSED CONSOLIDATED CASHFLOW STATEMENT
FOR THE FIRST QUARTER ENDED 31 MARCH 2006**

	3 months Ended 31/03/2006 RM'000	3 months Ended 31/03/2005 RM'000
<u>Cash flows from operating activities</u>		
Profit before tax	453	N/A
Adjustments for :		
- Non-cash items	(948)	N/A
- Non-operating items	948	N/A
Operating profit before working capital changes	<u>453</u>	<u>N/A</u>
Changes in working capital	(8,820)	N/A
Cash generated from operations	<u>(8,367)</u>	<u>N/A</u>
Income taxes refund / (paid)	2,786	N/A
Interest paid	(1,011)	N/A
Net cash used in operating activities	<u>(6,592)</u>	<u>N/A</u>
<u>Cash flows from investing activities</u>		
- Proceed from sale of fixed assets	81	N/A
- Purchase of fixed assets	(4,029)	N/A
- Interest received	63	N/A
Net cash generating from investing activities	<u>(3,885)</u>	<u>N/A</u>
<u>Cash flows from financing activities</u>		
- Proceeds from bank borrowings	7,775	N/A
- Repayments of bank borrowings	(8,987)	N/A
- Payment of hire purchase liabilities	(52)	N/A
Net cash generated from financing activities	<u>(1,264)</u>	<u>N/A</u>
Net decrease in cash and cash equivalents	(11,741)	N/A
Effects of exchange rate changes	70	N/A
Cash and cash equivalents at beginning of period	<u>29,818</u>	<u>N/A</u>
Cash and cash equivalents at end of period	<u>18,147</u>	<u>N/A</u>



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

	3 months Ended 31/03/2006 RM'000	3 months Ended 31/03/2005 RM'000
Cash and bank balances	7,395	N/A
Deposits placed with licensed banks	12,231	N/A
Bank overdrafts	(1,479)	N/A
	<u>18,147</u>	<u>N/A</u>

Note:

The comparative figures are not applicable due to the change of financial year as detailed in Note14 of Part B to the attached Explanatory Note.

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The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Audited Financial Statements for the 17-month period ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.



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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST QUARTER ENDED 31 MARCH 2006

A. EXPLANATORY NOTES PURSUANT TO FRS 134 – Interim Financial Reporting

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with FRS 134 – Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the 17-month period ended 31 December 2005 and with the explanatory notes attached herein. These explanatory notes provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the last audited financial statement for the 17-month period ended 31 December 2005.

1.1 Changes in Accounting Policies

The accounting policies adopted by the Group in this interim financial report are consistent with those adopted in the audited financial statements for the 17-month period ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for financial period beginning 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of FRSs 2, 5, 102, 108, 110, 116, 127, 128, 131, 132, 133, 138 and 140 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRSs are discussed below:



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(a) FRS 3: Business Combinations and FRS 136: Impairment of Assets

The adoption of these new FRSs has resulted in the Group ceasing annual goodwill amortization. Goodwill is carried at cost less accumulated impairment losses and is now tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognised in the profit and loss accounts and subsequent reversal is not allowed. Prior to 1 January 2006, goodwill was amortised on a straight line basis over its estimated useful life of not more than 20 years. This change in accounting policy has been accounted for prospectively in accordance with the transitional provisions of FRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortization as of 1 January 2006 has been offset against the cost of the goodwill. This has the effect of reducing the amortization charges by RM384,000 in the current quarter.

(b) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period's presentation.

(c) FRS 121: The Effects of Changes in Foreign Exchange Rates

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

Under the revised FRS 121, exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are to be recognised in profit or loss in the consolidated financial statements. This change in accounting policy has been accounted for retrospectively and has resulted in the following:

	As at 1.1.2006
	RM'000
Decrease in accumulated losses	38
Decrease in translation reserve	<u>(38)</u>

In addition, as of 1 January 2006, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are now treated as assets and liabilities of the foreign operation and translated at the closing rate. In accordance with the transitional provisions of FRS 121, this



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change is applied prospectively. Goodwill acquired in business combinations prior to 1 January 2006 and fair value adjustments arising on those acquisitions are deemed to be assets and liabilities of the parent company and were translated using the exchange rate at the dates of acquisitions.

1.2 Comparatives

The following comparative amounts have been restated due to the adoption of new and revised FRSs:

Balance Sheet

	Previously stated RM'000	Adjustment (Note A1.1(c)) RM'000	Restated RM'000
At 31 December 2005			
Accumulated losses	(17,289)	38	(17,251)
Translation reserve	114	(38)	76

2. Preceding Annual Financial Statement

The audit report of the Group's annual financial statements for the 17-month period ended 31 December 2005 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. Unusual Items that Affect the Financial Statements

There were no unusual items affecting the assets, liabilities, equity, net income or cashflows of the Group for the quarter ended 31 March 2006.

5. Material Changes in Estimates

There were no changes in the 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 quarter ended 31 March 2006.

7. Dividends Paid

There were no dividend paid for the quarter ended 31 March 2006.



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8. Segmental Reporting

The segmental revenue and results of the Group for the quarter ended 31 March 2006 are as follows:-

	Water	Wastewater	Trading Services	Others	Inter-segment Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue						
External	19,292	11,352	2,439	-	-	33,083
Inter segment	-	-	-	132	(132)	-
	<u>19,292</u>	<u>11,352</u>	<u>2,439</u>	<u>132</u>	<u>(132)</u>	<u>33,083</u>
Results						
Profit/(Loss) from operations	514	492	331	(9)	-	1,328
Share of profit after tax of jointly controlled entity	1,200	-	-	-	-	1,200
Share of profit after tax and minority interest of associates	763	-	-	(283)	-	480
	<u>2,477</u>	<u>492</u>	<u>331</u>	<u>(292)</u>	<u>-</u>	<u>3,008</u>
Unallocated corporate expense						(1,607)
Net financing costs						(948)
Profit before taxation						<u>453</u>

9. Valuations of Property, Plant and Equipment

There was no revaluation of property, plant and equipment during the quarter ended 31 March 2006. 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 16 May 2006 (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 during the quarter ended 31 March 2006.



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12. Changes in Contingent Liabilities/Contingent Assets

The changes in contingent liabilities since the last annual balance sheet date as at 31 December 2005 to 16 May 2006 (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>958</u>

13. Net assets (NA) per share

The NA per share is derived as follows:-

	RM'000
Shareholders funds	108,093
Add: Minority interest	<u>21,056</u>
NA	<u>129,149</u>
No. of shares	<u>212,046</u>
NA per share (RM)	<u>0.61</u>



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B. ADDITIONAL DISCLOSURE PURSUANT TO THE LISTING REQUIREMENTS OF THE BURSA MALAYSIA SECURITIES BERHAD

1. Taxation

The breakdown of tax charge is as follows:-

	Current Quarter Ended 31/03/06 RM'000	Cumulative Quarter To-date 31/03/06 RM'000
Current tax - Malaysian Tax	<u>289</u>	<u>289</u>

The Group's effective tax rate is higher than the statutory rate principally due to the losses of certain subsidiaries, which cannot be fully set-off against taxable profits made by other subsidiaries.

2. Sale of Unquoted Investments and/or Properties

There were no disposals of unquoted investments or properties during the quarter ended 31 March 2006.

3. Purchase or Disposal of Quoted Investments

There were no purchases or disposals of quoted investments during the quarter ended 31 March. Total investments in quoted securities as at 31 March 2006 were as follows:

	RM'000
At cost	175
At book value	18
At market value	23

4. Status of Corporate Proposals

On 13 April 2005, Salcon Engineering Berhad, a wholly owned subsidiary of the Company entered into a conditional share sale agreement with M. D. Construction Sdn. Bhd for the proposed acquisition of 760,000 ordinary shares of RM1.00 each in Wawasan R & R Builders Sdn. Bhd. (R & R), representing 100% equity interest in R & R for a total cash consideration of RM15,000,000.

The conditional share sale agreement was terminated on 13 April 2006 due to unsatisfactory outcome of the due diligence review being carried out.



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5. Group Borrowings and Debt Securities

Total Group borrowings as at 31 March 2006 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Long Term Borrowings</u>			
Term loan	-	48,572	48,572
Hire purchase liabilities	200	-	200
	<u>200</u>	<u>48,572</u>	<u>48,772</u>
<u>Short Term Borrowings</u>			
Bank overdrafts	-	1,479	1,479
Revolving credits	-	3,480	3,480
Bankers acceptances	-	7,073	7,073
Hire purchase liabilities	170	-	170
	<u>170</u>	<u>12,032</u>	<u>12,202</u>
Total Group Borrowings	<u>370</u>	<u>60,604</u>	<u>60,974</u>

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

	Foreign currency RMB'000	Equivalent RM'000
Long Term Borrowings (Unsecured)	<u>7,681</u>	<u>3,572</u>

6. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off balance sheet risk as at 16 May 2006 (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 16 May 2006 (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 had since been wound-up on 6 February 2004. Subsequently, SEB had filed its Proof of Debts to the Official Receiver on 28 June 2004 and had proceeded with the filing of its Supporting Affidavit on 1 March 2005 in accordance with Section 226(3) of the Companies Act, 1965 in order to obtain judgement. SEB had filed the Forms of Summons (General) dated 24 May 2005 with the Kuala Lumpur High Court on 25 May 2005 for leave to continue with SEB's civil suit against Readybuilt.



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On 9 January 2006, the Kuala Lumpur High Court Judge was notified that the Winding-Up Court has allowed SEB's application for leave to proceed the suit against Readybuilt on 8 December 2005. On 6 March 2006, the Court was notified that the Order granting leave to proceed against Readybuilt is being obtained from the Court Registry. Consequently, the Court has fixed the matter for further mention on 28 June 2006.

- (ii) MQS Engineering Sdn Bhd ("MQS") has filed legal proceedings in Shah Alam High Court against SEB for an amount of RM4,745,035.00 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.

SEB has reached an amicable settlement, in relation to both MQS claim and SEB's Counter-Claim, with MQS on an agreed settlement sum of RM4,100,000.00 to be paid over a period of 23 monthly instalments. Consent Judgement has been recorded in the Court on 11 May 2006 and solicitors for both parties are attending to obtain the sealed copy from the Court Registry.

8. Material Changes in the Results of the Current Quarter compared to that of the Preceding Quarter

Compared to the last quarter of the preceding financial period, the Group's revenue and profit before tax for the first quarter increased by RM6.89 million and RM28.8 million respectively.

The increase in the Group's profit before tax was largely due to the provisions for doubtful debts and higher material costs recognised in the preceding quarter.

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

For the quarter under review, the Group recorded revenue and profit before tax of RM33.1 million and RM0.5 million respectively. No comparison was made against the previous corresponding quarter due to the change of financial year as detailed in Note 14 below.

10. Prospects for the Current Financial Year

The recent developments in the Malaysian water industry has provided a window of opportunity for the Group based on our years of experience and technical expertise. Under the Ninth Malaysia Plan (9MP), the allocation for water and sewerage has more than doubled compared to the Eighth Malaysia Plan (8MP). Besides traditional turnkey contracting, we see key potential areas in the development and upgrading of water distribution network, consisting of laying of new pipes of various sizes and replacement of existing asbestos cement pipeline to reduce non-revenue water (NRW).

In China, the Group has secured three (3) water and one (1) wastewater concession and is confident of securing more.

The Group has also participated in international tenders for water projects in India, Sri Lanka and Vietnam which are expected to provide more contracting opportunities.



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11. Variance of Profit Forecast / Profit Guarantee

Not applicable to the Group.

12. Proposed Dividend

No dividend has been declared nor recommended for the quarter ended 31 March 2006.

13. Earnings Per Share

The basic and diluted earnings per share have been calculated based on the consolidated net profit attributable to equity holders of the parent for the period and the weighted average number of ordinary shares outstanding during the period as follows:

Basic earning per share

	Current Quarter Ended 31/03/06	Comparative Quarter Ended 31/03/05	Cumulative Quarter To-date 31/03/06	Cumulative Quarter To-date 31/03/05
Profit attributable to equity holders of the parent (RM'000)	<u>159</u>	<u>N/A</u>	<u>159</u>	<u>N/A</u>
<u>Weighted average number of ordinary shares</u>				
Issued ordinary shares at beginning of period ('000)	<u>212,045</u>	<u>N/A</u>	<u>212,045</u>	<u>N/A</u>
Effect of shares issued during the period ('000)	<u>-</u>	<u>N/A</u>	<u>-</u>	<u>N/A</u>
Weighted average number of ordinary shares ('000)	<u>212,045</u>	<u>N/A</u>	<u>212,045</u>	<u>N/A</u>
Basic earnings per share (sen)	0.075	N/A	0.075	N/A

Note:

The comparative figures are not applicable due to the change of financial year as detailed in Note 14 below.

Diluted earnings per share

For the diluted earnings per share calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares are in respect of options over ordinary shares granted to employees.

Since the exercise price of options over ordinary shares are above the fair value of the Company's ordinary shares as at the end of the current quarter, the options over ordinary shares are non-dilutive. Accordingly, diluted earnings per share information is not presented in the financial statements.



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14. Comparative figures

The comparative figures are not applicable for Consolidated Income Statement, Consolidated Cashflow Statement and Consolidated Statement of Changes in Equity due to the change of financial year in the preceding year which was effected on 28 June 2005 from 31 July to 31 December.

15. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 23 May 2006.

ON BEHALF OF THE BOARD

DATO' LIM SEE TEOK
Chief Executive Officer/ Director

Selangor Darul Ehsan
23 May 2006