



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

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT 30 JUNE 2006**

	30/06/2006 RM'000	31/12/2005 RM'000
NON-CURRENT ASSETS		
Property, plant and equipment	41,510	32,561
Investment in associates	55,243	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>116,688</u>	<u>114,552</u>
CURRENT ASSETS		
Inventories	1,320	756
Trade and other receivables	106,659	106,264
Tax recoverable	3,202	6,200
Cash and cash equivalents	19,911	29,861
	<u>131,092</u>	<u>143,081</u>
TOTAL ASSETS	<u>247,780</u>	<u>257,633</u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	106,023	106,023
Reserves	1,996	1,836
	<u>108,019</u>	<u>107,859</u>
Minority interests	20,878	21,051
TOTAL EQUITY	<u>128,897</u>	<u>128,910</u>
NON-CURRENT LIABILITIES		
Borrowings	48,842	47,359
CURRENT LIABILITIES		
Trade and other payables	58,926	67,763
Borrowings	10,876	13,362
Dividend payable	202	202
Taxation	37	37
	<u>70,041</u>	<u>81,364</u>
TOTAL LIABILITIES	<u>118,883</u>	<u>128,723</u>
TOTAL EQUITY AND LIABILITIES	<u>247,780</u>	<u>257,633</u>
Net assets per share (RM)	0.51	0.51

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.



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

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE SECOND/CUMULATIVE QUARTER ENDED 30 JUNE 2006**

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year ToDate	Preceding Year Corresponding Period
	30/06/2006 RM'000	30/06/2005 RM'000	30/06/2006 RM'000	30/06/2005 RM'000
Revenue	34,956	N/A	68,039	N/A
Cost of sales	<u>(28,646)</u>	N/A	<u>(55,245)</u>	N/A
Gross Profit	6,310	N/A	12,794	N/A
Other income	697	N/A	971	N/A
Distribution costs	(705)	N/A	(1,463)	N/A
Administrative expenses	<u>(6,157)</u>	N/A	<u>(12,436)</u>	N/A
Profit/(Loss) from operations	145	N/A	(134)	N/A
Interest expense	(1,248)	N/A	(2,259)	N/A
Interest income	60	N/A	123	N/A
Share of profit after tax of jointly controlled entity	0	N/A	1,200	N/A
Share of profit after tax and minority interest of associates	<u>1,617</u>	N/A	<u>2,097</u>	N/A
Profit before tax	574	N/A	1,027	N/A
Tax expense	<u>(311)</u>	N/A	<u>(600)</u>	N/A
Profit for the period	263	N/A	427	N/A
Attributable to:				
Equity holders of the parent	24	N/A	183	N/A
Minority interests	<u>239</u>	N/A	<u>244</u>	N/A
Profit for the period	263	N/A	427	N/A
Basic earnings per ordinary share (sen)	0.011	N/A	0.086	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)
(Incorporated in Malaysia)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE CUMULATIVE SECOND QUARTER ENDED 30 JUNE 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	-	-	(103)	-	(103)	-	(103)
Exchange differences on translation of the financial statements of foreign subsidiaries	-	-	80	-	80	-	80
Net gains recognised directly in equity	-	-	(23)	-	(23)	-	(23)
Profit for the period	-	-	-	183	183	(173)	10
Total recognised income and expense for the period	-	-	(23)	183	160	(173)	(13)
At 30 June 2006	106,023	19,011	53	(17,068)	108,019	20,878	128,897

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 CUMULATIVE SECOND QUARTER ENDED 30 JUNE 2006**

	6 months Ended 30/06/2006 RM'000	6 months Ended 30/06/2005 RM'000
<u>Cash flows from operating activities</u>		
Profit before tax	1,027	N/A
Adjustments for :		
- Non-cash items	(1,718)	N/A
- Non-operating items	<u>2,136</u>	<u>N/A</u>
Operating profit before working capital changes	1,445	N/A
Changes in working capital	<u>(5,698)</u>	<u>N/A</u>
Cash generated from operations	(4,253)	N/A
Income taxes refund / (paid)	2,397	N/A
Interest paid	<u>(2,259)</u>	<u>N/A</u>
Net cash used in operating activities	<u>(4,115)</u>	<u>N/A</u>
<u>Cash flows from investing activities</u>		
- Proceed from sale of fixed assets	213	N/A
- Purchase of fixed assets	(4,577)	N/A
- Interest received	<u>123</u>	<u>N/A</u>
Net cash used from investing activities	<u>(4,241)</u>	<u>N/A</u>
<u>Cash flows from financing activities</u>		
- Proceeds from bank borrowings	16,116	N/A
- Repayments of bank borrowings	(17,288)	N/A
- Dividends paid to minority shareholders	(417)	N/A
- Payment of hire purchase liabilities	<u>(188)</u>	<u>N/A</u>
Net cash used from financing activities	<u>(1,777)</u>	<u>N/A</u>
Effects of exchange rate changes	(32)	N/A
Net decrease in cash and cash equivalents	(10,165)	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>19,653</u>	<u>N/A</u>



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

	6 months Ended 30/06/2006 RM'000	6 months Ended 30/06/2005 RM'000
Cash and bank balances	11,238	N/A
Deposits placed with licensed banks	8,673	N/A
Bank overdrafts	(258)	N/A
	<u>19,653</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 CUMULATIVE SECOND QUARTER ENDED 30 JUNE 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 and RM768,000 in the current quarter and cumulative quarter respectively.

(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



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translated at the closing rate. In accordance with the transitional provisions of FRS 121, this 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 cumulative quarter ended 30 June 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 cumulative quarter ended 30 June 2006.

7. Dividends Paid

There were no dividend paid for the cumulative quarter ended 30 June 2006.



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8. Segmental Reporting

The segmental revenue and results of the Group for the cumulative quarter ended 30 June 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	39,339	22,866	5,834	-	-	68,039
Inter segment	-	-	-	265	(265)	-
	<u>39,339</u>	<u>22,866</u>	<u>5,834</u>	<u>265</u>	<u>(265)</u>	<u>68,039</u>
Results						
Profit/(Loss) from operations	1,269	998	605	(21)	-	2,851
Share of profit after tax of jointly controlled entity	1,200	-	-	-	-	1,200
Share of profit after tax and minority interest of associates	1,718	-	-	379	-	2,097
	<u>4,187</u>	<u>998</u>	<u>605</u>	<u>358</u>	<u>-</u>	<u>6,148</u>
Unallocated corporate expense						(2,985)
Net financing costs						(2,136)
Profit before taxation						<u><u>1,027</u></u>

9. Valuations of Property, Plant and Equipment

There was no revaluation of property, plant and equipment during the cumulative quarter ended 30 June 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 22 August 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

The changes in the composition of the Group during the 6 month period ended 30 June 2006 were as follows:-

- (i) Salcon Berhad (SB) had on 20 April 2006, incorporated two wholly-owned subsidiaries, Salcon Water International Limited and Salcon Water (Asia) Limited, both companies were incorporated in Hong Kong with a paid up capital of HK\$1.00 divided into 1 share of HK\$1.00 each. These changes had no material impact on the earnings and net assets of the Group for the current quarter.
- (ii) Salcon Berhad (SB) had on 12 June 2006, incorporated a wholly-owned subsidiary, Salcon Zhejiang (HK) Limited, a company incorporated in Hong Kong with a paid up capital of HK\$1.00



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divided into 1 share of HK\$1.00 each. This change had no material impact on the earnings and net assets of the Group for the current quarter.

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 22 August 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>3,478</u>

13. Net assets (NA) per share

The NA per share is derived as follows:-

	RM'000
Shareholders funds	108,019
No. of shares	<u>212,046</u>
NA per share (RM)	<u>0.51</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 30/06/06 RM'000	Cumulative Quarter To-date 30/06/06 RM'000
Current tax	<u>311</u>	<u>600</u>

The Group's effective tax rate for both the current and cumulative quarter is higher than the statutory rate principally due to the tax 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 cumulative quarter ended 30 June 2006.

3. Purchase or Disposal of Quoted Investments

There were no purchases or disposals of quoted investments during the cumulative quarter ended 30 June 2006. Total investments in quoted securities as at 30 June 2006 were as follows:

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

4. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at 22 August 2006 (being the last practicable date which is not earlier than 7 days from the date of issue of this quarterly report).



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5. Group Borrowings and Debt Securities

Total Group borrowings as at 30 June 2006 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Long Term Borrowings</u>			
Term loan	-	48,645	48,645
Hire purchase liabilities	197	-	197
	<u>197</u>	<u>48,645</u>	<u>48,842</u>
<u>Short Term Borrowings</u>			
Bank overdrafts	-	258	258
Revolving credits	-	3,266	3,266
Bankers acceptances	-	7,253	7,253
Hire purchase liabilities	99	-	99
	<u>99</u>	<u>10,777</u>	<u>10,876</u>
Total Group Borrowings	<u>296</u>	<u>59,422</u>	<u>59,718</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>7,836</u>	<u>3,645</u>

6. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off balance sheet risk as at 22 August 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 22 August 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



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Kuala Lumpur High Court on 25 May 2005 for leave to continue with SEB's civil suit against Readybuilt.

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. On 10 August 2006, the Judge has ordered the official receiver to attend the mention date on 3 October 2006.

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

Compared to the preceding quarter, the Group's revenue and profit before tax for the second quarter increased by RM1.8 million (6%) and marginally by RM0.1 million (27%) respectively.

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 RM34.9 million and RM0.6 million respectively. No comparison was made against the previous corresponding quarter due to the change of financial year as detailed in Note 14 below.

For the cumulative quarter to date, the Group recorded revenue and profit before tax of RM68 million and RM1 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 Group will continue to capitalise on our years of experience and technical expertise to tap into new opportunities arising under the Ninth Malaysia Plan (9MP) in the water and sewerage sectors.

Building upon Salcon's success in implementing the three (3) water and one (1) wastewater concessions in China, i.e. Changle, Chenggong and Linyi, the Group will continue to seek more business opportunities in China.

In addition, the Group expects some positive result arising from our participation in international tenders for water projects in Vietnam, Sri Lanka and India.

11. Variance of Profit Forecast / Profit Guarantee

Not applicable to the Group.

12. Proposed Dividend

No dividend has been declared nor recommended for the cumulative quarter ended 30 June 2006.



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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 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 30/06/06	Comparative Quarter Ended 30/06/05	Cumulative Quarter To-date	
			30/06/06	30/06/05
Profit attributable to equity holders of the parent (RM'000)	<u>24</u>	<u>N/A</u>	<u>183</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)	0.011	N/A	0.086	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.

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.



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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 29 August 2006.

ON BEHALF OF THE BOARD

JAGGIT SINGH
Executive Director

Selangor Darul Ehsan
29 August 2006