



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

**UNAUDITED THIRD QUARTER REPORT ENDED 30 APRIL 2005
CONDENSED CONSOLIDATED BALANCE SHEETS**

	30/04/2005	31/07/2004
	RM'000	RM'000
Property, plant and equipment	27,970	26,194
Investment in associates	59,446	62,567
Other investments	11,093	11,093
Goodwill	3,291	3,309
	101,800	103,163
Current assets		
Inventories	1,943	1,337
Trade and other receivables	127,117	151,788
Tax recoverable	6,761	3,605
Cash and cash equivalents	15,504	37,625
	151,325	194,355
Current liabilities		
Trade and other payables	68,572	94,603
Borrowings	2,000	16,587
Taxation	379	59
	70,951	111,249
Net Current assets	80,374	83,106
	182,174	186,269
Financed by :-		
Capital and reserves		
Share capital	96,384	96,384
Reserves	30,102	34,485
	126,486	130,869
Minority shareholders' interests	7,926	7,482
Long term and deferred liabilities		
Borrowings	47,553	47,709
Deferred taxation	209	209
	47,762	47,918
	182,174	186,269
 Net tangible assets per share (RM)	0.52	0.54

The Condensed Consolidated Balance Sheets 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 THIRD QUARTER REPORT ENDED 30 APRIL 2005
CONDENSED CONSOLIDATED INCOME STATEMENTS**

	Individual Quarter	Preceding	Cumulative Quarter	Preceding
	Current	Year	Current	Year
	Year	Corresponding	Year	Corresponding
	Quarter	Quarter	Todate	Period
	30/04/2005	30/04/2004	30/04/2005	30/04/2004
	RM'000	RM'000	RM'000	RM'000
Revenue	38,565	22,535	85,806	99,411
Operating expenses	(37,689)	(22,349)	(84,416)	(85,003)
Other operating expenses	(20)	-	(85)	-
Other operating income	31	39	41	205
Operating profit	887	225	1,346	14,613
Interest expense	(876)	(490)	(2,661)	(1,584)
Interest income	63	48	325	610
Share of profit of jointly controlled entity	94	-	94	-
Share of profit of associates	1,260	951	4,584	3,687
Profit before tax	1,428	734	3,688	17,326
Tax expense	(882)	(66)	(2,035)	(4,186)
Profit after tax	546	668	1,653	13,140
Less: Minority interests	(316)	(451)	(1,086)	(1,951)
Net profit for the period	230	217	567	11,189
Basic earnings per ordinary share (sen)	0.12	0.11	0.29	5.90
Diluted earnings per ordinary share (sen)	-	-	-	5.86

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 THIRD QUARTER REPORT ENDED 30 APRIL 2005
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	←	Non – distributable		→	
	Share Capital RM'000	Share Premium RM'000	Exchange Equalisation RM'000	Distributable 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	-	-	-	567	567
Exchange differences on translation of the financial statements of foreign subsidiaries	-	-	62	-	62
Dividends					
- 2004 Final	-	-	-	(5,012)	(5,012)
At 30 April 2005	96,384	18,891	159	11,052	126,486
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	-	-	(8)	-	(8)
Employees' Share Option Scheme	753	2,063	-	-	2,816
Net profit for the period	-	-	-	11,189	11,189
At 30 April 2004	96,384	18,891	(8)	17,420	132,687

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 THIRD QUARTER REPORT ENDED 30 APRIL 2005
CONDENSED CONSOLIDATED CASHFLOW STATEMENT**

	9 months Ended 30/04/2005 RM'000	9 months ended 30/04/2004 RM'000
<u>Cash flows from operating activities</u>		
Profit before tax	3,688	17,326
Adjustments for :		
- Non-cash items	(2,083)	(1,337)
- Non-operating items	2,336	974
Operating profit before working capital changes	<u>3,941</u>	16,963
Changes in working capital	<u>(1,872)</u>	13,741
Cash generated from operations	2,069	30,704
Income taxes paid	(4,515)	(8,626)
Interest paid	<u>(2,661)</u>	(1,584)
Net cash generated from/(used in) operating activities	<u>(5,107)</u>	<u>20,494</u>
<u>Cash flows from investing activities</u>		
- Investments in subsidiary / associate	(133)	-
- Equity investments	-	(200)
- Proceed from sale of fixed assets	1	-
- Other investments	-	(681)
- Purchase of fixed assets	(3,467)	-
- Transfer of listing status	-	(28,000)
- Interest received	325	610
Net cash used in investing activities	<u>(3,274)</u>	<u>(28,271)</u>
<u>Cash flows from financing activities</u>		
- Proceeds from issuance of share capital	-	13,244
- Listing expenses	-	(3,612)
- Redemption of preference shares from associates co.	6,600	3,400
- Proceeds from bank borrowings	3,557	76,046
- Repayments from bank borrowings	(18,205)	(101,712)
- Dividends paid to shareholders of Salcon Berhad	(5,012)	-
- Dividends paid to previous shareholders of SEB	-	(1,500)
- Dividends paid to minority shareholders	(641)	-
- Payment of hire purchase liabilities	(337)	(314)
Net cash used in financing activities	<u>(14,038)</u>	<u>(14,448)</u>
Net decrease in cash and cash equivalents	(22,419)	(22,225)
Effects of exchange rate changes	56	(46)
Cash and cash equivalents at beginning of period	<u>37,197</u>	<u>33,133</u>
Cash and cash equivalents at end of period	<u>14,834</u>	<u>10,862</u>



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

	9 months ended	9 months ended
	30/04/2005	30/04/2004
	RM'000	RM'000
Cash and bank balances	11,992	12,461
Deposits placed with licensed banks	3,512	1,450
Bank overdrafts	(670)	(2,507)
	14,834	11,404
Fixed deposits pledged to banks	-	(542)
	14,834	10,862

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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 THIRD QUARTER ENDED 30 APRIL 2005

A. DISCLOSURE REQUIREMENTS AS PER FRS 134 – Interim Financial Reporting (formerly known as MASB 26)

1. Basis of Accounting and Accounting Policies

The interim financial statements have been prepared in accordance with FRS 134 – Interim Financial Reporting (formerly known as MASB 26) 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.



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7. Dividends Paid

The dividend paid for the cumulative quarter ended 30 April 2005 is as follows:-

	Cumulative Quarter To-date 30/04/05 RM'000
First and final dividend of 2.60 sen tax exempt in respect of the financial year ended 31 July 2004 was paid on 28 February 2005	<u>5,012</u>

8. Segmental Reporting

The segmental revenue and results of the Group for the cumulative quarter ended 30 April 2005 are as follows:-

	Water & Environmental	Wastewater	Trading Services	Others	Inter- segment Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External	61,916	18,480	5,410	-	-	85,806
Inter segment	-		2	397	(399)	-
	<u>61,916</u>	<u>18,480</u>	<u>5,412</u>	<u>397</u>	<u>(399)</u>	<u>85,806</u>
Results						
Profit from operations	2,169	2,135	368	(29)	-	4,643
Unallocated corporate expense						(3,297)
Net financing costs						(2,336)
Share of profits of associates and jointly controlled entity						<u>4,678</u>
Profit before taxation						<u><u>3,688</u></u>

9. Valuations of Property, Plant and Equipment

There was no revaluation of property, plant and equipment during the cumulative quarter ended 30 April 2005. 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 20 June 2005 (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.



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11. Effect of Changes in the Composition of the Group

The changes in the composition of the Group for the cumulative quarter ended 30 April 2005 are as follows:-

- (i) Salcon Berhad had acquired a wholly owned subsidiary, Salcon Yunnan (HK) Limited (formerly known as Salcon Linqu (Hong Kong) Limited), a company incorporated in Hong Kong on 30 December 2004 for a cash consideration of US\$1,000 comprising 1,000 ordinary shares of US\$1 per share. This change had no material impact on the Group for the cumulative quarter to-date.
- (ii) On 2 November 2004, Salcon Engineering Berhad redeemed 6,600 preference shares of RM1 each in Emas Utilities Corporation Sdn Bhd, an associated company, at a premium of RM999 per share. This change had no material impact on the Group for the cumulative quarter to-date.
- (iii) Salcon Berhad (SB) had on 17 February 2005, acquired a wholly owned subsidiary, Salcon Linyi (HK) Limited, a company incorporated in Hong Kong with a paid up capital of HK\$1.00 divided into 1 share of HK\$1.00 each. This change had no material impact on the Group for the cumulative quarter to-date.

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 20 June 2005 (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>(25,941)</u>

13. Trade and other receivables

Trade and other receivables consist of the following:-

	RM'000
Trade receivables	68,968
Less: Allowance for doubtful debts	<u>(3,102)</u>
	65,866
Amount due from contract customers	43,532
Affiliated company	224
Associates	3,978
Other receivables, deposits and prepayment	<u>13,517</u>
	<u>127,117</u>



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14. Trade and other payables

Trade and other payables consist of the following:-

	RM'000
Trade payables	44,600
Other payables and accruals	18,827
Affiliated company	5
Associates	4,446
Amount due to contract customers	694
	<u>68,572</u>

15. Net tangible assets (NTA) per share

The NTA per share is derived as follows:-

	RM'000
Shareholders funds	126,486
Less: Goodwill	(3,291)
Goodwill in investment in associates	<u>(23,631)</u>
NTA	<u>99,564</u>
No. of shares	<u>192,769</u>
NTA per share (RM)	<u>0.52</u>

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

1. Taxation

The breakdown of tax charge is as follows:-

	Current Quarter Ended 30/04/05 RM'000	Cumulative Quarter To-date 30/04/05 RM'000
Current tax expense	(911)	(2,064)
Prior year tax expense	29	29
Deferred tax	-	-
	<u>(882)</u>	<u>(2,035)</u>

The effective tax rate of the current and cumulative quarter ended 30 April 2005 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 cumulative quarter ended 30 April 2005.

3. Purchase or Disposal of Quoted Investments

There were no purchases or disposals of quoted investments during the cumulative quarter ended 30 April 2005. Total investments in quoted securities as at 30 April 2005 are as follows:

	RM'000
At cost	175
At book value	32
At market value	28

4. Status of Corporate Proposals

- (i) On 13 April 2005, Salcon Engineering Berhad, a wholly owned subsidiary of the Company, has 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 completion of the proposed acquisition is subject to satisfactory completion of the due diligence exercise on R & R and the approval of the Foreign Investment Committee (FIC).

FIC approval was obtained on 17 June 2005 and the due diligence exercise is still currently being carried out.



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- (ii) Salcon Water (HK) Limited, a wholly owned subsidiary of the Company has on 22 April 2005 entered into a conditional Transfer-Operate-Transfer agreement with the Construction Bureau of Changle County, Weifang Municipality, Shandong Province, People's Republic of China to acquire the Changle sewage treatment plant and related facilities, for a total cash consideration of RMB18.0 million.

The completion of the proposed acquisition is subject to satisfactory completion of the due diligence exercise and the approval of the registration and setting up of a new local Chinese company to undertake the project.

The due diligence exercise is currently under review and the approval on the registration and setting up of the new local Chinese company has yet to be obtained.

5. Group Borrowings and Debt Securities

Total Group borrowings as at 30 April 2005 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Long Term Borrowings</u>			
Term loan	-	47,233	47,233
Hire purchase liabilities	320	-	320
	<u>320</u>	<u>47,233</u>	<u>47,553</u>
<u>Short Term Borrowings</u>			
Bank overdrafts	-	670	670
Bankers acceptances	-	1,006	1,006
Hire purchase liabilities	324	-	324
	<u>324</u>	<u>1,676</u>	<u>2,000</u>
Total Group Borrowings	<u>644</u>	<u>48,909</u>	<u>49,553</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>4,801</u>	<u>2,233</u>

6. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off balance sheet risk as at 20 June 2005 (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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7. Changes in Material Litigation

The material litigations as at 20 June 2005 (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. The case is now pending creditors meeting.

- (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 Court has fixed the suit for further case management on 16 September 2005 and the full trial for the Claim and Counter-Claim is fixed on 10 May to 12 May 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 taxation increased by RM12.6 million (49%) and RM0.5 million (48%) respectively. The higher profit before taxation is largely attributable to higher contributions by the associated companies.

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 RM38.6 million and RM1.4 million, representing an increase of 71% and 95% respectively when compared to previous corresponding quarter. The higher profit before tax is mainly due to higher contribution by the associates companies.

For the cumulative quarter to date, the Group recorded revenue and profit before tax of RM85.8 million and RM3.7 million respectively, representing a decline of 14% and 79% from previous corresponding period. The decline in both the revenue and profit before tax is largely attributable to the effect of deferment of project implementation in Malaysia pending the formation of the National Water Services Commission.



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10. Prospects for the Current Year

With the prevailing market conditions, the Board expects the remaining months to be challenging. However, the long-term Operation and Maintenance contracts and concessions will contribute positively to the Group's pre-tax earnings.

The Group continues to pursue water and wastewater projects within Malaysia focusing on non-revenue water and Operation & Maintenance services. In China, the Group would concentrate on concessions operations whilst in other countries, the focus will be on contracting.

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 April 2005.

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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 follows:

Basic earnings per share

	Current Quarter Ended 30/04/05	Comparative Quarter Ended 30/04/04	Cumulative Quarter To-date 30/04/05	Cumulative Quarter To-date 30/04/04
Net profit attributable to ordinary shareholders (RM'000)	<u>230</u>	<u>217</u>	<u>567</u>	<u>11,189</u>
<u>Weighted average number of ordinary shares</u>				
Issued ordinary shares at beginning of period ('000)	192,769	191,418	192,769	162,062
Effect of shares issued during the period ('000)	<u>-</u>	<u>978</u>	<u>-</u>	<u>27,655</u>
Weighted average number of ordinary shares ('000)	<u>192,769</u>	<u>192,396</u>	<u>192,769</u>	<u>189,717</u>
Basic earnings per share (sen)	0.12	0.11	0.29	5.90

Diluted earnings per share

	Current Quarter Ended 30/04/05	Comparative Quarter Ended 30/04/04	Cumulative Quarter To-date 30/04/05	Cumulative Quarter To-date 30/04/04
Net profit attributable to ordinary shareholders (RM'000)	<u>230</u>	<u>217</u>	<u>567</u>	<u>11,189</u>
Weighted average number of ordinary shares as above ('000)	192,769	192,396	192,769	189,717
Number of approved unexercised ESOS	4,818	5,287	4,818	5,287
Number of ESOS that would have been issued at fair value ('000)	<u>(10,987)</u>	<u>(4,085)</u>	<u>(9,288)</u>	<u>(4,081)</u>
Weighted average number of ordinary shares - diluted ('000)	<u>186,600</u>	<u>193,598</u>	<u>188,299</u>	<u>190,923</u>
Diluted earnings per share (sen)	<u>-</u>	<u>-</u>	<u>-</u>	<u>5.86</u>

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



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14. Comparative figures

Comparative figures, where applicable, have been modified to conform to the current quarter and cumulative quarter to-date presentation.

ON BEHALF OF THE BOARD

DATO' LIM SEE TEOK
Chief Executive Officer/ Director

Selangor Darul Ehsan
27 June 2005

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