



SALCON BERHAD (Company No: 593796-T)

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT 30 JUNE 2018 - UNAUDITED**

	30/06/2018 RM'000	31/12/2017 RM'000
Assets		
Property, plant and equipment	37,948	61,953
Intangible assets	21,831	21,831
Investment properties	8,201	8,201
Investment in associate	37,538	42,726
Investment in joint ventures	52,602	49,190
Other investments	365	540
Deferred tax assets	3,698	3,698
Total non-current assets	162,183	188,139
Trade and other receivables, including derivatives	191,626	161,250
Inventories	141,974	142,054
Current tax assets	2,525	3,651
Cash and cash equivalents	97,834	133,811
Total current assets	433,959	440,766
Total assets	596,142	628,905
Equity		
Share capital	424,465	424,465
Reserves	11,894	10,922
Retained earnings	14,254	22,770
Total equity attributable to owners of the Company	450,613	458,157
Non-controlling interests	23,843	26,971
Total equity	474,456	485,128
Liabilities		
Loans and borrowings	4,549	5,741
Deferred tax liabilities	7,289	7,299
Total non-current liabilities	11,838	13,040
Trade and other payables, including derivatives	59,943	69,797
Loans and borrowings	49,370	60,887
Current tax liabilities	535	53
Total current liabilities	109,848	130,737
Total liabilities	121,686	143,777
Total equity and liabilities	596,142	628,905
Net assets per share (RM)	0.67	0.71

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.



SALCON BERHAD (Company No: 593796-T)

**CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE CUMULATIVE SECOND QUARTER ENDED 30 JUNE 2018 - UNAUDITED**

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year ToDate	Preceding Year Corresponding Period
	30/06/2018 RM'000	30/06/2017 RM'000	30/06/2018 RM'000	30/06/2017 RM'000
Continuing operations				
Revenue	30,015	21,493	51,395	40,908
Cost of sales	(23,027)	(19,218)	(38,323)	(29,068)
Gross Profit	6,988	2,275	13,072	11,840
Other income	1,620	182	3,949	2,017
Other expenses	(108)	-	(176)	-
Distribution expenses	(1,017)	632	(1,754)	(1,543)
Administrative expenses	(11,148)	(11,353)	(28,133)	(25,905)
Profit/(Loss) from operating activities	(3,665)	(8,264)	(13,042)	(13,591)
Finance costs	(1,318)	(1,071)	(2,793)	(2,157)
Finance income	1,033	1,154	1,459	1,919
Share of profit of equity-accounted associate/ joint ventures, net of tax	2,590	3,850	4,344	5,260
Profit/(Loss) before tax	(1,360)	(4,331)	(10,032)	(8,569)
Tax expense	(1,007)	(1,236)	(1,973)	(1,375)
Profit/(Loss) from continuing operations	(2,367)	(5,567)	(12,005)	(9,944)
Discontinued operations				
Profit/(Loss) from discontinued operations, net of tax	-	(5,735)	-	(5,735)
Profit/(Loss) for the period	(2,367)	(11,302)	(12,005)	(15,679)
Profit/(Loss) attributable to:				
Owners of the Company	(844)	(9,046)	(8,516)	(12,845)
Non-controlling interests	(1,523)	(2,256)	(3,489)	(2,834)
Profit/(Loss) for the period	(2,367)	(11,302)	(12,005)	(15,679)
Basic (loss)/earnings per ordinary share (sen)				
- from continuing operations	(0.13)	(0.52)	(1.26)	(1.11)
- from discontinued operations	-	(0.89)	-	(0.89)
Total	(0.13)	(1.41)	(1.26)	(2.00)

The Condensed Consolidated Income Statement should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.



**CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE CUMULATIVE SECOND QUARTER ENDED 30 JUNE 2018 – UNAUDITED**

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year ToDate	Preceding Year Corresponding Period
	30/06/2018 RM'000	30/06/2017 RM'000	30/06/2018 RM'000	30/06/2017 RM'000
Profit/(Loss) for the period	(2,367)	(11,302)	(12,005)	(15,679)
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences for foreign operations	1,633	179	1,835	(1,433)
Total other comprehensive income/(expense)	1,633	179	1,835	(1,433)
Total comprehensive income/(expense) for the period	(734)	(11,123)	(10,170)	(17,112)
Total comprehensive income/(expense) attributable to:				
Owners of the Company	(14)	(8,774)	(7,336)	(10,942)
Non-controlling interests	(720)	(2,349)	(2,834)	(6,170)
Total comprehensive income/(expense) for the period	(734)	(11,123)	(10,170)	(17,112)

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE CUMULATIVE SECOND QUARTER ENDED 30 JUNE 2018 – UNAUDITED**

	← Attributable to Owners of the Company →					Total	Non- controlling interests	Total equity
	← Non – distributable		→ Distributable					
	Share capital	Share premium	Translation reserve	Treasury shares	Retained earnings	RM'000	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2017	338,847	85,618	12,525	(21,498)	68,490	483,982	39,126	523,108
Total comprehensive income for the period	-	-	1,903	-	(12,845)	(10,942)	(6,170)	(17,112)
Own shares acquired	-	-	-	(412)	-	(412)	-	(412)
Acquisition of subsidiaries	-	-	-	-	-	-	1,426	1,426
Issuance of shares to non-controlling interest	-	-	-	-	-	-	4,870	4,870
Capital reduction in a subsidiary	-	-	-	-	-	-	(6,366)	(6,366)
Dividends to minority interest	-	-	-	-	-	-	(387)	(387)
Transfer in accordance with Section 618(2) of the Companies Act 2016 ⁽¹⁾	85,618	(85,618)	-	-	-	-	-	-
At 30 June 2017	424,465	-	14,428	(21,910)	55,645	472,628	32,499	505,127
At 1 January 2018	424,465	-	12,865	(1,943)	22,770	458,157	26,971	485,128
Total comprehensive income for the period	-	-	1,180	-	(8,516)	(7,336)	(2,834)	(10,170)
Own shares acquired	-	-	-	(208)	-	(208)	-	(208)
Dividends to minority interest	-	-	-	-	-	-	(294)	(294)
At 30 June 2018	424,465	-	14,045	(2,151)	14,254	450,613	23,843	474,456

Note

⁽¹⁾ In accordance with Section 618 of Companies Act 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has twenty-four months upon the commencement of Companies Act 2016 on 31 January 2017 to utilise the credit.

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.



SALCON BERHAD (Company No: 593796-T)

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE CUMULATIVE SECOND QUARTER ENDED 30 JUNE 2018 - UNAUDITED**

	6 months Ended 30/06/2018 RM'000	6 months Ended 30/06/2017 RM'000
<u>Cash flows from operating activities</u>		
Profit/(Loss) before tax		
- continuing operations	(10,032)	(8,569)
- discontinued operations	-	(8,505)
	<u>(10,032)</u>	<u>(17,074)</u>
Adjustments for :		
- Non-cash items	517	(622)
- Non-operating items	1,334	238
Operating loss before changes in working capital	<u>(8,181)</u>	<u>(17,458)</u>
Changes in working capital	<u>(37,923)</u>	<u>(37,822)</u>
Cash generated from/(used in) operations	<u>(46,104)</u>	<u>(55,280)</u>
Income taxes paid	<u>(374)</u>	186
Net cash from/(used in) operating activities	<u>(46,478)</u>	<u>(55,094)</u>
<u>Cash flows from investing activities</u>		
- Proceeds from disposal of property, plant and equipment	22,679	185
- Proceeds from disposal of other investments	-	655
- Acquisition of property, plant and equipment	(159)	(514)
- Acquisition of subsidiary, net of cash acquired	-	(6,486)
- Acquisition of other investments	-	(1,350)
- Capital reduction in a subsidiary	-	(5,143)
- Dividends received from associated company	4,452	4,816
- Interest received	1,459	1,919
Net cash from/(used in) investing activities	<u>28,431</u>	<u>(5,918)</u>
<u>Cash flows from financing activities</u>		
- Repurchase of treasury shares	(208)	(412)
- Drawdown from borrowings	11,507	-
- Interest paid	(2,793)	(2,157)
- Repayment of borrowings	(20,198)	(11,708)
- Dividends paid to non-controlling interests	(854)	(387)
- Repayment of finance lease liabilities	(592)	(678)
Net cash from/(used in) financing activities	<u>(13,138)</u>	<u>(15,342)</u>
Net increase/(decrease) in cash and cash equivalents	<u>(31,185)</u>	<u>(76,354)</u>
Cash and cash equivalents at beginning of period	128,973	214,781
Exchange differences on translation of the financial statements of foreign entities	<u>(1,366)</u>	<u>(3,069)</u>
Cash and cash equivalents at end of period	<u>96,422</u>	<u>135,358</u>

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.



**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE CUMULATIVE SECOND QUARTER ENDED 30 JUNE 2018 – UNAUDITED**

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

	6 months Ended 30/06/2017 RM'000	6 months Ended 30/06/2017 RM'000
Cash and bank balances	45,976	78,163
Deposits placed with licensed banks	51,858	60,209
	97,834	138,372
Bank overdrafts	(1,377)	(2,047)
Pledged deposits	(35)	(967)
	96,422	135,358

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.



NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE CUMULATIVE SECOND QUARTER ENDED 30 JUNE 2018

(i) EXPLANATORY NOTES PURSUANT TO MFRS 134 – Interim Financial Reporting

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with MFRS 134 – *Interim Financial Reporting* and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. It also complies with IAS 34 – *Interim Financial Reporting* issued by the International Accounting Standards Board (IASB).

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2017 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 statements for year ended 31 December 2017. The audited financial statements of the Group as at and for the year ended 31 December 2017 were prepared under Malaysian Financial Reporting Standards (MFRSs).

1.1 Significant 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 year ended 31 December 2017 except for the adoption of the following new and revised MFRSs, Amendments to MFRSs and IC Interpretations by the Group with effect from 1 January 2018.

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)**
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions**
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts**
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with*

Negative Compensation

- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Plan Amendment, Curtailment or Settlement***
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group plan to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018, except for those marked with “*” which are not applicable to the Group.
- from the annual period beginning on 1 January 2019 for those accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019, except for that marked with “**” which is not applicable to the Group.

The Group does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Group.

The initial application of the accounting standards, amendments and interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group except as mentioned below:

(i) MFRS 15, Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

Cumulative Effect Transition Approach

The Group has assessed the estimated impact that the initial application of MFRS 15 will have on its consolidated financial statements as at 1 January 2018. The Group does not



expect the initial application of the standard to have any material impact to these financial statements of the Group, as below:

	As reported at 31 December 2017 RM'000	Estimated adjustments due to adoption of MFRS 15 RM'000	Estimated adjusted opening balance at 1 January 2018 RM'000
Group			
Retained earnings	22,770	-	22,770
Company			
Retained earnings	77,490	-	77,490

The new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

(ii) MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

Based on the assessments on MFRS 9, the Group does not expect the initial applications of these standards, to have any material impact to these financial statements of the Group.

The new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

(iii) MFRS 16, Leases

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 16.

2. Preceding Annual Financial Statement

The audit report of the Group's annual financial statements prepared under MFRSs for the year ended 31 December 2017 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 cash flows of the Group for the cumulative quarter ended 30 June 2018.

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 2018 other than:

a) Share buy-back

The Company repurchased 555,000 ordinary shares of its issued share capital from the open market, at an average costs of RM0.38 per share. The total consideration paid for the share buy-back including transaction costs during the current financial quarter and financial period to date amounted to RM208,000 and were financed by internally generated funds. The shares bought back are being held as treasury shares in accordance with Section 127 of the Companies Act, 2016.

7. Dividends Paid

There were no payment of dividend for the cumulative quarter ended 30 June 2018.

8. Segmental Reporting

The segmental revenue and results of the Group for the cumulative quarter ended 30 June 2018 are as follows:-

	Constructions	Concessions	Trading & Services	Property Development	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Segment profit	269	2,713	650	(4,927)	(1,295)
<i>Included in the measure of segment profit are:</i>					
Revenue from external customers	39,547	712	10,665	471	51,395
Share of profit of associate	-	2,022	(178)	(912)	932
Share of profit of joint venture	3,226	-	186	-	3,412



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Not included in the measure of segment profit but provided to Chief Operating Officer:

Depreciation and amortization	(477)	-	(2,059)	(1)	(2,537)
Finance costs	(406)	-	(199)	(2,188)	(2,793)
Finance income	1,235	4	7	213	1,459
Income tax expense	(1,139)	(1)	(251)	(582)	(1,973)

Segment assets	300,272	25,742	86,673	183,455	596,142
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Included in the measure of segment assets are:

Investment in associate	-	25,058	(467)	12,947	37,538
Investment in joint venture	36,462	-	16,140	-	52,602
Additions to non-current assets other than financial instruments and deferred tax assets	16	-	143	-	159

Reconciliations of reportable segment profit or loss, assets and other material items

	RM'000
Profit	
Total profit for reportable segments	(1,295)
Depreciation and amortisation	(2,537)
Finance costs	(2,793)
Finance income	1,459
Unrealised/ realised foreign exchange gain/(loss)	(1,675)
Unallocated expenses:	
Corporate expenses	(3,191)
Consolidated profit before tax	<u>(10,032)</u>

9. Valuations of Property, Plant and Equipment

There was no revaluation of property, plant and equipment during the cumulative quarter ended 30 June 2018. 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 21 August 2018 (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 current quarter and financial period to-date except for the following:-

- i) On 22 May 2018, Salcon Green Energy (UK) Limited (“SGE”), a wholly-owned subsidiary of Salcon Power Sdn Bhd, the wholly-owned subsidiary of Salcon Engineering Berhad which in turn is a wholly-owned subsidiary of Salcon, has been dissolved via a voluntary striking off in accordance with Section 1003 of the Companies Act, 2006, United Kingdom following an application made by SGE to the Companies House, United Kingdom for striking-off of SGE.

SGE, was incorporated in the United Kingdom on 15 September 2011 under the Companies Act, 2006 as a private limited company. It has not commenced business since inception. The issued and paid up share capital of SGE is £10,000 divided into 10,000 ordinary shares.

- ii) On 26 June 2018, Eco-Coach & Tours (M) Sdn Bhd (“ECT”), a 51.3%-owned subsidiary of Salcon Capital Sdn. Bhd., which in turn is a wholly-owned subsidiary of Salcon had entered into a Share Purchase Agreement with Dato’ Lee Soon Ann, Datin Li Jing and Li Xiao Chun for the acquisition of the entire equity interest in Crystal Expertise Sdn Bhd (“CESB”) comprising 1,000,000 ordinary shares, from Dato’ Lee Soon Ann (930,000 ordinary shares), Datin Li Jing (35,000 ordinary shares) and Li Xiao Chun (35,000 ordinary shares) for a total cash consideration of RM1,430,000.00 only (“Acquisition”).

The principal business activity of CESB is to carry on the business of transport services. Following the Acquisition, CESB becomes a wholly-owned subsidiary of ECT, which in turn is a 51.3%- owned subsidiary of Salcon Capital Sdn. Bhd., a wholly-owned subsidiary of Salcon.

12. Changes in Contingent Liabilities/Contingent Assets

The contingent liabilities as at financial period ended 30 June 2018 are as follows:-

	RM'000
Bank guarantees given to third parties relating to performance, tenders and advance payment bonds	<u>35,160</u>

13. Net assets (NA) per share

The NA per share is derived as follows:-

	RM'000
Shareholders funds	450,613
No. of shares	<u>673,139</u>
NA per share (RM)	<u>0.67</u>



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 30/06/2018 RM'000	Cumulative Quarter To-date 30/06/2018 RM'000
Continuing operations		
Malaysian - current period	1,007	1,972
Overseas - Current period	-	1
	<u>1,007</u>	<u>1,973</u>

The Group's higher effective tax rate (excluding the results of associates and joint ventures which are equity accounted net of tax) in the cumulative quarter to-date is mainly due to certain expenses which were not deductible for taxation purposes and the non-availability of group relief where tax losses of certain subsidiary companies cannot be set off against the taxable income of other subsidiary companies.

2. Status of Corporate Proposals

Salcon Berhad ("Salcon") had on 12 September 2013 entered into the following agreements:

- a) conditional sale and purchase agreement between Salcon and Beijing Enterprises Water Group Limited ("**BEWG**") for the proposed disposals by Salcon of the entire equity interests held in Salcon Darco Environmental Pte Ltd and Salcon Jiangsu (HK) Limited to BEWG ("SPA-A"); and
- b) conditional sale and purchase agreement between Salcon, Salcon Water (Asia) Limited, a 60%-owned subsidiary of Salcon ("**Salcon Water**") and BEWG for the proposed disposals by Salcon and Salcon Water of the entire equity interests held in Salcon Fujian (HK) Limited, Salcon Zhejiang (HK) Limited, Salcon Linyi (HK) Limited and Salcon Shandong (HK) Limited to BEWG ("SPA-B")

for a total cash consideration of RMB955.0 million (equivalent to approximately RM518.28 million) ("**Proposed Disposals**").

The Company has obtained shareholders' approval pertaining to the above Proposed Disposals at the EGM held on 27 November 2013.

Salcon and BEWG had on 20 December 2013 by way of exchange of letter agreed to the variation/modification of certain term of the SPA-A ("**Letter-A**"). On the same date, Salcon, Salcon Water and BEWG by way of exchange of letter agreed to the variation/modification of certain term of SPA-B ("**Letter-B**") (hereinafter the Letter-A and Letter-B are collectively referred to as "**Letters**"). The rationale for the Letters is to facilitate the completion of the Proposed Disposals in stages and allow the Company to partially complete the Proposed Disposals ahead of 15 January 2014.



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The proposed disposals of the entire issued and paid-up share capital of Salcon Darco Environmental Pte. Ltd. and Salcon Jiangsu (HK) Limited pursuant to the SPA-A which is and Letter-A are deemed to be completed on 23 December 2013.

Salcon Water had on 25 April 2016 mutually agreed with BEWG to proceed with the completion of the proposed disposals of the entire issued and paid-up share capital of Salcon Fujian (HK) Limited, Salcon Zhejiang (HK) Limited and Salcon Shandong (HK) Limited, in accordance with Clause 4.6 of SPA-B. Furthermore, in accordance with Clause 4.6 of SPA-B, the Company and Salcon Water had also on even date mutually agreed with BEWG to terminate the proposed disposal of the entire issued and paid-up share capital of Salcon Linyi (HK) Limited ("Given Up Target-B"), in view that certain Conditions-B in respect of Salcon Linyi (HK) Limited have not been fulfilled or waived. For information purposes, the disposal consideration in respect of the Given Up Target-B is RMB130 million.

The status of the utilisation of the proceeds as at 21 August 2018 arising from the disposal is as follows: (being the last practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

Purpose	Proposed Utilisation	Actual Utilisation	Estimated Timeframe for Utilisation	Deviation		Explanation
	RM'000	RM'000		RM'000	%	
Future investments	230,000	(145,481)	Within 24 months	Nil	Nil	Not Completed
Repayment of borrowings	97,540	(97,540)	Within 6 months	Nil	Nil	Completed
Distribution to shareholders	30,000	(40,556)	Within 12 months	(10,556)	35	Completed
Working capital	10,397	(10,397)	Within 24 months	Nil	Nil	Completed
Defraying expenses incidental to the Proposed Disposal	1,437	(1,501)	Within 3 months	(64)	4	Completed
Total	369,374	(295,475)		-	-	-

3. Group Borrowings and Debt Securities

Total Group borrowings as at 30 June 2018 are as follows:

	As at 2nd quarter ended 2018		
	Long term	Short term	Total borrowings
	RM denomination	RM denomination	RM denomination
Secured			
<i>Term loan</i>	-	31,111	31,111
<i>Finance lease creditors</i>	3,989	2,300	6,289
Unsecured			
<i>Term loan</i>	560	150	710
<i>Revolving credits</i>	-	8,000	8,000
<i>Bankers' Acceptance</i>	-	6,432	6,432
<i>Bank overdrafts</i>	-	1,377	1,377
	4,549	49,370	53,919

	As at 2nd quarter ended 2017		
	Long term	Short term	Total borrowings
	RM denomination	RM denomination	RM denomination
Secured			
<i>Term loan</i>	31,111	23,333	54,444
<i>Finance lease creditors</i>	3,970	1,316	5,286
Unsecured			
<i>Term loan</i>	840	-	840
<i>Revolving credits</i>	-	-	-
<i>Bank overdrafts</i>	-	2,047	2,047
	35,921	26,696	62,617

For the year to-date financial quarter under review, the Group has recorded borrowings of RM53.92 million as compared to RM62.62 million for corresponding period in the immediate preceding year. The reduction in the borrowings was substantially attributed by repayment of secured term loan of a subsidiary amounting to RM23.33 million.

Finance lease liabilities bears interest at rates ranging from 2.29% to 6.18% per annum. The secured term loan bears interest at rates ranging from 6.28% to 8.97% per annum and are due for full payment in Year 2019.

The proportion of debts that is based on the fixed interest rate and floating interest rate are 11.66% and 88.34% respectively.

4. Changes in Material Litigation

There was no material update as at 21 August 2018 (being the last practicable date which is not earlier than 7 days from the date of issue of this quarterly report) except for the following:-



(i) Terra Environment Management Sdn Bhd (formerly known as UG Management Services Sdn Bhd) (“TEM”) VS Salcon Engineering Berhad (“SEB”), a wholly-owned subsidiary of the Company

SEB had on 25 April 2018 filed the Notice of Withdrawal of Appeal dated 17 April 2018 to the Registry of Court of Appeal, Kota Kinabalu to withdraw the Notice of Appeal dated 13 December 2017 with no order as to costs, and the deposit to be refunded to SEB. Both TEM and SEB had agreed to a settlement whereby SEB will pay a sum of RM1,850,000.00 to TEM as full and final settlement of the dispute between the parties instead of the judgment sum of RM3.0 million. There is no potential liability, financial and operational impact to the Company and the Group.

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

	Current Quarter	Immediate Preceding Quarter	Changes %
	30/06/2018	31/03/2018	
Revenue	30,015	21,380	40%
Operating Profit/(Loss)	(3,665)	(9,377)	61%
Profit/(Loss) Before Interest and Tax	(42)	(7,197)	99%
Profit/(Loss) Before Tax	(1,360)	(8,672)	84%
Profit/(Loss) For The Period	(2,367)	(9,638)	75%
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	(844)	(7,672)	89%

For the current financial quarter, the Group revenue increased by 40% and has recorded a loss before tax of RM1.36 million as compared to loss before tax of RM8.67 million in the immediate preceding quarter. Lower losses in the current quarter mainly attributed by unrealised losses on foreign exchange in the immediate preceding quarter.

The revenue recorded in the Constructions Division was higher by 50% as compared to the immediate preceding quarter. Higher contributions on management fees has resulted a profit before tax of RM2.01 million as compared to loss before tax of RM1.17 million in the same period of the immediate preceding quarter.

In the Property Development Division, it recorded loss before tax of RM2.24 million in the current financial quarter as compared to loss before tax of RM4.67 million due to unrealised losses on foreign exchange in the immediate preceding quarter.

In the Concessions Division, revenue and profit before tax increased by 4% and 10% respectively. The Division recorded higher share of profit from the associates company by 9%.

For the Trading and Services Division, revenue increased by 5%. Lower operating expenses has resulted in a lower loss before tax of RM712,000 as compared to loss before tax of RM890,000 in the same period of the immediate preceding quarter.



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

	Individual Period (2nd Quarter)		Changes %	Cumulative Period		Changes %
	Current Year Quarter	Preceding Year Corresponding Quarter		Current Year To-date	Preceding Year Corresponding Quarter	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017		
Revenue	30,015	21,493	40%	51,395	40,908	26%
Operating Profit/(Loss)	(3,665)	(8,264)	56%	(13,042)	(13,591)	4%
Profit/(Loss) Before Interest and Tax	(42)	(3,260)	99%	(7,239)	(6,412)	-13%
Profit/(Loss) Before Tax	(1,360)	(4,331)	69%	(10,032)	(8,569)	-17%
Profit/(Loss) For The Period	(2,367)	(11,302)	79%	(12,005)	(15,679)	23%
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	(844)	(9,046)	91%	(8,516)	(12,845)	34%

For the current financial quarter under review, the Group achieved higher revenue amounting to RM30.02 million as compared to RM21.49 million for the same period in the preceding year or an increase of 40%. Loss before taxation of RM1.36 million was recorded in the current financial quarter as compared to loss before tax of RM4.33 million for the same period in the preceding year.

In the Constructions Division, revenue recorded in the current financial quarter was higher by 40% as compared to the same period in the preceding year. Higher gross profits has resulted the Division to record profit before tax of RM2.01 million as compared to loss before tax of RM1.62 million for the same period in the preceding year.

The Property Development Division has recorded a loss before tax of RM2.24 million as compared to loss before tax of RM2.07 million for the same period in the preceding year due to higher finance costs in the current financial quarter.

In the Concessions Division, revenue was lower by 8% in current financial quarter as compared to the same period in the preceding year. Profit before tax was RM1.42 million as compared to profit before tax of RM1.54 million for the same period in the preceding year due to lower contributions from the associated companies in the current financial quarter.

In the Trading and Services Division, revenue was higher by 31% as compared to the same period in the preceding year. The Division recorded loss before tax of RM712,000 as compared to loss before tax of RM2.36 million for the same period in the preceding year due to higher operating expenses in the preceding year quarter.

For the cumulative quarter to date, the Group recorded revenue of RM51.40 million as compared to RM40.91 million in the corresponding cumulative quarter in the preceding year. Loss before tax of RM10.03 million was recorded in the cumulative quarter to date as compared to loss before tax of RM8.57 million in the corresponding cumulative quarter in the preceding year attributed by the higher unrealised losses on foreign exchange in the current cumulative quarter.



In the Constructions Division, revenue was 28% higher when compared to the corresponding cumulative quarter in the preceding year. The Division profit before tax was RM835,000 as compared to profit before tax of RM75,000 for the same period in the preceding year due to higher management fees earned in the current cumulative quarter.

In the Property Development Division, it recorded loss before tax of RM6.90 million in the current financial quarter as compared to loss before tax of RM4.29 million for the same period in the preceding year due to unrealised losses on foreign exchange in the current cumulative quarter.

The Concessions Division recorded revenue and profit before tax of RM712,000 and RM2.72 million as compared to RM795,000 and RM3.05 million respectively in the corresponding cumulative quarter in the preceding year. The lower profit before tax of 11% was due to lower share of profits from associated company.

The Trading and Services Division recorded revenue of RM10.66 million as compared to RM9.22 million in the corresponding cumulative quarter in the preceding year. The revenue increased by 16% mainly due to transportation business in the current cumulative quarter. The Division recorded loss before tax of RM1.60 million as compared to loss before tax of RM3.98 million for the same period in the preceding year due to gain on disposal of assets RM897,000 in the current cumulative quarter.

7. Prospects

The Group remains positive with its medium to long term prospects with the successful procurement of several new contracts in the year domestically and overseas. The projects include Ambathale storm water pumping station in Sri Lanka and four sewage treatment plant jobs. The Group is also participating in the 1st water BOT tender in Sri Lanka and is expected to finalise the bid submission in the 4th quarter of the year.

With the formation of the Ministry of Water, Land and Natural Resources of Malaysia, the Group believes the ministry will actively improve and upgrade the water and wastewater facilities in the country to provide better living standards for the Rakyat. Following the Selangor water restructuring exercise, the Group foresee more opportunities especially in the area of Non Revenue Water (NRW) reduction where the government has set a target to reduce NRW to 25% by 2020 and to 15% by 2030. With our proven expertise in NRW reduction and management, we look forward to tap on these government initiatives to reduce NRW rates in Malaysia.

8. Variance of Profit Forecast / Profit Guarantee

Not applicable as there was no profit forecast or profit guarantee issued.

9. Financial instruments - derivatives

As at 30 June 2018, the Group has no outstanding foreign currency forward contracts under derivative financial instruments.

10. 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 earnings per share

	Current Quarter Ended	Comparative Quarter Ended	Cumulative Quarter To-date	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Profit/(Loss) attributable to equity holders of the parent (RM'000)				
- continuing operations	(844)	(3,311)	(8,516)	(7,110)
- discontinued operations	-	(5,735)	-	(5,735)
	<u>(844)</u>	<u>(9,046)</u>	<u>(8,516)</u>	<u>(12,845)</u>
<u>Weighted average number of ordinary shares</u>				
Issued ordinary shares at beginning of period ('000)	673,694	642,684	673,694	642,684
Effect of shares repurchased during the period ('000)	(529)	(522)	(277)	(362)
Effect of shares distributed as dividend during the period ('000)	-	-	-	-
Weighted average number of ordinary shares ('000)	<u>673,165</u>	<u>642,162</u>	<u>673,417</u>	<u>642,322</u>
Basic (loss)/earnings per share (sen)				
- continuing operations	(0.13)	(0.52)	(1.26)	(1.11)
- discontinued operations	-	(0.89)	-	(0.89)
Total	<u>(0.13)</u>	<u>(1.41)</u>	<u>(1.26)</u>	<u>(2.00)</u>

11. Notes to the Condensed Consolidated Statement of Comprehensive Income

Profit before tax arrived at after (charging)/crediting the followings items:

	Current Quarter Ended 30/06/2018 RM'000	Cumulative Quarter Ended 30/06/2018 RM'000
Foreign Exchange Gain	32	1,038
Foreign Exchange Loss	(184)	(4,971)
Depreciation and amortization	(371)	(735)
	<u>(523)</u>	<u>(4,668)</u>



SALCON BERHAD (Company No: 593796-T)

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 28 August 2018.

ON BEHALF OF THE BOARD

TAN SRI DATO' TEE TIAM LEE
Executive Deputy Chairman

Selangor Darul Ehsan
28 August 2018