



SALCON BERHAD (Company No: 593796-T)

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT 30 SEPTEMBER 2020 - UNAUDITED**

| | 30/09/2020 RM'000 | 31/12/2019 RM'000 |
|---|------------------------------------|----------------------|
| Assets | | |
| Property, plant and equipment | 19,263 | 21,794 |
| Intangible assets | 25,289 | 25,597 |
| Right-of-use assets | 11,579 | 12,390 |
| Investment properties | 9,924 | 9,924 |
| Investment in associate | 17,218 | 17,052 |
| Investment in joint ventures | 29,445 | 32,344 |
| Other investments | 5,531 | 4,053 |
| Deferred tax assets | 3,688 | 3,698 |
| Total non-current assets | 121,937 | 126,852 |
| Trade and other receivables, including derivatives | 143,017 | 119,324 |
| Contract assets | 76,270 | 70,170 |
| Inventories | 112,357 | 131,763 |
| Other investment | 3,206 | 3,206 |
| Current tax assets | 1,510 | 1,138 |
| Assets classified as held for sale | - | 494 |
| Cash and cash equivalents | 121,218 | 121,344 |
| Total current assets | 457,578 | 447,439 |
| Total assets | 579,515 | 574,291 |
| Equity | | |
| Share capital | 424,465 | 424,465 |
| Reserves | 23,565 | 2,617 |
| Retained earnings | (16,956) | 1,154 |
| Total equity attributable to owners of the Company | 431,074 | 428,236 |
| Non-controlling interests | 22,845 | 20,989 |
| Total equity | 453,919 | 449,225 |
| Liabilities | | |
| Loans and borrowings | 6,121 | 5,773 |
| Lease liabilities | 1,866 | 2,359 |
| Deferred tax liabilities | 5,985 | 6,833 |
| Total non-current liabilities | 13,972 | 14,965 |
| Trade and other payables, including derivatives | 68,594 | 84,854 |
| Contract liabilities | 9,895 | 5,601 |
| Lease liabilities | 1,321 | 1,115 |
| Loans and borrowings | 30,859 | 18,329 |
| Current tax liabilities | 955 | 202 |
| Total current liabilities | 111,624 | 110,101 |
| Total liabilities | 125,596 | 125,066 |
| Total equity and liabilities | 579,515 | 574,291 |
| Net assets per share (RM) | 0.51 | 0.51 |

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2019 and the accompanying explanatory notes attached to the interim financial statements.



**CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE CUMULATIVE THIRD QUARTER ENDED 30 SEPTEMBER 2020 - UNAUDITED**

| | Individual Quarter | | Cumulative Quarter | |
|---|-------------------------------------|--|------------------------------------|---|
| | Current Year Quarter | Preceding Year Corresponding Quarter | Current Year Todate | Preceding Year Corresponding Period |
| | 30/09/2020 RM'000 | 30/09/2019 RM'000 | 30/09/2020 RM'000 | 30/09/2019 RM'000 |
| Continuing operations | | | | |
| Revenue | 60,222 | 41,693 | 132,566 | 132,244 |
| Cost of sales | (56,027) | (34,717) | (118,477) | (110,594) |
| Gross Profit | 4,195 | 6,976 | 14,089 | 21,650 |
| Other income | 3,120 | 879 | 10,659 | 3,360 |
| Other expenses | (569) | - | (1,868) | (44) |
| Distribution expenses | (302) | (428) | (948) | (1,602) |
| Administrative expenses | (9,218) | (10,987) | (28,191) | (37,226) |
| Profit/(Loss) from operating activities | (2,774) | (3,560) | (6,259) | (13,862) |
| Finance costs | (645) | (392) | (1,872) | (1,754) |
| Finance income | 401 | 556 | 1,522 | 2,260 |
| Share of profit/(loss) of equity-accounted associate/ joint ventures, net of tax | (2,219) | (1,243) | (1,533) | 1,679 |
| Profit/(Loss) before tax | (5,237) | (4,639) | (8,142) | (11,677) |
| Tax expense | (109) | (326) | (1,346) | (2,136) |
| Profit/(Loss) from continuing operations | (5,346) | (4,965) | (9,488) | (13,813) |
| Discontinued operations | | | | |
| Profit/(Loss) from discontinued operations, net of tax | 2,314 | - | 2,314 | 807 |
| Profit/(Loss) for the period | (3,032) | (4,965) | (7,174) | (13,006) |
| Profit/(Loss) attributable to: | | | | |
| Owners of the Company | (2,028) | (4,813) | (6,238) | (10,831) |
| Non-controlling interests | (1,004) | (152) | (936) | (2,175) |
| Profit/(Loss) for the period | (3,032) | (4,965) | (7,174) | (13,006) |
| Basic (loss)/earnings per ordinary share (sen) | | | | |
| - from continuing operations | (0.51) | (0.57) | (1.02) | (1.38) |
| - from discontinued operations | 0.26 | - | 0.26 | 0.10 |
| Total | (0.25) | (0.57) | (0.76) | (1.28) |

The Condensed Consolidated Income Statement should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2019 and the accompanying explanatory notes attached to the interim financial statements.



**CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE CUMULATIVE THIRD QUARTER ENDED 30 SEPTEMBER 2020 – UNAUDITED**

| | Individual Quarter | | Cumulative Quarter | |
|--|-------------------------------------|--|------------------------------------|---|
| | Current Year Quarter | Preceding Year Corresponding Quarter | Current Year ToDate | Preceding Year Corresponding Period |
| | 30/09/2020 RM'000 | 30/09/2019 RM'000 | 30/09/2020 RM'000 | 30/09/2019 RM'000 |
| Profit/(Loss) for the period | (3,032) | (4,965) | (7,174) | (13,006) |
| Items that are or may be reclassified subsequently to profit or loss: | | | | |
| Foreign currency translation differences for foreign operations | 7,776 | (11,874) | 20,661 | (13,553) |
| Total other comprehensive income/(expense) | 7,776 | (11,874) | 20,661 | (13,553) |
| Total comprehensive income/(expense) for the period | 4,744 | (16,839) | 13,487 | (26,559) |
| Total comprehensive income/(expense) attributable to: | | | | |
| Owners of the Company | 4,888 | (16,679) | 13,650 | (24,353) |
| Non-controlling interests | (144) | (160) | (163) | (2,206) |
| Total comprehensive income/(expense) for the period | 4,744 | (16,839) | 13,487 | (26,559) |

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2019 and the accompanying explanatory notes attached to the interim financial statements.



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE CUMULATIVE THIRD QUARTER ENDED 30 SEPTEMBER 2020 – UNAUDITED**

| | ←——— Attributable to Owners of the Company ———→ | | | | Total | Non- controlling interests | Total equity |
|---|---|----------------------------------|------------------------------|--------------------------------|----------------|----------------------------------|----------------|
| | ←——— Non – distributable ———→ | | Distributable | | | | |
| | Share capital RM'000 | Translation reserve RM'000 | Treasury shares RM'000 | Retained earnings RM'000 | | | |
| At 1 January 2019 | 424,465 | 15,916 | (7,375) | 18,155 | 451,161 | 21,850 | 473,011 |
| Total comprehensive income for the period | - | (13,522) | - | (10,831) | (24,353) | (2,206) | (26,559) |
| Own shares acquired | - | - | (3,344) | - | (3,344) | - | (3,344) |
| Changes in ownership interest in subsidiaries | - | - | - | (732) | (732) | 732 | - |
| Dividends to shareholders | - | - | 7,618 | (7,618) | - | - | - |
| At 30 September 2019 | 424,465 | 2,394 | (3,101) | (1,026) | 422,732 | 20,376 | 443,108 |
| At 1 January 2020 | 424,465 | 7,017 | (4,400) | 1,154 | 428,236 | 20,989 | 449,225 |
| Total comprehensive income for the period | - | 19,888 | - | (6,238) | 13,650 | (163) | 13,487 |
| Own shares acquired | - | - | (5,376) | - | (5,376) | - | (5,376) |
| Changes in ownership interest in subsidiaries | - | - | - | (5,436) | (5,436) | 3,963 | (1,473) |
| Dilution of interest in subsidiaries | - | - | - | - | - | 16 | 16 |
| Issuance of shares to non-controlling interests | - | - | - | - | - | 40 | 40 |
| Disposal of interest in subsidiaries | - | - | - | - | - | (2,000) | (2,000) |
| Dividends to shareholders | - | - | 6,436 | (6,436) | - | - | - |
| At 30 September 2020 | 424,465 | 26,905 | (3,340) | (16,956) | 431,074 | 22,845 | 453,919 |

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2019 and the accompanying explanatory notes attached to the interim financial statements.



**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE CUMULATIVE THIRD QUARTER ENDED 30 SEPTEMBER 2020 - UNAUDITED**

| | 9 months Ended 30/09/2020 RM'000 | 9 months Ended 30/09/2019 RM'000 |
|--|---|---|
| <u>Cash flows from operating activities</u> | | |
| Profit/(Loss) before tax | | |
| - continuing operations | (8,142) | (11,677) |
| - discontinued operations | 2,314 | 807 |
| | <u>(5,828)</u> | <u>(10,870)</u> |
| Adjustments for : | | |
| - Non-cash items | 1,632 | 2,491 |
| - Non-operating items | 350 | (506) |
| Operating loss before changes in working capital | (3,846) | (8,885) |
| Changes in working capital | (19,137) | 43,472 |
| Cash generated from/(used in) operations | (22,983) | 34,587 |
| Income taxes paid | (1,802) | (1,580) |
| Net cash from/(used in) operating activities | <u>(24,785)</u> | <u>33,007</u> |
| <u>Cash flows from investing activities</u> | | |
| - Increase in investments in an associate | - | (1,634) |
| - Proceeds from disposal of property, plant and equipment | 63 | 53 |
| - Proceeds from disposal of other investments | 13,659 | 1,695 |
| - Proceeds from disposal of investment properties | 1,416 | - |
| - Proceeds from dilution of interest in subsidiaries | 16 | - |
| - Net cash inflow from disposal of equity accounted associate, net of cash and cash equivalents disposed off | - | 13,128 |
| - Acquisition of other investments | (14,271) | (4,242) |
| - Acquisition of property, plant and equipment | (273) | (1,049) |
| - Acquisition of right-of-use assets | (22) | - |
| - Acquisition of the remaining interest from non-controlling interest | (6,500) | - |
| - Dividends received from associated/joint ventures | - | 8,200 |
| - Interest received | 1,522 | 2,260 |
| Net cash from/(used in) investing activities | <u>(4,390)</u> | <u>18,411</u> |
| <u>Cash flows from financing activities</u> | | |
| - Repurchase of treasury shares | (5,376) | (3,344) |
| - Drawdown from borrowings | 13,866 | 22,444 |
| - Interest paid | (1,872) | (1,754) |
| - Repayment of borrowings | (1,466) | (47,181) |
| - Dividends paid to non-controlling interests | (700) | (560) |
| - Repayment of lease liabilities | (1,124) | - |
| - Repayment of finance lease liabilities | (1,675) | (1,943) |
| Net cash from/(used in) financing activities | <u>1,653</u> | <u>(32,338)</u> |
| Net increase/(decrease) in cash and cash equivalents | (27,522) | 19,080 |
| Cash and cash equivalents at beginning of period | 119,884 | 113,687 |
| Exchange differences on translation of the financial statements of foreign entities | 25,586 | (15,165) |
| Cash and cash equivalents at end of period | <u>117,948</u> | <u>117,602</u> |

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2019 and the accompanying explanatory notes attached to the interim financial statements.



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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE CUMULATIVE THIRD QUARTER ENDED 30 SEPTEMBER 2020 – UNAUDITED**

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

| | 9 months Ended 30/09/2020 RM'000 | 9 months Ended 30/09/2019 RM'000 |
|-------------------------------------|---|---|
| Cash and bank balances | 106,339 | 37,906 |
| Deposits placed with licensed banks | 14,879 | 81,420 |
| | 121,218 | 119,326 |
| Bank overdrafts | (3,240) | (1,694) |
| Pledged deposits | (30) | (30) |
| | 117,948 | 117,602 |

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2019 and the accompanying explanatory notes attached to the interim financial statements.



NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE CUMULATIVE THIRD QUARTER ENDED 30 SEPTEMBER 2020

(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 2019 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 2019. The audited financial statements of the Group as at and for the year ended 31 December 2019 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 2019 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 2020.

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

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 1 January 2022

- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

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 plans to apply the abovementioned accounting standards, interpretations and amendments:

- from the annual period beginning on 1 January 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020.
- from the annual period beginning on 1 January 2022 for the amendment that is effective for annual periods beginning on or after 1 January 2022.

The Group does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on or after 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

2. Preceding Annual Financial Statement

The audit report of the Group's annual financial statements prepared under MFRSs for the year ended 31 December 2019 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 September 2020.

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 September 2020 other than:

a) Share buy-back

The Company repurchased 29,241,000 ordinary shares of its issued share capital from the open market, at an average costs of RM0.18 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 RM5,376,000 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.



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7. Dividends Paid

During the cumulative quarter ended 30 September 2020, the Company paid the first and final dividend comprising a share dividend of one (1) treasury share for every twenty-nine (29) existing ordinary shares held in Salcon in respect of the financial year ended 31 December 2019. The total number of treasury shares distributed was 27,663,917 shares or equivalent to RM6.44 million.

The final dividend was fully credited into the entitled depositors' securities accounts of the shareholders maintained with Bursa Malaysia Depository Sdn Bhd on 19 August 2020.

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8. Segmental Reporting

The segmental revenue and results of the Group for the cumulative quarter ended 30 September 2020 are as follows:-

| | Constructions | Concessions | Trading & Services | Property Development | Total Continuing Operations | Discontinued Operations | Consolidated |
|---|----------------------|--------------------|-------------------------------|-----------------------------|------------------------------------|--------------------------------|---------------------|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Segment profit | (1,574) | 239 | 5,243 | (3,083) | 825 | 2,175 | 3,000 |
| <i>Included in the measure of segment profit are:</i> | | | | | | | |
| Revenue from external customers | 98,448 | - | 12,971 | 21,147 | 132,566 | - | 132,566 |
| Share of profit of associate | - | 254 | (88) | - | 166 | - | 166 |
| Share of profit of joint venture | (2,476) | - | 777 | - | (1,699) | - | (1,699) |
| <i>Not included in the measure of segment profit but provided to Chief Operating Officer:</i> | | | | | | | |
| Depreciation and amortization | (1,101) | - | (3,262) | (171) | (4,534) | - | (4,534) |
| Finance costs | (881) | - | (243) | (748) | (1,872) | - | (1,872) |
| Finance income | 1,487 | - | 1 | 34 | 1,522 | - | 1,522 |
| Income tax expense | (1,316) | - | (298) | 268 | (1,346) | - | (1,346) |
| Segment assets | 368,817 | 16,665 | 79,379 | 114,654 | 579,515 | - | 579,515 |
| <i>Included in the measure of segment assets are:</i> | | | | | | | |
| Investment in associate | - | 16,572 | 646 | - | 17,218 | - | 17,218 |
| Investment in joint venture | 12,205 | - | 17,240 | - | 29,445 | - | 29,445 |
| Additions to non-current assets other than financial instruments and deferred tax assets | 527 | - | 111 | - | 638 | - | 638 |



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

| | RM'000 |
|--|---------------|
| Profit | |
| Total profit or loss for reportable segments | 825 |
| Depreciation and amortisation | (4,534) |
| Finance costs | (1,872) |
| Finance income | 1,522 |
| Unrealised/ realised foreign exchange gain/(loss) | 384 |
| Unallocated expenses: | |
| Corporate expenses | (4,467) |
| Consolidated profit/(loss) before tax from continuing operations | (8,142) |
| Profit from discontinued operations, net of tax | 2,314 |
| Consolidated profit/(loss) before tax | (5,828) |

9. Valuations of Property, Plant and Equipment

There was no revaluation of property, plant and equipment during the cumulative quarter ended 30 September 2020. 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 November 2020 (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 followings:-

- i) Salcon Engineering Berhad ("SEB"), a wholly-owned subsidiary of the Company, has on 14 July 2020 entered into a Joint Venture Agreement ("JV Agreement") with The One Smart City Development Limited ("TOSC"), Wide Plus Smart City Sdn Bhd ("WPSC") and Digital Momentum Sdn. Bhd. ("DMSB") for the purpose of forming a joint venture via DMSB to market and sell smart water systems with total monitoring platform solutions or its components in Malaysia.

Pursuant to the JV Agreement, DMSB will allot 59,999 Ordinary Shares ("OS") to SEB and 40,000 OS to WPSC at an issue price of RM1.00 per OS. Upon completion of the Subscription of Shares, DMSB will cease as a wholly-owned subsidiary of SEB and become a 60%-owned subsidiary company of SEB. The Subscription of Shares involves a deemed disposal of 40% equity interest in DMSB by SEB to WPSC for a consideration sum of RM40,000.

- (ii) Salcon Berhad has on 5 August 2020 entered into a Sale and Purchase Agreement with See Che Chi to dispose of 10,000,000 ordinary shares in Salcon Xinlian Group Limited ("SXGL"), representing 51% equity interest in SXGL for a total cash consideration of RM1.00. Following the disposal, SXGL ceased to be a subsidiary of the Company.



12. Changes in Contingent Liabilities/Contingent Assets

The contingent liabilities as at financial period ended 30 September 2020 are as follows:-

| | RM'000 |
|---|---------------|
| Bank guarantees given to third parties relating to performance, tenders and advance payment bonds | <u>48,700</u> |

13. Net assets (NA) per share

The NA per share is derived as follows:-

| | RM'000 |
|--------------------|----------------|
| Shareholders funds | 431,074 |
| No. of shares | <u>847,113</u> |
| NA per share (RM) | <u>0.51</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 30/09/2020 RM'000 | Cumulative Quarter To-date 30/09/2020 RM'000 |
|----------------------------|---|--|
| Continuing operations | | |
| Malaysian - current period | 93 | 1,330 |
| - prior years | 16 | 16 |
| | 109 | 1,346 |

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

2.1) 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 16 November 2020 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 | (190,351) | 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 | (340,345) | | - | - | - |

2.2) Salcon Berhad (“Salcon”) had on 28 September 2020 proposed to undertake a private placement of up to 20% of the total number of issued shares of the Company (excluding treasury shares).

The Private placement has been completed on 2 November 2020. A total of 165,300,000 new Salcon Shares were placed out pursuant to the private placement. The 139,000,000 and 26,300,000 placement shares, being the first and final tranche of the placement shares, were listed and quoted on the Main Market of Bursa Securities on 22 October and 2 November 2020, respectively.



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The status of the utilisation of the proceeds as at 16 November 2020 arising from the private placement 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 | 21,828 | (2,856) | Within 24 months | Nil | Nil | Not Completed |
| Working capital | 11,834 | (2,181) | Within 12 months | Nil | Nil | Not Completed |
| Estimated expenses in relation to the Proposed Disposal | 150 | (150) | Within 1 month | Nil | Nil | Completed |
| Total | 33,812 | (5,187) | | - | - | - |

3. Group Borrowings and Debt Securities

Total Group borrowings as at 30 September 2020 are as follows:

| | As at 3rd quarter ended 2020 | | |
|----------------------------------|------------------------------|-----------------|------------------|
| | Long term | Short term | Total borrowings |
| | RM denomination | RM denomination | RM denomination |
| Secured | | | |
| <i>Term loans</i> | 2,928 | 120 | 3,047 |
| <i>Finance lease liabilities</i> | 3,193 | 521 | 3,714 |
| Unsecured | | | |
| <i>Term loans</i> | - | 15,871 | 15,872 |
| <i>Revolving credits</i> | - | 4,000 | 4,000 |
| <i>Bankers' Acceptance</i> | - | 7,107 | 7,107 |
| <i>Bank overdrafts</i> | - | 3,240 | 3,240 |
| | 6,121 | 30,859 | 36,980 |

| | As at 3rd quarter ended 2019 | | |
|----------------------------------|------------------------------|-----------------|------------------|
| | Long term | Short term | Total borrowings |
| | RM denomination | RM denomination | RM denomination |
| Secured | | | |
| <i>Term loans</i> | 3,048 | 2,196 | 5,244 |
| <i>Finance lease liabilities</i> | 3,260 | 1,672 | 4,932 |



| | | | |
|----------------------------|-------|--------|--------|
| Unsecured | | | |
| <i>Revolving credits</i> | - | 3,000 | 3,000 |
| <i>Bankers' Acceptance</i> | - | 7,096 | 7,096 |
| <i>Bank overdrafts</i> | - | 1,694 | 1,694 |
| | | | |
| | 6,308 | 15,658 | 21,966 |

For the year to-date financial quarter under review, the Group has recorded borrowings of RM36.98 million as compared to RM21.97 million for corresponding period in the immediate preceding year. The increase in the borrowings was substantially attributed by receivable financing of a subsidiary amounting to RM15.87 million.

There were no bank borrowings denominated in foreign currencies as at the reporting date.

4. Changes in Material Litigation

There was no material update as at 16 November 2020 (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) Notice to Commence Arbitration Proceedings by Salcon MMCB AZSB JV Sdn Bhd Against Pengurusan Aset Air Berhad

Salcon MMCB AZSB JV Sdn Bhd [201401011967 (1088044-T)] (“SMAJV”), had on 26 August 2020 issued a notice to commence arbitration proceedings (“Arbitration Notice”) against Pengurusan Aset Air Berhad (“PAAB”).

Pursuant to the Arbitration Notice, SMAJV claims a sum of RM85,912,482.14 against PAAB for, among others, loss and expense claims, claims for works done under variation orders, release of retention sum and unilateral deduction by PAAB on payments due to SMAJV as at the date of the Arbitration Notice, subject to further quantification of further losses suffered by SMAJV (collectively referred to as “Claims”). The Claims relate to works performed by SMAJV in respect of the development of the Langat 2 Water Treatment Plant and Water Reticulation System in Selangor Darul Ehsan/Wilayah Persekutuan Kuala Lumpur.

The arbitration proceedings commenced by SMAJV is not expected to have any material effect on the earnings, net assets and gearing of Salcon Group for the financial year ending 31 December 2020. The arbitration proceedings is also not expected to have material operational impact on Salcon Group.

None of the directors and/or major shareholders of the Company, or persons connected with them have any interest, direct or indirect, in the aforesaid proceedings.

SMAJV had, on 25 September 2020, been informed by its solicitors that PAAB had served its Response to SMAJV’s Arbitration Notice dated 26 August 2020 (“Response to Arbitration Notice”).

Under the Response to Arbitration Notice, PAAB counterclaims a sum of RM63,030,664.84 against SMAJV for alleged breaches relating to the works performed by SMAJV in respect of the development of the Langat 2 Water Treatment Plant and Water Reticulation System in Selangor Darul Ehsan/Wilayah Persekutuan Kuala Lumpur (collectively referred to as “PAAB’s Counterclaim”).

PAAB’s Counterclaim is not expected to have any material effect on the earnings, net assets and gearing of Salcon Group for the financial year ending 31 December 2020. PAAB’s Counterclaim is also not expected to have material operational impact on Salcon Group.



There is no liability to Salcon Berhad group of companies arising from PAAB's Counterclaim as any amount awarded to PAAB (if any) would be borne by SMAJV and neither Salcon Berhad nor Salcon Engineering Berhad had given any corporate guarantee to SMAJV. SMAJV is a separate legal entity and the liability (if any) is limited to the issued share capital of the company.

However, under the perspective of equity accounting, Salcon Berhad will have to book in the losses to be incurred by SMAJV (if any) arising from the Counterclaim in accordance to its shareholding proportionately. The estimated losses to be incurred by SMAJV (if any) arising from the Counterclaim based on the shareholding of Salcon Engineering Berhad in SMAJV would be RM5,510,701. However, the actual amount payable (if any) would be subject to the outcome of arbitration proceeding.

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

| | Current Quarter | Immediate Preceding Quarter | Changes % |
|---|-----------------|-----------------------------|-----------|
| | 30/09/2020 | 30/06/2020 | |
| Revenue | 60,222 | 24,523 | 146% |
| Operating Profit/(Loss) | (2,774) | 1,115 | 124% |
| Profit/(Loss) Before Interest and Tax | (4,592) | 1,982 | -332% |
| Profit/(Loss) Before Tax | (5,237) | 1,317 | -498% |
| Profit/(Loss) For The Period | (3,032) | 955 | -418% |
| Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent | (2,028) | 2,145 | -195% |

For the current financial quarter, the Group revenue increased from RM24.53 million to RM60.22 million by 146% and has recorded a loss before tax of RM5.24 million as compared to profit before tax of RM1.32 million in the immediate preceding quarter.

The revenue recorded in the Constructions Division was higher by 266%, an increase from RM12.70 million to RM46.53 million as compared to the immediate preceding quarter. The Division recorded loss before tax of RM3.66 million as compared to loss before tax of RM1.33 million in the same period of the immediate preceding quarter due to higher cost of sales and losses from joint ventures companies.

In the Property Development Division, it recorded a lower loss before tax of RM1.31 million in the current financial quarter as compared to loss before tax of RM2.20 million in the same period of the immediate preceding quarter due to higher cost of sales in the current financial quarter.

In the Concessions Division, no revenue was recorded and has recorded profit before tax of RM244,000 as compared to loss before tax of RM4,000 in the same period of the immediate preceding quarter due to interest income from associates company.

For the Trading and Services Division, revenue increased from RM4.16 million to RM4.74 million by 14%. The Division recorded profit before tax of RM2.26 million as compared to loss before tax of RM12,000 in the same period of the immediate preceding quarter due to waiver of debts from shareholder advances in the current financial quarter.

In the current financial quarter, the Discontinued Operations has recorded profit before tax of RM2.31 million due to disposal of 51% equity interest in Salcon Xinlian Group Limited.



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

| | Individual Period (3rd Quarter) | | Changes % | 9 Months Ended | | Changes % |
|---|------------------------------------|--|--------------|-------------------------|--|--------------|
| | Current Year Quarter | Preceding Year Corresponding Quarter | | Current Year To-date | Preceding Year Corresponding Quarter | |
| | 30/09/2020 | 30/09/2019 | | 30/09/2020 | 30/09/2019 | |
| Revenue | 60,222 | 41,693 | 44% | 132,566 | 132,244 | 0% |
| Operating Profit/(Loss) | (2,774) | (3,560) | 22% | (6,259) | (13,862) | 55% |
| Profit/(Loss) Before Interest and Tax | (4,592) | (4,247) | 8% | (6,270) | (9,923) | 37% |
| Profit/(Loss) Before Tax | (5,237) | (4,639) | -13% | (8,142) | (11,677) | -30% |
| Profit/(Loss) For The Period | (3,032) | (4,965) | 39% | (7,174) | (13,006) | -45% |
| Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent | (2,028) | (4,813) | 58% | (6,238) | (10,831) | -42% |

For the current financial quarter under review, the Group achieved higher revenue amounting to RM60.22 million as compared to RM41.69 million for the same period in the preceding year or an increase of 44%. Loss before taxation of RM5.24 million was recorded in the current quarter as compared to loss before tax of RM4.64 million for the same period in the preceding year substantially attributed to losses from joint ventures companies and fair value losses from other investments.

In the Constructions Division, revenue recorded in the current financial quarter was higher by 35% as compared to the same period in the preceding year. The Division recorded loss before tax of RM3.66 million as compared to loss before tax of RM2.63 million for the same period in the preceding year due to losses from joint ventures companies.

The Property Development Division has recorded a loss before tax of RM1.31 million as compared to loss before tax of RM665,000 for the same period in the preceding year due to higher discount given in the current financial quarter.

In the Concessions Division, no revenue was recorded in the current financial quarter as compared to RM141,000 in the preceding year corresponding quarter due to cessation of an operation and maintenance of a water treatment plant in the third quarter of preceding year. The Division recorded profit before tax of RM244,000 as compared to profit before tax of RM139,000 for the same period in the preceding year due to interest income from associates company.

In the Trading and Services Division, revenue was lower by 13% as compared to the same period in the preceding year. The Division recorded a profit before tax of RM2.26 million as compared to profit before tax of RM1.36 million for the same period in the preceding year due to waiver of debts from shareholder advances in the current financial quarter.



In the current financial quarter, the Discontinued Operations has recorded profit before tax of RM2.31 million due to disposal of 51% equity interest in Salcon Xinlian Group Limited.

For the cumulative quarter to date, the Group recorded revenue of RM132.57 million as compared to RM132.24 million in the corresponding cumulative quarter in the preceding year. Loss before tax of RM8.14 million was recorded in the cumulative quarter to date as compared to loss before tax of RM11.68 million in the corresponding cumulative quarter in the preceding year attributed by waiver of debts and gain from disposal of subsidiaries in the current cumulative quarter.

In the Constructions Division, revenue was 10% lower due to slower construction activities during the Recovery Movement Control Order that was imposed by the Malaysian Government when compared to the corresponding cumulative quarter in the preceding year. The Division loss before tax was RM2.14 million as compared to loss before tax of RM1.74 million for the same period in the preceding year due to losses from joint ventures companies in the current cumulative quarter.

In the Property Development Division, it recorded loss before tax of RM3.97 million in the current financial quarter as compared to loss before tax of RM2.06 million for the same period in the preceding year due to higher discount given in the current cumulative quarter.

In the Concessions Division, no revenue in the current cumulative quarter as compared to RM883,000 in the corresponding cumulative quarter in the preceding year due to cessation of an operation and maintenance of a water treatment plant in the third quarter of preceding year.

The Trading and Services Division recorded revenue of RM12.97 million as compared to RM15.93 million in the corresponding cumulative quarter in the preceding year. The Division recorded profit before tax of RM1.74 million as compared to loss before tax of RM4.28 due to higher operating expenses and administrative expenses for arrear of tax paid amounting to RM5.63 million in regards to disposal of overseas investment in prior years in the preceding year.

In the current cumulative quarter to date, the Discontinued Operations has recorded profit before tax of RM2.31 million due to disposal of 51% equity interest in Salcon Xinlian Group Limited as compared to profit before tax of RM807,000 for the same period in the preceding year.

7. Prospects

Following the easing of the MCO, the Group's construction activities have picked up pace and is expected to end stronger towards the final quarter of the year. Prospects in the water and wastewater sector remains resilient as the federal government continues to make huge investments to improve the water quality and services in the country, especially the rural areas. Environment and Water Minister Datuk Tuan Ibrahim Tuan Man said that RM10 billion will be set aside under the 12th Malaysia Plan (12MP) to be tabled in January 2021 to improve the nation's water supply network. Of the total allocation applied, RM1.37 billion would be allocated for the First Rolling Plan (RP1).

Moving forward, the Board remains committed to deliver sustainable growth and building a stable earnings stream by diversifying our business portfolio. To this end, the Group recently acquired JR Engineering and Medical Technologies (M) Sdn Bhd (JR), a glove manufacturing company. The proposed acquisition comes with a profit guarantee of RM10 million per annum in JR for financial years ending 2021, 2022 and 2023. The Group expects to potentially benefit from a major recovery in earnings prospects as it diversifies into a lucrative growth segment. The acquisition is expected to be completed by year end 2020.



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 September 2020, 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 30/09/2020 | Comparative Quarter Ended 30/09/2019 | Cumulative Quarter To-date | |
|---|---|---|----------------------------------|-----------------|
| | | | 30/09/2020 | 30/09/2019 |
| Profit/(Loss) attributable to equity holders of the parent (RM'000) | | | | |
| - continuing operations | (4,187) | (4,813) | (8,397) | (11,638) |
| - discontinued operations | 2,159 | - | 2,159 | 807 |
| | <u>(2,028)</u> | <u>(4,813)</u> | <u>(6,238)</u> | <u>(10,831)</u> |
| <u>Weighted average number of ordinary shares</u> | | | | |
| Issued ordinary shares at beginning of period ('000) | 819,925 | 819,925 | 819,925 | 819,925 |
| Effect of shares repurchased during the period ('000) | (27,481) | (7,970) | (21,487) | (3,270) |
| Effect of shares distributed as dividend during the period ('000) | 27,664 | 28,174 | 27,664 | 28,174 |
| Weighted average number of ordinary shares ('000) | <u>820,108</u> | <u>840,129</u> | <u>826,102</u> | <u>844,829</u> |
| Basic (loss)/earnings per share (sen) | - | - | - | - |
| - continuing operations | (0.51) | (0.57) | (1.02) | (1.38) |
| - discontinued operations | 0.26 | - | 0.26 | 0.10 |
| Total | <u>(0.25)</u> | <u>(0.57)</u> | <u>(0.76)</u> | <u>(1.28)</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 30/09/2020 RM'000 | Cumulative Quarter Ended 30/09/2020 RM'000 |
|---|---|--|
| Net realised foreign exchange gain/(loss) | (318) | (11) |
| Net unrealised foreign exchange gain/(loss) | (448) | 395 |
| Depreciation and amortization | (1,472) | (4,534) |
| | <u>(2,238)</u> | <u>(4,150)</u> |

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 November 2020.

ON BEHALF OF THE BOARD

TAN SRI DATO' TEE TIAM LEE
Executive Deputy Chairman

Selangor Darul Ehsan
23 November 2020