
AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012

Salcon Jiangsu (HK) Limited

實康江蘇(香港)有限公司

Financial Statements
for the year ended 31 December 2012

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)**Report of the directors**

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2012.

Principal place of business

Salcon Jiangsu (HK) Limited (“the company”) is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 20/F, Fung House, No. 19-20 Connaught Road Central, Hong Kong.

Principal activity

The principal activity of the company is investment holding. Details of the company’s subsidiaries are set out in note 9 to the financial statements.

Financial statements

The loss of the company for the year ended 31 December 2012 and the state of the company’s affairs as at that date are set out in the financial statements on pages 5 to 23.

Transfer to reserves

Losses attributable to shareholders of USD20,047 (2011: USD4,055) have been transferred to reserves. Other movements in reserves are set out in the statement of changes in equity.

The directors do not recommend the payment of a dividend for the year ended 31 December 2012 (2011: Nil).

Share capital

Details of the share capital of the company are set out in note 11(b) to the financial statements. There were no movements during the year.

Directors

The directors during the financial year and up to the date of this report were:

Tee Tiam Lee
Law Woo Hock
Leong Kok Wah

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Directors' interests

There being no provision in the company's articles of association in connection with the retirement of directors, all existing directors continue in office for the following year.

At no time during the year was the company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

No contract of significance to which the company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Director

Hong Kong

30 APR 2013

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)



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**Independent auditor's report to the sole shareholder of
 Salcon Jiangsu (HK) Limited**
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Salcon Jiangsu (HK) Limited ("the company") set out on pages 5 to 23, which comprise the company's statement of financial position as at 31 December 2012, the company's statement of comprehensive income, the statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

KPMG, a Hong Kong partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

**Independent auditor's report to the sole shareholder of
Salcon Jiangsu (HK) Limited (continued)**
(Incorporated in Hong Kong with limited liability)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

A handwritten signature in black ink, appearing to be 'KPMG'.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 APR 2013

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

**Statement of comprehensive income
for the year ended 31 December 2012**
(Expressed in United States dollars)

	<i>Note</i>	<u>2012</u> <i>USD</i>	<u>2011</u> <i>USD</i>
Turnover	4	-	-
Other revenue	5	4	4
Administrative and operating expenses		<u>(20,051)</u>	<u>(4,059)</u>
Loss before taxation	6	(20,047)	(4,055)
Income tax	7(a)	<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>(20,047)</u></u>	<u><u>(4,055)</u></u>

The notes on pages 9 to 23 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)


Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012


Statement of financial position at 31 December 2012

(Expressed in United States dollars)

	Note	2012 USD	2011 USD
Non-current asset			
Investments in subsidiaries	9	12,207,819	12,207,819
Current assets			
Amounts due from fellow subsidiaries	10	2,551,625	3,861
Cash and bank balances		35,769	40,145
		2,587,394	44,006
Current liabilities			
Accrued liabilities		3,999	3,900
Amount due to ultimate holding company	10	10,464,365	10,464,365
Amounts due to fellow subsidiaries	10	4,053,427	1,490,091
		14,521,791	11,958,356
Net current liabilities		(11,934,397)	(11,914,350)
NET ASSETS		273,422	293,469
CAPITAL AND RESERVE			
Share capital	11		
	11(b)	1,000	1,000
Exchange reserve	11(c)	(56,796)	(56,796)
Retained earnings		329,218	349,265
TOTAL EQUITY		273,422	293,469

Approved and authorised for issue by the board of directors on **30 APR 2013**





} Directors

The notes on pages 9 to 23 form part of these financial statements.

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

**Statement of changes in equity
for the year ended 31 December 2012**
(Expressed in United States dollars)

	<u>Share capital</u> USD (note 11(b))	<u>Exchange reserve</u> USD	<u>Retained earnings</u> USD	<u>Total</u> USD
Balance at 31 December 2010 and 1 January 2011	1,000	(56,796)	353,320	297,524
Changes in equity for 2011				
Total comprehensive income for the year	-	-	(4,055)	(4,055)
Balance at 31 December 2011 and 1 January 2012	1,000	(56,796)	349,265	293,469
Changes in equity for 2012				
Total comprehensive income for the year	-	-	(20,047)	(20,047)
Balance at 31 December 2012	<u>1,000</u>	<u>(56,796)</u>	<u>329,218</u>	<u>273,422</u>

The notes on pages 9 to 23 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

*Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012*

**Cash flow statement
for the year ended 31 December 2012**
(Expressed in United States dollars)

	<u>2012</u>	<u>2011</u>
	<u>USD</u>	<u>USD</u>
Operating activities		
Loss before taxation	(20,047)	(4,055)
Adjustment for:		
Interest income	<u>(4)</u>	<u>(4)</u>
Operating loss before changes in working capital	(20,051)	(4,059)
Increase in amounts due from fellow subsidiaries	(2,547,764)	(3,861)
Increase in accrued liabilities	99	784
Increase in amounts due to fellow subsidiaries	<u>2,563,336</u>	<u>3,225</u>
Net cash used in operating activities	<u>(4,380)</u>	<u>(3,911)</u>
Investing activity		
Interest received	<u>4</u>	<u>4</u>
Net cash generated from investing activity	<u>4</u>	<u>4</u>
Net decrease in cash and cash equivalents	(4,376)	(3,907)
Cash and cash equivalents at 1 January	<u>40,145</u>	<u>44,052</u>
Cash and cash equivalents at 31 December	<u>35,769</u>	<u>40,145</u>

The notes on pages 9 to 23 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

Notes to the financial statements

(Expressed in United States dollars unless otherwise indicated)

1. Principle activity

The principle activity of the company is investment holding. Details of subsidiaries are set out in note 9 to the financial statements.

2 Significant accounting policies**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

Notwithstanding the company had net current liabilities of \$11,934,397 as at 31 December 2012, the financial statements have been prepared on a going concern basis because Salcon Berhad, the ultimate holding company, has confirmed that it will provide such financial assistance as it is necessary to maintain the company as a going concern.

The company is a wholly owned subsidiary of another body corporate and therefore, in accordance with section 124(2)(a) of the Hong Kong Companies Ordinance, is not required to prepare group financial statements.

For the purposes of compliance with sections 122 and 123 of the Hong Kong Companies Ordinance, these financial statements have been prepared to present a true and fair view of the state of affairs and profit or loss of the company only. Consequently, they have been prepared in accordance with all applicable HKFRSs which apply to the preparation of separate unconsolidated financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(b) Basis of preparation of the financial statements (continued)**

In accordance with the criteria set out in paragraph 10 of HKAS 27, Consolidated and separate financial statements, the company is exempt from the preparation of consolidated financial statements as Salcon Berhad, the intermediate parent of the company produces consolidated financial statements in accordance with International Financial Reporting Standards, which are available for public use. Salcon Berhad is incorporated in Malaysia and listed on the Main Board of the Malaysia Stock Exchange and its consolidated financial statements are available from the website of Bursa Malaysia Berhad (<http://www.bursamalaysia.com/market>). Consequently, the financial statements do not give all the information about the economic activities of the group of which the company is the parent which would have been disclosed had the company prepared consolidated financial statements.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments and estimates made by management in the application of HKFRSs that have significant effect on the financial statements are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued certain amendments to HKFRSs and new Interpretations that are first effective or available for early adoption for the current accounting period of the company. None of the developments is relevant to the company's financial statements:

The company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiary

Subsidiary is an entity controlled by the company. Control exists when the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 2(e)).

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(e) Impairment of assets****(i) Impairments of other receivables**

Other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the company about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses for other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the company is satisfied that recovery is remote, the amount considered irrecoverable is written off against the receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(e) Impairment of assets (continued)****(ii) Impairment of other assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the investments in subsidiaries may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in profit or loss whenever the carrying amount of such an asset exceeds its recoverable amount.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(f) Other receivables (including amounts due from related parties)

Other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(e)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(e)(i)).

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(g) Other payables (including amounts due to related parties)**

Other payables are initially recognised at fair value and thereafter are stated at amortised cost, except where the payables are interest-free loans from related parties without any fixed term of repayment or the effect of discounting would be immaterial, in which case they are stated at cost.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(i) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(j) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Dividends

Dividend income is recognised when the shareholder's right to receive payment is established.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(l) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the end of each reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(l) Translation of foreign currencies (continued)**

The results of foreign operations are translated into United States dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into United States dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(m) Related parties

- (a) A person, or a close member of that person's family, is related to the company if that person:
- (i) has control or joint control over the company;
 - (ii) has significant influence over the company; or
 - (iii) is a member of the key management personnel of the company or the company's parent.
- (b) An entity is related to the company if any of the following conditions applies:
- (i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

3. Accounting judgements and estimates**(a) Impairment of investments in subsidiaries**

Internal and external sources of information are reviewed by the company at the end of each reporting period to assess whether there is any indication that investments in subsidiaries may be impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

(b) Going concern

As disclosed in note 2(b), the directors have prepared the financial statements on a going concern basis as they are of the opinion that the company will be able to secure the continued financial assistance from the ultimate holding company to enable the company to operate as a going concern. Discontinuation of financial assistance for the ultimate holding company would affect the conclusion that the company is able to continue as going concern, in which case the financial statements would have to be prepared on a break-up basis.

4. Turnover

The principal activity of the company is investment holding.

The company did not generate any income from its investments during the year.

5. Other revenue

	<i>2012</i>	<i>2011</i>
	<i>USD</i>	<i>USD</i>
Interest income	4	4

6. Loss before taxation

Loss before taxation is arrived at after charging:

	<i>2012</i>	<i>2011</i>
	<i>USD</i>	<i>USD</i>
Auditor's remuneration	2,866	2,866

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

7. Income tax in the statement of comprehensive income

- (a) No provision has been made for Hong Kong Profits Tax as the company has no assessable profit for the current year and the prior year.

No deferred tax assets or liabilities have been recognised as the company has no significant deductible or taxable temporary differences which would give rise to deferred tax assets or liabilities.

- (b) *Reconciliation between tax expense and accounting loss at an applicable tax rate:*

	<u>2012</u>	<u>2011</u>
	<i>USD</i>	<i>USD</i>
Loss before taxation	<u>(20,047)</u>	<u>(4,055)</u>
Notional tax on loss before taxation, calculated at 16.5% (2011: 16.5%)	(3,308)	(669)
Tax effect of non-taxable income and non-deductible expenses	<u>3,308</u>	<u>669</u>
Actual tax expense	<u>-</u>	<u>-</u>

8. Directors' remuneration

There is no directors' remuneration for the year ended 31 December 2012, which is required to be disclosed pursuant to section 161 of the Hong Kong Companies Ordinance.

9. Investments in subsidiaries

	<u>2012</u>	<u>2011</u>
	<i>USD</i>	<i>USD</i>
Capital contribution, at cost	11,878,050	11,878,050
Cost directly attributable to investments	<u>329,769</u>	<u>329,769</u>
	<u>12,207,819</u>	<u>12,207,819</u>

The company's partially-owned subsidiary, Jiangsu Salcon Water and Environmental Development Company Limited, was set up on 10 December 2009 as a co-operative joint venture company. The company can exercise unilateral control over the co-operative joint venture company.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

9. Investments in subsidiaries (continued)

Particulars of the subsidiaries are as follow:

<i>Name</i>	<i>Place of incorporation/ registration and operations</i>	<i>Particulars of paid up capital</i>	<i>Percentage of equity interest held by the company held by the company subsidiary</i>		<i>Principal activities</i>
Jiangsu Salcon Water and Environmental Development Company Limited	The people's Republic of China ("PRC")	USD11,878,050	66.67%	-	Management and operation of water production and distribution of water
Yizheng Rong Xing Wastewater Treatment Company Limited	PRC	RMB32,536,680	-	100%	Management and operation of wastewater treatment

The directors of the company consider that the investment to be valued at cost is appropriate.

No impairment loss on investment in subsidiary has been provided as, in the opinion of the directors, the company's share of net assets value of the subsidiary would exceed the company's cost of investment.

Post-acquisition profits of the subsidiaries attributable to the company based on the audited financial statements of the subsidiaries prepared in accordance with the Generally Accepted Accounting Principles of the PRC are summarised as below:

	<i>Current year</i>	<i>Prior years</i>	<i>Total</i>
Amount dealt with in the financial statements of the company	-	-	-
Amount not dealt with in the financial statements of the company	398,115	(155,246)	242,869
Total	398,115	(155,246)	242,869

10. Amounts due from/(to) ultimate holding company and fellow subsidiaries

The amounts are unsecured, non-interest bearing and repayable on demand.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

11. Capital and reserve**(a) Components of the company's capital and reserve**

The opening and closing balances of each component of the company's equity and reconciliation between these amounts are set out in the statement of changes in equity.

(b) Authorised and issued share capital

	<i>At 31 December 2012 and 2011</i>	
	<i>No. of shares</i>	<i>Amount</i>
Authorised:		
Ordinary share of USD1 each	<u>1,000</u>	<u>1,000</u>
	<i>No. of shares</i>	<i>Amount</i>
Issued and fully paid:		
Ordinary share of USD1 each	<u>1,000</u>	<u>1,000</u>

The sole shareholder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to company's residual assets.

(c) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(l).

(d) Capital management

The company's primary objectives when managing capital are to safeguard the company's ability to continue as a going concern, so that it can continue to provide returns for shareholders by securing access to finance at a reasonable cost. As the company is part of a larger group, the company's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The company defines "capital" as including all components of equity.

The company's capital structure is regularly reviewed and managed with due regard to the capital management practices of the group to which the company belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the company or the group, to the extent that these do not conflict with the directors' fiduciary duties towards the company or the requirements of the Hong Kong Companies Ordinance. The company is not subject to externally imposed capital requirements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

12. Financial risk management and fair values

Exposure to credit, liquidity and currency risks arises in the normal course of the company's business. The company's exposure to these risks and the financial risk management policies and practices used by the company to manage these risks are described below.

(a) Credit risk

The company's credit risk is primarily attributable to amounts due from fellow subsidiaries and cash at bank. The directors consider the company's exposure to bad debts from inter-company balances is not significant since these group companies are creditworthy.

Bank deposits are normally placed with financial institutions that have a good credit rating.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The company does not provide any other guarantees which would expose the company to credit risk.

(b) Liquidity risk

The company's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

All of the company's financial liabilities at the end of the reporting period do not bear interest and are repayable within one year or on demand.

(c) Currency risk

The company is exposed to currency risks primarily arising from amount due from a fellow subsidiary, cash and cash equivalents, amount due to ultimate holding company and fellow subsidiary that are denominated in other currencies, being primarily Hong Kong dollars ("HKD"), Renminbi Yuan ("RMB") and Malaysian Ringgit ("MTR"). As the United States dollars ("USD") is pegged to the HKD, the company considers the risk of movements in exchange rates between the USD and the HKD to be insignificant.

(i) Exposure to currency risk

The following table details the company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the company's functional currency. For presentation purposes, the amounts of the exposure are expressed in United States dollars.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

12. Financial risk management and fair values (continued)

(c) Currency risk

(i) Exposure to currency risk (continued)

	2012			2011		
	Hong Kong Dollars	Renminbi Yuan	Malaysian Ringgit	Hong Kong Dollars	Renminbi Yuan	Malaysian Ringgit
Amount due from a fellow subsidiary	2,551,625	-	-	3,861	-	-
Cash and cash equivalents	2,285	-	-	6,600	-	-
Accrued liabilities	(3,999)	-	-	(3,900)	-	-
Amount due to ultimate holding company	-	-	-	-	-	-
Amounts due to fellow subsidiaries	(6,796)	(313,673)	(3,161,003)	(40,221)	(309,764)	(568,151)
	<u>2,543,115</u>	<u>(313,673)</u>	<u>(3,161,003)</u>	<u>(33,660)</u>	<u>(309,764)</u>	<u>(568,151)</u>

(ii) Sensitivity analysis

The following table indicates the approximate change in the company's loss after tax and retained earnings in response to reasonably possible changes in the foreign exchange rates to which the company has significant exposure at the end of the reporting period. Other components of equity would not be affected by changes in the foreign exchange rates.

	2012			2011		
	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax	Effect on retained earnings	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax	Effect on retained earnings
Renminbi Yuan	5%	15,684	(15,684)	5%	15,488	(15,488)
	(5)%	(15,684)	15,684	(5)%	(15,488)	15,488
Malaysian Ringgit	5%	158,050	(158,050)	5%	28,407	(28,407)
	(5)%	(158,050)	158,050	(5)%	(28,407)	28,407

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

12. Financial risk management and fair values (continued)

(c) Currency risk (continued)

(ii) Sensitivity analysis (continued)

The sensitivity analysis above has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the company's exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next end of the reporting period. In this respect, it is assumed that the pegged rate between the USD and the HKD would be materially unaffected by any changes in movement in value of the HKD against other currencies. The analysis is performed on the same basis for 2011.

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair value as at 31 December 2012.

13. Material related party transactions

There are no material related party transactions during the year.

The outstanding balances at the end of the reporting period are as follows:

	<u>2012</u>	<u>2011</u>
	<u>USD</u>	<u>USD</u>
Amounts due from fellow subsidiaries		
Salcon Power (HK) Limited	872,668	-
Salcon Water International Limited	6,773	3,861
Salcon Changzhou (HK) Limited	2,903	-
Salcon Engineering Berhad	<u>1,669,281</u>	<u>-</u>
Total	<u>2,551,625</u>	<u>3,861</u>
Amount due to ultimate holding company		
Salcon Berhad	<u>10,464,365</u>	<u>10,464,365</u>
Amounts due to fellow subsidiaries		
Salcon Water (HK) Limited	6,796	6,781
Salcon Engineering Berhad	<u>4,046,631</u>	<u>1,483,310</u>
Total	<u>4,053,427</u>	<u>1,490,091</u>

The outstanding balances are unsecured, interest free, have no fixed repayment terms and are included in note 10.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Jiangsu (HK) Limited
Financial statements for the year ended 31 December 2012

14. Immediate and ultimate controlling party

At 31 December 2012, the directors consider the immediate parent and ultimate controlling party of the company to be Salcon Berhad, which is incorporated in Malaysia. The entity produces financial statements prepared in accordance with International Financial Reporting Standards and Malaysian Financial Reporting Standards, generally accepted accounting principles and the Companies Act, 1965 in Malaysia available for public use.

15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements. These included the following which may be relevant to the company:

	<i>Effective for accounting periods beginning on or after</i>
Amendments to HKAS 1, <i>Presentation of financial statements</i> – <i>Presentation of items of other comprehensive income</i>	1 July 2012
HKFRS 13, <i>Fair value measurement</i>	1 January 2013
HKFRS 9, <i>Financial instruments</i>	1 January 2015

The company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's results of operations and financial position.

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012**

(Translated based on the original audited financial statements in Chinese)

**JIANGSU SALCON WATER & ENVIRONMENTAL
DEVELOPMENT COMPANY LIMITED**

**ENGLISH TRANSLATION OF FINANCIAL STATEMENTS
FOR THE YEAR 1 JANUARY 2012 TO 31 DECEMBER 2012
IF THERE IS ANY CONFLICT BETWEEN THE CHINESE VERSION
AND ITS ENGLISH TRANSLATION, THE CHINESE VERSION WILL PREVAIL**

SALCON BERHAD (593796-T)

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

AUDITORS' REPORT

毕马威华振沪审字第 1301392 号

The Board of Directors of Jiangsu Salcon Water & Environmental Development Co., Ltd.:

We have audited the accompanying financial statements of Jiangsu Salcon Water & Environmental Development Co., Ltd. ("the Company") on pages 1 to 16, which comprise the balance sheet as at 31 December 2012, and the income statement and cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises (hereinafter represents Accounting Standards for Business Enterprises-Basic Standard issued in 2006 and specific accounting standards issued before 2006) and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Those standards require that we comply with China Code of Ethics for Certified Public Accountants, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

SALCON BERHAD (593796-T)

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

AUDITORS' REPORT (continued)

毕马威华振沪审字第 1301392 号

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and the financial performance and the cash flows of the Company for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

KPMG Huazhen (Special General Partnership)
Shanghai Branch

Certified Public Accountants
Registered in the People's Republic of
China

Shanghai, The People's Republic of China

Tian Chunshan

Qian Di

Date: 12 April 2013

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the People's Republic of China. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the People's Republic of China.

SALCON BERHAD (593796-T)

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

Jiangsu Salcon Water & Environmental Development Co., Ltd.

Balance sheet as at 31 December 2012

(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>2012</i>	<i>2011</i>
Assets			
Current assets			
Cash at bank and on hand	5	24,733,427.88	27,782,583.68
Accounts receivable	6	675,000.00	-
Other receivables	7	11,348,995.00	8,348,995.00
Payments in advance	8	<u>30,000,000.00</u>	<u>30,000,000.00</u>
Total current assets		66,757,422.88	66,131,578.68
Long-term investments			
Long-term equity investments	9	<u>54,862,258.93</u>	<u>51,460,551.83</u>
Fixed assets			
Cost		725,015.00	722,586.00
Less: Accumulated depreciation		<u>(205,953.28)</u>	<u>(126,618.58)</u>
Carrying amount	10	<u>519,061.72</u>	<u>595,967.42</u>
Long-term deferred expenses			
	11	<u>800,000.04</u>	<u>900,000.00</u>
Total assets		<u>122,938,743.57</u>	<u>119,088,097.93</u>

The notes on pages 6 to 16 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

Jiangsu Salcon Water & Environmental Development Co., Ltd.
Balance sheet as at 31 December 2012 (continued)
(Expressed in Renminbi Yuan)

	Note	2012	2011
Liabilities and owners' equity			
Current liabilities			
Accrued payroll		48,980.64	48,000.08
Taxes payable	4(c)	32,980.72	44,720.13
Other payables	12	<u>490,740.62</u>	<u>402,540.59</u>
Total current liabilities		<u>572,701.98</u>	<u>495,260.80</u>
Total liabilities		<u>572,701.98</u>	<u>495,260.80</u>
Owners' equity			
Paid-in capital	13	120,000,000.00	120,000,000.00
Capital reserve	14	62,418.80	62,418.80
Retained earnings/(accumulated losses)		<u>2,303,622.79</u>	<u>(1,469,581.67)</u>
Total owners' equity		<u>122,366,041.59</u>	<u>118,592,837.13</u>
Total liabilities and owners' equity		<u>122,938,743.57</u>	<u>119,088,097.93</u>

These financial statements have been approved by the Board of Directors of the Company on 12 April 2013.

Chairman of the Board
(Director on behalf
of the Board)
(Signature and stamp)

The person in-charge of
the accounting affairs
(Signature and stamp)

(Company stamp)

The notes on pages 6 to 16 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Jiangsu Salcon Water & Environmental Development Co., Ltd.
 Income statement
 for the year ended 31 December 2012
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>2012</i>	<i>2011</i>
Sales from principal activities	<i>15</i>	2,700,000.00	2,700,000.00
Less: Business taxes and surcharges	<i>4(a)</i>	<u>(149,399.89)</u>	<u>(148,500.00)</u>
Profit from principal activities		2,550,600.11	2,551,500.00
Less: General and administrative expenses		(2,395,527.82)	(2,767,251.61)
Add: Net financial income	<i>16</i>	<u>485,368.14</u>	<u>204,604.50</u>
Operating profit/(loss)		640,440.43	(11,147.11)
Add: Investment income		3,401,707.10	1,612,421.02
Less: Non-operating expenses		<u>(9,888.79)</u>	<u>(500.00)</u>
Profit before income tax		4,032,258.74	1,600,773.91
Less: Income tax	<i>4(b)</i>	<u>(259,054.28)</u>	<u>-</u>
Net profit for the year		3,773,204.46	1,600,773.91
Add: Accumulated losses at the beginning of the year		<u>(1,469,581.67)</u>	<u>(3,070,355.58)</u>
Retained earnings/ (accumulated losses) carried forward		<u>2,303,622.79</u>	<u>(1,469,581.67)</u>

The notes on pages 6 to 16 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Jiangsu Salcon Water & Environmental Development Co., Ltd.
Cash flow statement
for the year ended 31 December 2012
(Expressed in Renminbi Yuan)

	<i>Note to the cash flow statement</i>	2012	2011
Cash flows from operating activities:			
Cash received from rendering of services		<u>2,025,000.00</u>	<u>2,700,000.00</u>
Sub-total of cash inflows		<u>2,025,000.00</u>	<u>2,700,000.00</u>
Cash paid to and for employees		(739,741.29)	(679,544.70)
Cash paid for all types of taxes		(417,145.14)	(133,830.32)
Cash paid relating to other operating activities		<u>(4,402,526.51)</u>	<u>(6,911,857.05)</u>
Sub-total of cash outflows		<u>(5,559,412.94)</u>	<u>(7,725,232.07)</u>
Net cash outflow from operating activities	<i>i</i>	<u>(3,534,412.94)</u>	<u>(5,025,232.07)</u>
Cash flows from investing activities:			
Cash received relating to other investing activities		<u>492,645.33</u>	<u>629,049.01</u>
Sub-total of cash inflows		<u>492,645.33</u>	<u>629,049.01</u>
Cash paid for acquisition of fixed assets		(2,429.00)	(80,400.00)
Cash paid for acquisition of subsidiaries		<u>-</u>	<u>(5,695,874.68)</u>
Sub-total of cash outflows		<u>(2,429.00)</u>	<u>(5,776,274.68)</u>
Net cash inflow/(outflow) from investing activities		<u>490,216.33</u>	<u>(5,147,225.67)</u>
Effect of foreign exchange rate changes on cash		<u>(4,959.19)</u>	<u>(420,986.07)</u>
Net decrease in cash	<i>ii</i>	<u>(3,049,155.80)</u>	<u>(10,593,443.81)</u>

The notes on pages 6 to 16 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Jiangsu Salcon Water & Environmental Development Co., Ltd.
Cash flow statement
for the year ended 31 December 2012 (continued)
(Expressed in Renminbi Yuan)

Notes to the cash flow statement

i Reconciliation of net profit to cash flows from operating activities

	2012	2011
Net profit	3,773,204.46	1,600,773.91
Add: Depreciation of fixed assets	79,334.70	72,996.35
Amortisation of long-term deferred expenses	99,999.96	100,000.00
Net financial income	(487,686.14)	(208,062.94)
Investment income	(3,401,707.10)	(1,612,421.02)
Increase in gross operating receivables	(3,675,000.00)	(4,348,995.00)
Increase/(decrease) in operating payables	<u>77,441.18</u>	<u>(629,523.37)</u>
Net cash outflow from operating activities	<u>(3,534,412.94)</u>	<u>(5,025,232.07)</u>

ii Net decrease in cash

	2012	2011
Cash at the end of the year	24,733,427.88	27,782,583.68
Less: Cash at the beginning of the year	<u>(27,782,583.68)</u>	<u>(38,376,027.49)</u>
Net decrease in cash	<u>(3,049,155.80)</u>	<u>(10,593,443.81)</u>

The notes on pages 6 to 16 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Jiangsu Salcon Water & Environmental Development Co., Ltd.

Notes to the financial statements

(Expressed in Renminbi Yuan)

1 COMPANY STATUS

Jiangsu Salcon Water & Environmental Development Co., Ltd. (the Company) is an equity joint venture established in Yizheng, Jiangsu Province in the People's Republic of China (PRC) by Yizheng Urban and Rural Water Co., Ltd. (Yizheng Water) registered in Yizheng, PRC and Salcon Jiangsu (HK) Limited registered in Hong Kong. The Company obtained an approval certificate Shang Wai Zi Su Fu Zi Zi [2009] No. 80474 from People's Government of Jiangsu Province on 7 December 2009, and a business license No. 321000400018362 on 10 December 2009 issued by Yangzhou Administration of Industry and Commerce. The original registered capital is RMB 60,000,000.

The Company's Board of Directors resolved to increase the Company's registered capital by RMB 60,000,000. The registered capital was increased from RMB 60,000,000 to RMB 120,000,000. The articles of association were revised on 3 December 2010. The Company obtained a revised approval certificate Shang Wai Zi Su Fu Zi Zi [2009] No. 80474 and a revised business licence No. 321000400018362.

The Company's period of operation is 30 years, and its principal activities are producing and selling water, water project construction, sewage water treatment and other related business. The Company commenced its operation on 10 December 2009.

2 BASIS OF PREPARATION

These financial statements have been translated into English from the Company's statutory financial statements issued in the PRC in Chinese.

The principal accounting policies adopted in the preparation of the financial statements are in conformity with Accounting Standards for Business Enterprises-Basic Standard issued in 2006, specific accounting standards issued before 2006 and the Accounting Regulations for Business Enterprises, all issued by the Ministry of Finance of the PRC (MOF). The accounting policies comply with the legal and reporting requirements of the relevant government authorities. Accordingly, the basis of measurement and presentation in these financial statements may not be in compliance with the accounting principles and practices generally accepted in countries and jurisdictions other than the PRC and may not be suitable for any purpose other than for statutory reporting.

In accordance with the relevant requirements set out in "Questions and answers (2) on implementing Accounting Regulations for Business Enterprises and related accounting standards" (Cai Kuai [2003] No.10) issued by the MOF, the Company decided not to present consolidated financial statements for the year.

3 SIGNIFICANT ACCOUNTING POLICIES

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

(a) Accounting year

The accounting year of the Company is from 1 January to 31 December.

(b) Basis of preparation and measurement basis

The financial statements of the Company have been prepared on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost.

(c) Functional currency

The Company's functional currency is the Renminbi.

(d) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the income statement.

(e) Provision for bad and doubtful debts

The provision for bad and doubtful debts is estimated by management based on individual accounts receivable which show signs of uncollectibility and an ageing analysis. Provision for other receivables is determined based on their specific nature and management's estimate of their collectibility.

(f) Long-term equity investments

Where the Company has the power to control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for any post acquisition change in the Company's share of the investee's equity.

Any excess of the initial investment cost over the Company's share of the investee's equity is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the year end.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Long-term equity investments (continued)

Where the Company does not control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the cost method, stating it at the initial investment cost. Investment income is recognised once the investee enterprise declares a cash dividend or distributes profits.

Upon the disposal or transfer of long-term equity investments, the difference between the proceeds received and the carrying amount of the investments is recognised as profit or loss.

(g) Fixed assets

Fixed assets are assets with relatively high unit values held by the Company for use in the production of goods and for administrative purposes. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(j)).

Fixed assets are depreciated using the straight-line method over their estimated useful lives. The respective estimated useful lives and the estimated rate of residual values on cost for the Company's fixed assets are as follows:

	<i>Estimated useful life</i>	<i>Estimated rate of residual value</i>	<i>Rate of depreciation</i>
Motor vehicles	10 years	10%	9%
Office and other equipment	5 years	0%~10%	18%~20%

(h) Lease

A lease can be classified as a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, whether or not the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

Operating lease charges

Rental payments under operating leases are charged as expenses on a straight-line basis over the lease term.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Long-term deferred expenses

Long-term deferred expenses are amortised on a straight-line basis over their beneficial periods. The respective amortisation periods for the long-term deferred expenses are as follows:

Rental expense	10 years
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(j) Provision for impairment

The carrying amounts of assets (including long-term equity investments, fixed assets and other assets) are assessed regularly to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in conditions indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment is calculated on an item-by-item basis and recognised as an expense in the income statement.

If there is an indication that there has been a change in the factors used to determine the provision for impairment and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversals of impairment losses are recognised in the income statement. An impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(k) Income tax

Income tax is recognised when payable under the tax payable method. Income tax for the year is provided at the applicable tax rate on taxable income.

(l) Revenue recognition

When it is probable that the economic benefits will flow to the Company and the revenue and costs can be measured reliably, revenue is recognised in the income statement according to the following methods:

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(l) Revenue recognition (continued)****(i) Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the services performed to date as a percentage of the total services to be performed. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the costs incurred that are expected to be recoverable.

(ii) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable rate.

(m) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Company has joined a defined contribution retirement plan for the employees arranged by a governmental organisation. The Company makes contributions to the retirement scheme at the applicable rates based on the employees' salaries. The contributions are capitalised into cost of assets or charged to the income statement on an accrual basis. After the payment of the contributions under the retirement plan, the Company does not have any other obligations in this respect.

(n) Related parties

If the Company has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Company and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

4 TAXATION AND SURCHARGE

- (a) The types of tax and surcharge applicable to the Company's sale of goods and rendering of services include business tax, urban maintenance and construction tax, education fee surcharge and local education fee surcharge.

<u>Tax name</u>	<u>Tax basis and applicable rate</u>
Business tax	5% of taxable revenue
Urban maintenance and construction tax	5 % of the business tax paid
Education fee surcharge	3 % of the business tax paid
Local education fee surcharge	2 % of the business tax paid

Business taxes and surcharges include business tax, urban maintenance and construction tax, education fee surcharge and local education fee surcharge.

- (b) Income tax

Income tax in the income statement represents:

	<i>2012</i>	<i>2011</i>
Under provision for income tax in respect of preceding year	<u>259,054.28</u>	<u>-</u>

The statutory income tax rate of the Company is 25% (2011: 25%).

- (c) Taxes payable

	<i>2012</i>	<i>2011</i>
Business tax payable	33,715.00	67,500.00
Pre-paid income tax	(4,482.44)	(33,176.54)
Others	<u>3,748.16</u>	<u>10,396.67</u>
Total	<u>32,980.72</u>	<u>44,720.13</u>

5 CASH AT BANK AND ON HAND

	<i>2012</i>	<i>2011</i>
Cash on hand	221.10	5,000.00
Demand deposits	23,671,411.57	26,500,355.91
Fixed deposits	<u>1,061,795.21</u>	<u>1,277,227.77</u>
Total	<u>24,733,427.88</u>	<u>27,782,583.68</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

6 ACCOUNTS RECEIVABLE

	2012	2011
Basic service charge	<u>675,000.00</u>	<u>-</u>

The ageing analysis of the Company's accounts receivable is as follows:

	<u>2012</u>	
	<i>RMB</i>	<i>Percentage of total accounts receivable</i>
Within 1 year	<u>675,000.00</u>	<u>100%</u>
		<i>Provision for bad and doubtful debts</i>
		<u>-</u>

7 Other receivables

The ageing analysis of the Company's other receivables is as follows:

	<u>2012</u>	
	<i>RMB</i>	<i>Percentage of total other receivables</i>
Within 1 year	3,000,000.00	26%
After 1 year but within 2 years	3,348,995.00	30%
After 2 years but within 3 years	<u>5,000,000.00</u>	<u>44%</u>
Total	<u>11,348,995.00</u>	<u>100%</u>
		<i>Provision for bad and doubtful debts</i>
		<u>-</u>

	<u>2011</u>	
	<i>RMB</i>	<i>Percentage of total other receivables</i>
Within 1 year	3,348,995.00	40%
After 1 year but within 2 years	<u>5,000,000.00</u>	<u>60%</u>
Total	<u>8,348,995.00</u>	<u>100%</u>
		<i>Provision for bad and doubtful debts</i>
		<u>-</u>

The balance of other receivables is due from related parties. The management considers no need to provide bad debt provision.

8 Payments in advance

The Company prepaid RMB 30,000,000 to acquire the pipelines and equipments of water supply project in Yizheng according to the asset purchase agreement entered into with Yizheng Water.

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

9 LONG-TERM INVESTMENTS

	<i>Opening balance at the beginning of the year</i>	<i>Accrual/ (amortization)</i>	<i>Closing balance at the end of the year</i>
Subsidiary			
- Yizheng Salcon Wastewater Treatment Co., Ltd. (Yizheng Salcon)			
- Cost	46,306,916.62	-	46,306,916.62
- The equity investment difference	2,987,224.28	(103,603.16)	2,883,621.12
- Investment income based on equity method	<u>2,166,410.93</u>	<u>3,505,310.26</u>	<u>5,671,721.19</u>
Total	<u>51,460,551.83</u>	<u>3,401,707.10</u>	<u>54,862,258.93</u>

As at 31 December 2012, the ratio of the total carrying amount of the Company's long-term investments to its net assets was 45% (2011: 43%).

10 FIXED ASSETS

	<i>Motor Vehicles</i>	<i>Office and other equipment</i>	<i>Total</i>
Cost			
As at 1 January 2012	569,406.00	153,180.00	722,586.00
Additions	<u>-</u>	<u>2,429.00</u>	<u>2,429.00</u>
As at 31 December 2012	<u>569,406.00</u>	<u>155,609.00</u>	<u>725,015.00</u>
Accumulated depreciation			
As at 1 January 2012	(94,901.13)	(31,717.45)	(126,618.58)
Charge for the year	<u>(51,246.60)</u>	<u>(28,088.10)</u>	<u>(79,334.70)</u>
As at 31 December 2012	<u>(146,147.73)</u>	<u>(59,805.55)</u>	<u>(205,953.28)</u>
Carrying amount			
As at 31 December 2012	<u>423,258.27</u>	<u>95,803.45</u>	<u>519,061.72</u>
As at 31 December 2011	<u>474,504.87</u>	<u>121,462.55</u>	<u>595,967.42</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

11 LONG-TERM DEFERRED EXPENSES

	<i>Rental expense</i>
As at 1 January 2012	900,000.00
Amortisation	<u>(99,999.96)</u>
As at 31 December 2012	<u>800,000.04</u>

12 OTHER PAYABLES

	2012	2011
Acquisition of subsidiaries	340,793.19	340,793.19
Others	<u>149,947.43</u>	<u>61,747.40</u>
Total	<u>490,740.62</u>	<u>402,540.59</u>

13 PAID-IN CAPITAL

Registered capital and paid-in capital	<u>2012 and 2011</u>	
	RMB	%
Yizheng Water	40,000,000.00	33%
Salcon Jiangsu (HK) Limited	<u>80,000,000.00</u>	<u>67%</u>
	<u>120,000,000.00</u>	<u>100%</u>

Certified Public Accountants have verified the above capital contributions, and issued related capital verification reports.

14 CAPITAL RESERVE

	2012	2011
Capital premium	<u>62,418.80</u>	<u>62,418.80</u>

15 SALES FROM PRINCIPAL ACTIVITIES

	2012	2011
Concession revenue	<u>2,700,000.00</u>	<u>2,700,000.00</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

16 NET FINANCIAL INCOME

	2012	2011
Interest income	492,645.33	629,049.01
Net exchange losses	(4,959.19)	(420,986.07)
Other financial expenses	<u>(2,318.00)</u>	<u>(3,458.44)</u>
Total	<u>485,368.14</u>	<u>204,604.50</u>

17 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties with controlling relationships

	<i>Registered address</i>	<i>Principal activities</i>	<i>Relationship with the Company</i>	<i>Types of legal entity</i>
Salcon Jiangsu (HK) Limited	Hong Kong	Investment holding	Parent company	Limited liability company
Yizheng Salcon	Yizheng	Sewage water treatment	Subsidiary	Limited liability company

Registered capital of related parties with controlling relationships and its changes

	<i>At the beginning of the year</i>	<i>Increase/(decrease)</i>	<i>At the end of the year</i>
Salcon Jiangsu (HK) Limited	USD 1,000.00	-	USD 1,000.00
Yizheng Salcon	RMB 32,536,679.74	-	RMB 32,536,679.74

Equity interests held by related parties with controlling relationships and their changes

	<i>At the beginning of the year</i>		<i>Increase/(decrease)</i>		<i>At the end of the year</i>	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
Salcon Jiangsu (HK) Limited	80,000,000.00	67%	-	%	80,000,000.00	67%

(b) Relationship between the Company and related parties without controlling relationships

Relationship with the Company

Yizheng Water	Investor
Salcon Investment and Consulting (Shanghai) Co., Ltd. (Salcon Investment and Consulting)	Fellow subsidiary

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

17 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) The amounts of the Company's related party transactions during the year and its balances with related parties at the year end are summarised as follows:

i) The material related-party transactions of the Company are summarised as follows:

	<i>2012</i>	<i>2011</i>
Receiving services		
- Salcon Investment and Consulting	<u>500,000.00</u>	<u>500,000.00</u>

The Board of Directors of the Company is of the opinion that the above transactions were carried out in the normal course of business and on normal commercial terms.

ii) The balances of related party receivables and payables are summarised as follows:

	<i>2012</i>	<i>2011</i>
Other receivables		
- Salcon Investment and Consulting	1,000,000.00	1,000,000.00
- Yizheng Salcon	<u>10,348,995.00</u>	<u>7,348,995.00</u>
	<u>11,348,995.00</u>	<u>8,348,995.00</u>
Payments in advance		
- Yizheng Water	<u>30,000,000.00</u>	<u>30,000,000.00</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (*Cont'd*)

江苏实康水务环保发展有限公司

自 2012 年 1 月 1 日
至 2012 年 12 月 31 日止年度财务报表

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)



KPMG Huazhen
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审计报告

毕马威华振沪审字第 1301392 号

江苏实康水务环保发展有限公司董事会:

我们审计了后附的第 1 页至第 16 页的江苏实康水务环保发展有限公司(以下简称“贵公司”)财务报表,包括 2012 年 12 月 31 日的资产负债表、2012 年度的利润表和现金流量表以及财务报表附注。

一、管理层对财务报表的责任

编制和公允列报财务报表是贵公司管理层的责任,这种责任包括:(1)按照中华人民共和国财政部颁布的企业会计准则(指 2006 年颁布的《企业会计准则—基本准则》及 2006 年以前颁布的具体会计准则,下同)和《企业会计制度》的规定编制财务报表,并使其实现公允反映;(2)设计、执行和维护必要的内部控制,以使财务报表不存在由于舞弊或错误导致的重大错报。

二、注册会计师的责任

我们的责任是在执行审计工作的基础上对财务报表发表审计意见。我们按照中国注册会计师审计准则的规定执行了审计工作。中国注册会计师审计准则要求我们遵守中国注册会计师职业道德守则,计划和执行审计工作以对财务报表是否不存在重大错报获取合理保证。

审计工作涉及实施审计程序,以获取有关财务报表金额和披露的审计证据。选择的审计程序取决于注册会计师的判断,包括对由于舞弊或错误导致的财务报表重大错报风险的评估。在进行风险评估时,注册会计师考虑与财务报表编制和公允列报相关的内部控制,以设计恰当的审计程序,但目的并非对内部控制的有效性发表意见。审计工作还包括评价管理层选用会计政策的恰当性和作出会计估计的合理性,以及评价财务报表的总体列报。

我们相信,我们获取的审计证据是充分、适当的,为发表审计意见提供了基础。

KPMG Huazhen (Special General Partnership), a special general partnership in China and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity

We are authorised to practise under the name of KPMG Huazhen (Special General Partnership)

毕马威华振会计师事务所(特殊普通合伙) - 中国特殊普通合伙会计师事务所,是与瑞士实体 - 毕马威国际合作组织(“毕马威国际”)相关联的独立成员所网络中的成员。

本分所已获毕马威华振会计师事务所(特殊普通合伙)总所授权执业。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

审计报告(续)

毕马威华振沪审字第 1301392 号

三、审计意见

我们认为，贵公司财务报表在所有重大方面按照中华人民共和国财政部颁布的企业会计准则和《企业会计制度》的规定编制，公允反映了贵公司 2012 年 12 月 31 日的财务状况以及 2012 年度的经营成果和现金流量。

毕马威华振会计师事务所(特殊普通合伙) 中国注册会计师
上海分所

中国 上海



田春杉
田春杉
中国注册会计师

钱迪
钱迪
中国注册会计师

二〇一三年四月十二日

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

江苏实康水务环保发展有限公司

资产负债表

2012年12月31日

(金额单位：人民币元)

	附注	2012年	2011年
资产			
流动资产			
货币资金	5	24,733,427.88	27,782,583.68
应收账款	6	675,000.00	-
其他应收款	7	11,348,995.00	8,348,995.00
预付账款	8	<u>30,000,000.00</u>	<u>30,000,000.00</u>
流动资产合计		66,757,422.88	66,131,578.68
长期投资			
长期股权投资	9	<u>54,862,258.93</u>	<u>51,460,551.83</u>
固定资产			
固定资产原价		725,015.00	722,586.00
减：累计折旧		<u>(205,953.28)</u>	<u>(126,618.58)</u>
固定资产净额	10	519,061.72	595,967.42
长期待摊费用	11	<u>800,000.04</u>	<u>900,000.00</u>
资产总计		<u>122,938,743.57</u>	<u>119,088,097.93</u>

刊载于第6页至第16页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

江苏实康水务环保发展有限公司

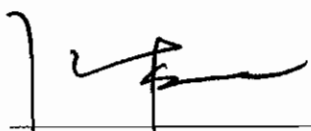
资产负债表(续)

2012年12月31日

(金额单位:人民币元)

	附注	2012年	2011年
负债和所有者权益			
流动负债			
应付工资		48,980.64	48,000.08
应交税金	4(c)	32,980.72	44,720.13
其他应付款	12	<u>490,740.62</u>	<u>402,540.59</u>
流动负债合计		<u>572,701.98</u>	<u>495,260.80</u>
负债合计		<u>572,701.98</u>	<u>495,260.80</u>
所有者权益			
实收资本	13	120,000,000.00	120,000,000.00
资本公积	14	62,418.80	62,418.80
未分配利润/(未弥补亏损)		<u>2,303,622.79</u>	<u>(1,469,581.67)</u>
所有者权益合计		<u>122,366,041.59</u>	<u>118,592,837.13</u>
负债和所有者权益总计		<u>122,938,743.57</u>	<u>119,088,097.93</u>

此财务报表已于二〇一三年四月十二日获本公司董事会批准。



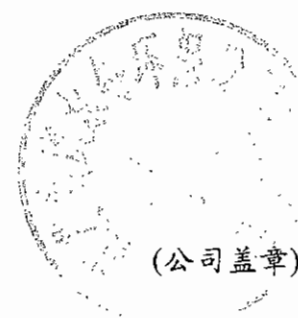
董事长(或获授权董事)

(签名和盖章)



主管会计工作的
公司负责人

(签名和盖章)



刊载于第6页至第16页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

江苏实康水务环保发展有限公司

利润表

2012 年度

(金额单位：人民币元)

	附注	2012 年	2011 年
主营业务收入	15	2,700,000.00	2,700,000.00
减： 主营业务税金及附加	4(a)	<u>(149,399.89)</u>	<u>(148,500.00)</u>
主营业务利润		2,550,600.11	2,551,500.00
减： 管理费用		(2,395,527.82)	(2,767,251.61)
加： 财务净收益	16	<u>485,368.14</u>	<u>204,604.50</u>
营业利润/(亏损)		640,440.43	(11,147.11)
加： 投资收益		3,401,707.10	1,612,421.02
减： 营业外支出		<u>(9,888.79)</u>	<u>(500.00)</u>
利润总额		4,032,258.74	1,600,773.91
减： 所得税	4(b)	<u>(259,054.28)</u>	<u>-</u>
净利润		3,773,204.46	1,600,773.91
加： 年初未弥补亏损		<u>(1,469,581.67)</u>	<u>(3,070,355.58)</u>
年末未分配利润/(未弥补亏损)		<u>2,303,622.79</u>	<u>(1,469,581.67)</u>

刊载于第 6 页至第 16 页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

江苏实康水务环保发展有限公司

现金流量表

2012 年度

(金额单位：人民币元)

	现金流量表 补充说明	2012 年	2011 年
经营活动产生的现金流量：			
提供服务收到的现金		2,025,000.00	2,700,000.00
现金流入小计		2,025,000.00	2,700,000.00
		-----	-----
支付给职工以及为职工支付的现金		(739,741.29)	(679,544.70)
支付的各项税费		(417,145.14)	(133,830.32)
支付的其他与经营活动有关的现金		(4,402,526.51)	(6,911,857.05)
现金流出小计		(5,559,412.94)	(7,725,232.07)
		=====	=====
经营活动使用的现金流量净额	i	(3,534,412.94)	(5,025,232.07)
		-----	-----
投资活动产生的现金流量：			
收到的其他与投资活动有关的现金		492,645.33	629,049.01
现金流入小计		492,645.33	629,049.01
		-----	-----
购建固定资产所支付的现金		(2,429.00)	(80,400.00)
购买子公司所支付的现金		-	(5,695,874.68)
现金流出小计		(2,429.00)	(5,776,274.68)
		=====	=====
投资活动产生/(使用)的现金流量净额		490,216.33	(5,147,225.67)
		-----	-----
汇率变动对现金的影响		(4,959.19)	(420,986.07)
		-----	-----
现金净减少额	ii	(3,049,155.80)	(10,593,443.81)
		=====	=====

刊载于第 6 页至第 16 页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

江苏实康水务环保发展有限公司

现金流量表(续)

2012 年度

(金额单位: 人民币元)

	<u>2012 年</u>	<u>2011 年</u>
现金流量表补充说明		
i 将净利润调节为经营活动的现金流量:		
净利润	3,773,204.46	1,600,773.91
加: 固定资产折旧	79,334.70	72,996.35
长期待摊费用摊销	99,999.96	100,000.00
财务净收益	(487,686.14)	(208,062.94)
投资收益	(3,401,707.10)	(1,612,421.02)
经营性应收项目的增加	(3,675,000.00)	(4,348,995.00)
经营性应付项目的增加/(减少)	<u>77,441.18</u>	<u>(629,523.37)</u>
经营活动使用的现金流量净额	<u>(3,534,412.94)</u>	<u>(5,025,232.07)</u>
ii 现金净减少情况:		
现金的年末余额	24,733,427.88	27,782,583.68
减: 现金的年初余额	<u>(27,782,583.68)</u>	<u>(38,376,027.49)</u>
现金净减少额	<u>(3,049,155.80)</u>	<u>(10,593,443.81)</u>

刊载于第 6 页至第 16 页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

江苏实康水务环保发展有限公司
财务报表附注
(金额单位：人民币元)

1 公司基本情况

江苏实康水务环保发展有限公司(以下简称“本公司”)是由仪征城乡水务有限公司(以下简称“仪征水务”)和实康江苏(香港)有限公司(以下简称“实康江苏”)在中华人民共和国江苏省仪征市成立的中外合资经营企业。本公司于2009年12月7日经江苏省人民政府批准,领取了商外资苏府资字[2009]80474号批准证书,并于2009年12月10日领取了江苏省扬州工商行政管理局颁发的321000400018362号企业法人营业执照。原注册资本为人民币6,000万元。

本公司董事会决定将本公司的注册资本增加人民币6,000万元,即由人民币6,000万元增至12,000万元。本公司于2010年12月3日修订了公司章程,于2010年12月16日领取了更新的商外资苏府资字[2009]80474号批准证书,并领取了更新的321000400018362号企业法人营业执照。

本公司营业期限为30年,主要从事生产加工生活饮用水,销售本公司自产产品,水利水务工程的建设,污水处理,提供相关配套服务的业务。本公司于2009年12月10日正式开始生产经营。

2 编制基础

本公司编制财务报表所采用的主要会计政策,是根据中华人民共和国财政部在2006年颁布的《企业会计准则—基本准则》、2006年以前颁布的具体会计准则和《企业会计制度》制订的。这些会计政策必须符合有关法规和向有关政府部门报告的要求。

根据财政部颁布的《关于执行〈企业会计制度〉和相关会计准则有关问题解答(二)》(财会[2003]10号)的相关规定,本公司决定本年度不编制合并财务报表。

3 主要会计政策**(a) 会计年度**

本公司的会计年度自公历1月1日起至12月31日止。

(b) 记账基础和计量原则

本公司的记账基础为权责发生制。除特别声明外,计量原则为历史成本法。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策(续)

(c) 记账本位币

本公司的记账本位币为人民币。

(d) 外币折算

外币业务按业务发生当日中国人民银行公布的外汇牌价折合为人民币。年末各项货币性外币资产、负债账户按资产负债表日中国人民银行公布的外汇牌价折合为人民币。外币折算差异作为汇兑损益计入当期损益账户。

(e) 坏账准备

坏账准备是由本公司根据单独认定已有迹象表明回收困难的应收账款和账龄分析估计计提。其他应收款的坏账准备是本公司根据其性质估计相应回收风险而计提的。

(f) 长期股权投资

本公司对被投资企业具有控制、共同控制或重大影响的长期股权投资采用权益法核算，即最初以初始投资成本计量，以后根据应享有的被投资企业所有者权益的份额进行调整。

初始投资成本超过享有被投资企业所有者权益份额之差额，按直线法摊销。合同规定投资期限的，按投资期限摊销。合同没有规定投资期限的，按 10 年平均摊销，年末未摊销余额包括在长期股权投资中。

本公司对被投资企业无控制、无共同控制且无重大影响的长期股权投资采用成本法核算，即以初始投资成本计价。投资收益在被投资企业宣布现金股利或利润分配时确认。

处置或转让长期股权投资按实际取得的价款与账面价值的差额计入当期损益。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策(续)

(g) 固定资产

固定资产指本公司为生产商品和经营管理而持有的，使用期限超过1年且单位价值较高的资产。

固定资产以成本减累计折旧及减值准备(参见附注3(j))记入资产负债表内。

本公司对固定资产在预计使用年限内按直线法计提折旧，各类固定资产的预计使用年限和预计净残值率分别为：

	<u>预计使用年限</u>	<u>预计净残值率</u>	<u>年折旧率</u>
运输设备	10年	10%	9%
办公设备及其他	5年	0%~10%	18%~20%

(h) 租赁

租赁分为融资租赁和经营租赁。融资租赁是指无论所有权最终是否转移但实质上转移了与资产所有权有关的全部风险和报酬的租赁。经营租赁是指除融资租赁以外的其他租赁。

经营租赁费用

经营租赁的租金在租赁期内按直线法确认为费用。

(i) 长期待摊费用

长期待摊费用按直线法在受益期限内平均摊销。该费用的摊销期限为：

房屋租赁费 10年

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策(续)

(j) 资产减值准备

本公司对各项资产(长期股权投资、固定资产及其他资产)的账面价值定期进行审阅,以评估可收回金额是否已跌至低于账面价值。当发生事项或情况变化显示账面价值可能无法收回的,这些资产便需进行减值测试。若出现减值情况,账面价值会减低至可收回金额,减计的价值即为资产减值损失。

可收回金额是指销售净价与预期从该资产的持续使用和使用寿命结束时的处置中形成的预计未来现金流量的现值两者中的较高者。

本公司按单项项目计算资产减值损失,并将减值损失计入当期损益。

如果有迹象表明以前年度据以计提资产减值的各种因素发生变化,使得资产的可收回金额大于其账面价值,则以前年度已确认的资产减值损失便会转回,转回的资产减值损失计入当期损益,但转回后资产的账面价值不应高于假如资产没有计提资产减值情况下的账面价值。

(k) 所得税

所得税按应付税款法核算。当期所得税费用按当期应纳税所得额及适用税率计算。

(l) 收入确认

收入是在经济利益能够流入本公司,以及相关的收入和成本能够可靠地计量时,根据下列方法确认:

(i) 提供服务收入

当服务交易的结果能够可靠估计时,提供服务收入根据服务的完成程度按已完工作的进度于提供服务的期间内确认收入。假如服务交易的结果不能可靠估计,则按已经发生并预计能够得到补偿的服务成本金额确认收入。

(ii) 利息收入

利息收入是按资金本金和适用利率计算,并以时间为基准确认。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策(续)

(m) 退休福利

按照中国有关法规，本公司为员工参加了政府组织安排的定额供款退休计划。本公司按员工工资的一定比率，向退休计划供款。上述供款按照权责发生制原则计入资产成本或当期损益。按供款计划缴款后，本公司不再有其他支付义务。

(n) 关联方

如果本公司有能力直接或间接控制、共同控制另一方或对另一方施加重大影响；或另一方有能力直接或间接控制或共同控制本公司或对本公司施加重大影响；或本公司与另一方或多方同受一方控制，均被视为关联方。关联方可为个人或企业。

4 税项及附加

- (a) 本公司适用的与提供服务相关的税金及附加有营业税、城市维护建设税、教育费附加及地方教育费附加。

税种	计缴标准
营业税	应税营业收入的 5%
城市维护建设税	实缴营业税额的 5%
教育费附加	实缴营业税额的 3%
地方教育费附加	实缴营业税额的 2%

主营业务税金及附加，包括营业税、城市维护建设税、教育费附加及地方教育费附加。

(b) 所得税

在利润表中的所得税包括：

	2012 年	2011 年
上年度少提所得税	259,054.28	-

本公司的法定税率为 25%(2011 年：25%)。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

4 税项及附加(续)

(c) 应交税金

	<u>2012 年</u>	<u>2011 年</u>
应交营业税	33,715.00	67,500.00
预缴企业所得税	(4,482.44)	(33,176.54)
其他	<u>3,748.16</u>	<u>10,396.67</u>
合计	<u>32,980.72</u>	<u>44,720.13</u>

5 货币资金

	<u>2012 年</u>	<u>2011 年</u>
现金	221.10	5,000.00
定期存款	23,671,411.57	26,500,355.91
活期存款	<u>1,061,795.21</u>	<u>1,277,227.77</u>
合计	<u>24,733,427.88</u>	<u>27,782,583.68</u>

6 应收账款

	<u>2012 年</u>	<u>2011 年</u>
应收基本服务费	<u>675,000.00</u>	<u>-</u>

应收账款账龄如下:

	<u>2012 年</u>		
	金额	占总额比例	坏账准备
一年以内	<u>675,000.00</u>	<u>100%</u>	<u>-</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

7 其他应收款

其他应收款账龄分析如下：

	2012 年		
	金额	占总额比例	坏账准备
一年以内	3,000,000.00	26%	-
一年至两年	3,348,995.00	30%	-
两年至三年	5,000,000.00	44%	-
合计	<u>11,348,995.00</u>	<u>100%</u>	<u>-</u>
	2011 年		
	金额	占总额比例	坏账准备
一年以内	3,348,995.00	40%	-
一年至两年	5,000,000.00	60%	-
合计	<u>8,348,995.00</u>	<u>100%</u>	<u>-</u>

其他应收款为应收关联方的往来款项，管理层认为无需计提坏账准备。

8 预付账款

本公司根据与仪征水务签订的资产收购协议就仪征市中线区域供水项目涉及管网及其附属设施向其预付人民币 3,000 万元。

9 长期股权投资

	年初余额	本年计提/ (摊销)数	年末余额
子公司			
- 仪证实康污水处理有限公司(“仪征污水”)			
- 投资成本	46,306,916.62	-	46,306,916.62
- 股权投资差额	2,987,224.28	(103,603.16)	2,883,621.12
- 按权益法核算的投资收益	<u>2,166,410.93</u>	<u>3,505,310.26</u>	<u>5,671,721.19</u>
合计	<u>51,460,551.83</u>	<u>3,401,707.10</u>	<u>54,862,258.93</u>

于 2012 年 12 月 31 日，本公司长期股权投资的账面价值占净资产的比例为 45% (2011: 43%)。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

10 固定资产

	<u>运输设备</u>	<u>办公设备及其他</u>	<u>合计</u>
成本:			
年初余额	569,406.00	153,180.00	722,586.00
本年增加	<u>-</u>	<u>2,429.00</u>	<u>2,429.00</u>
年末余额	569,406.00	155,609.00	725,015.00
-----	-----	-----	-----
累计折旧:			
年初余额	(94,901.13)	(31,717.45)	(126,618.58)
本年计提折旧	<u>(51,246.60)</u>	<u>(28,088.10)</u>	<u>(79,334.70)</u>
年末余额	(146,147.73)	(59,805.55)	(205,953.28)
-----	-----	-----	-----
净额:			
年末余额	<u>423,258.27</u>	<u>95,803.45</u>	<u>519,061.72</u>
年初余额	<u>474,504.87</u>	<u>121,462.55</u>	<u>595,967.42</u>

11 长期待摊费用

	<u>房屋租金</u>
年初余额	900,000.00
本年摊销	<u>(99,999.96)</u>
年末余额	<u>800,000.04</u>

12 其他应付款

	<u>2012 年</u>	<u>2011 年</u>
子公司收购款	340,793.19	340,793.19
其他	<u>149,947.43</u>	<u>61,747.40</u>
合计	<u>490,740.62</u>	<u>402,540.59</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

13 实收资本

注册资本和实收资本	2012 年及 2011 年	
	金额 人民币	%
仪征水务	40,000,000.00	33%
实康江苏	80,000,000.00	67%
	<u>120,000,000.00</u>	<u>100%</u>

上述实收资本已由会计师事务所验证，并出具了验资报告。

14 资本公积

	2012 年	2011 年
资本溢价	<u>62,418.80</u>	<u>62,418.80</u>

15 主营业务收入

	2012 年	2011 年
特许经营收入	<u>2,700,000.00</u>	<u>2,700,000.00</u>

16 财务净收益

	2012 年	2011 年
利息收入	492,645.33	629,049.01
净汇兑亏损	(4,959.19)	(420,986.07)
其他财务费用	<u>(2,318.00)</u>	<u>(3,458.44)</u>
合计	<u>485,368.14</u>	<u>204,604.50</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

17 关联方及其交易

(a) 存在控制关系的关联方

	<u>注册地</u>	<u>主营业务</u>	<u>与本公司关系</u>	<u>经济性质或类型</u>
实康江苏	香港	投资控股	投资方	有限公司
仪征污水	江苏仪征	污水处理	子公司	有限公司

存在控制关系的关联方的股本及其变化

	<u>年初数</u>	<u>本年增加/(减少)</u>	<u>年末数</u>
实康江苏	美元 1,000.00	-	美元 1,000.00
仪征污水	人民币 32,536,679.74	-	人民币 32,536,679.74

存在控制关系的关联方所持权益及其变化

	<u>年初数</u>		<u>本年增加/(减少)</u>		<u>年末数</u>	
	金额	%	金额	%	金额	%
	人民币元		人民币元		人民币元	
实康江苏	80,000,000.00	67%	-	%	80,000,000.00	67%

(b) 不存在控制关系的关联方

	<u>与本公司关系</u>
仪征水务	投资方
实康投资咨询(上海)有限公司 (以下简称“实康投资咨询”)	同一控制下集团子公司

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

17 关联方及其交易(续)

(c) 本公司与关联方于本年度进行的交易的金额及年末的往来余额如下:

i) 本公司与关联方之间的重大交易列示如下:

	<u>2012 年</u>	<u>2011 年</u>
接受劳务		
- 实康投资咨询	<u>500,000.00</u>	<u>500,000.00</u>

本公司董事会认为上述交易根据正常的商业交易条件进行,并以一般交易价格为定价基础。

ii) 本公司与关联方于年末的往来余额如下:

	<u>2012 年</u>	<u>2011 年</u>
其他应收款		
- 实康投资咨询	1,000,000.00	1,000,000.00
- 仪征污水	<u>10,348,995.00</u>	<u>7,348,995.00</u>
	<u>11,348,995.00</u>	<u>8,348,995.00</u>
预付账款		
- 仪征水务	<u>30,000,000.00</u>	<u>30,000,000.00</u>

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012**

(Translated based on the original audited financial statements in Chinese)

**YIZHENG SALCON WASTEWATER
TREATMENT COMPANY LIMITED**

**ENGLISH TRANSLATION OF FINANCIAL STATEMENTS
FOR THE YEAR 1 JANUARY 2012 TO 31 DECEMBER 2012
IF THERE IS ANY CONFLICT BETWEEN THE CHINESE VERSION
AND ITS ENGLISH TRANSLATION, THE CHINESE VERSION WILL PREVAIL**

SALCON BERHAD (593796-T)

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

AUDITORS' REPORT

毕马威华振沪审字第 1301393 号

The Board of Directors of Yizheng Salcon Wastewater Treatment Co., Ltd.:

We have audited the accompanying financial statements of Yizheng Salcon Wastewater Treatment Co., Ltd. ("the Company") on pages 1 to 17, which comprise the balance sheet as at 31 December 2012, and the income and profit appropriation statement and cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises (hereinafter represents Accounting Standards for Business Enterprises-Basic Standard issued in 2006 and specific accounting standards issued before 2006) and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Those standards require that we comply with China Code of Ethics for Certified Public Accountants, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

AUDITORS' REPORT (continued)

毕马威华振沪审字第 1301393 号

Basis for Qualified Opinion

During the audit of the financial statements of the Company for the year ended 31 December 2011, we noted in 2010, the former sole shareholder Rongxin International Investment Co., Ltd. transferred 100% equity interests in the Company to Jiangsu Salcon Water & Environmental Development Co., Ltd.. Based on the asset valuation report Su Xin Hua Lian Ping Bao Zi (2010) No.178 issued by Jiangsu Xinhualian Asset Valuation Co., Ltd. on 12 August 2010, the Company increased the carrying amount of fixed assets by RMB 17,224,386.35, of which the original cost of fixed assets was increased by RMB 13,924,460.44 while the accumulated depreciation was decreased by RMB 3,299,925.91. However, in accordance with the Accounting Standards for Business Enterprise, fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses. The Company's accounting treatment on fixed assets is not in compliance with the requirements of Accounting Standards for Business Enterprises. We issued a qualified opinion on this matter in 2011 auditor's report. Had the Company's accounting treatment been in compliance with the requirements of Accounting Standards for Business Enterprises, the original cost of fixed assets would have been decreased by RMB 13,924,460.44 (31 December 2011: RMB 13,924,460.44), accumulated depreciation would have been increased by RMB 1,701,099.51 (31 December 2011: RMB 2,267,733.26), capital reserve would have been decreased by RMB 17,224,386.35 (31 December 2011: RMB 17,224,386.35), retained earnings would have been decreased by RMB 1,598,826.40 (31 December 2011: RMB 1,032,192.65) as at 31 December 2012, and the cost of sales from principal activities for the year ended 31 December 2012 would have been decreased by RMB 566,633.75 (2011: RMB 601,147.17).

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

AUDITORS' REPORT (continued)

毕马威华振沪审字第 1301393 号

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and the financial performance and the cash flows of the Company for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

KPMG Huazhen (Special General Partnership)
Shanghai Branch

Certified Public Accountants
Registered in the People's Republic of
China

Shanghai, The People's Republic of China

Tian Chunshan

Qian Di

Date: 12 April 2013

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the People's Republic of China. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the People's Republic of China.

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

Yizheng Salcon Wastewater Treatment Co., Ltd.

Balance sheet as at 31 December 2012

(Expressed in Renminbi Yuan)

	Note	2012	2011
Assets			
Current assets			
Cash at bank and on hand	5	2,925,233.07	4,529,879.40
Accounts receivable	6	11,616,232.27	4,344,272.31
Other receivables	7	8,160.00	9,200.00
Payments in advance		-	64,600.00
Inventories	8	<u>56,216.25</u>	<u>38,087.50</u>
Total current assets		<u>14,605,841.59</u>	<u>8,986,039.21</u>
Fixed assets			
Cost		105,948,937.17	74,854,577.96
Less: Accumulated depreciation		<u>(14,771,591.26)</u>	<u>(11,051,705.56)</u>
Carrying amount	9	<u>91,177,345.91</u>	<u>63,802,872.40</u>
Total assets		<u>105,783,187.50</u>	<u>72,788,911.61</u>

The notes on pages 7 to 17 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Yizheng Salcon Wastewater Treatment Co., Ltd.
Balance sheet as at 31 December 2012 (continued)
(Expressed in Renminbi Yuan)

	Note	2012	2011
Liabilities and owners' equity			
Current liabilities			
Accounts payable		113,263.00	-
Accrued payroll		36,000.00	33,000.00
Taxes payable	4(c)	1,527,688.45	896,851.86
Other payables	10	41,103,247.00	7,352,622.20
Accrued expenses		24,351.24	33,110.00
Long-term liabilities due within one year	11	<u>5,500,000.00</u>	<u>5,000,000.00</u>
Total current liabilities		<u>48,304,549.69</u>	<u>13,315,584.06</u>
Long-term liabilities			
Long-term loans	11	<u>5,500,000.00</u>	<u>11,000,000.00</u>
Total liabilities		<u>53,804,549.69</u>	<u>24,315,584.06</u>
Owners' equity			
Paid-in capital	12	32,536,679.74	32,536,679.74
Capital reserve	13	17,224,386.35	17,224,386.35
Surplus reserve	14	221,757.17	-
Retained earnings/(accumulated losses)		<u>1,995,814.55</u>	<u>(1,287,738.54)</u>
Total owners' equity		<u>51,978,637.81</u>	<u>48,473,327.55</u>
Total liabilities and owners' equity		<u>105,783,187.50</u>	<u>72,788,911.61</u>

These financial statements have been approved by the Board of Directors of the Company on 12 April 2013.

Chairman of the Board (Director on behalf of the Board) (Signature and stamp)	The person in-charge of the accounting affairs (Signature and stamp)	The head of the accounting department (Signature and stamp)	(Company stamp)
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The notes on pages 7 to 17 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

Yizheng Salcon Wastewater Treatment Co., Ltd.
Income and profit appropriation statement
for the year ended 31 December 2012
(Expressed in Renminbi Yuan)

	Note	2012	2011
Sales from principal activities	16	16,038,181.23	12,051,696.59
Less: Cost of sales from principal activities		(7,632,307.08)	(5,428,457.51)
Business taxes and surcharges	4(a)	<u>-</u>	<u>-</u>
Profit from principal activities		8,405,874.15	6,623,239.08
Add: Profit from other operations		-	56,580.00
Less: General and administrative expenses		(2,391,941.69)	(3,012,485.53)
Financial expenses	17	<u>(816,382.75)</u>	<u>(1,088,015.36)</u>
Operating profit		5,197,549.71	2,579,318.19
Add: Non-operating income		-	60,000.00
Less: Non-operating expenses		<u>(226.54)</u>	<u>(4,065.90)</u>
Profit before income tax		5,197,323.17	2,635,252.29
Less: Income tax	4(b)	<u>(1,692,012.91)</u>	<u>(1,852,479.52)</u>
Net profit for the year		3,505,310.26	782,772.77
Add: Accumulated losses at the beginning of the year		<u>(1,287,738.54)</u>	<u>(2,070,511.31)</u>
Profits available for distribution/(accumulated losses)		2,217,571.72	(1,287,738.54)
Less: Statutory surplus reserve	15	<u>(221,757.17)</u>	<u>-</u>
Retained earnings/(accumulated losses) carried forward		<u>1,995,814.55</u>	<u>(1,287,738.54)</u>

The notes on pages 7 to 17 form part of these financial statements.

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

Yizheng Salcon Wastewater Treatment Co., Ltd.
Cash flow statement
for the year ended 31 December 2012
(Expressed in Renminbi Yuan)

	<i>Note to the cash flow statement</i>	2012	2011
Cash flows from operating activities:			
Cash received from rendering of services		8,766,221.27	12,391,626.30
Cash received relating to other operating activities		<u>3,000,000.00</u>	<u>3,102,971.02</u>
Sub-total of cash inflows		<u>11,766,221.27</u>	<u>15,494,597.32</u>
Cash paid for goods and services		(2,751,272.26)	(2,307,548.06)
Cash paid to and for employees		(1,221,135.60)	(356,109.72)
Cash paid for all types of taxes		(1,322,089.63)	(1,688,478.48)
Cash paid relating to other operating activities		<u>(1,916,984.89)</u>	<u>(2,696,274.61)</u>
Sub-total of cash outflows		<u>(7,211,482.38)</u>	<u>(7,048,410.87)</u>
Net cash inflow from operating activities	<i>i</i>	<u>4,554,738.89</u>	<u>8,446,186.45</u>
Cash flows from investing activities:			
Cash received from interest income		<u>6,366.38</u>	<u>12,832.41</u>
Sub-total of cash inflows		<u>6,366.38</u>	<u>12,832.41</u>
Cash paid for acquisition of fixed assets		<u>(336,107.21)</u>	<u>(440,444.96)</u>
Sub-total of cash outflows		<u>(336,107.21)</u>	<u>(440,444.96)</u>
Net cash outflow from investing activities		<u>(329,740.83)</u>	<u>(427,612.55)</u>

The notes on pages 7 to 17 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Yizheng Salcon Wastewater Treatment Co., Ltd.
Cash flow statement
for the year ended 31 December 2012 (continued)
(Expressed in Renminbi Yuan)

	<i>Note to the cash flow statement</i>	2012	2011
Cash flows from financing activities:			
Cash repayments of borrowings		(5,000,000.00)	(5,000,000.00)
Cash paid for interest expenses		<u>(829,644.39)</u>	<u>(1,103,886.01)</u>
Sub-total of cash outflows		<u>(5,829,644.39)</u>	<u>(6,103,886.01)</u>
Net cash outflow from financing activities		<u>(5,829,644.39)</u>	<u>(6,103,886.01)</u>
Net (decrease)/increase in cash	<i>ii</i>	<u>(1,604,646.33)</u>	<u>1,914,687.89</u>

The notes on pages 7 to 17 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Yizheng Salcon Wastewater Treatment Co., Ltd.
Cash flow statement
for the year ended 31 December 2012 (continued)
(Expressed in Renminbi Yuan)

Notes to the cash flow statement

i Reconciliation of net profit to cash flows from operating activities

	2012	2011
Net profit	3,505,310.26	782,772.77
Add: Depreciation of fixed assets	3,719,885.70	3,120,909.45
Financial expenses	814,519.25	1,086,066.10
Increase in gross inventories	(18,128.75)	(38,087.50)
(Increase)/decrease in gross operating receivables	(7,210,319.96)	267,129.71
Increase in operating payables	<u>3,743,472.39</u>	<u>3,227,395.92</u>
Net cash inflow from operating activities	<u>4,554,738.89</u>	<u>8,446,186.45</u>

ii Net (decrease)/increase in cash

	2012	2011
Cash at the end of the year	2,925,233.07	4,529,879.40
Less: Cash at the beginning of the year	<u>(4,529,879.40)</u>	<u>(2,615,191.51)</u>
Net (decrease)/increase in cash	<u>(1,604,646.33)</u>	<u>1,914,687.89</u>

The notes on pages 7 to 17 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Yizheng Salcon Wastewater Treatment Co., Ltd.

Notes to the financial statements

(Expressed in Renminbi Yuan)

1 COMPANY STATUS

Yizheng Salcon Wastewater Treatment Co., Ltd. (formerly Yizheng Rong Xin Wastewater Treatment Co., Ltd.) (the Company) is a wholly foreign-owned enterprise established in Yizheng, Jiangsu Province in the People's Republic of China (PRC). The Company obtained a business license No. 321000400005237 on 27 August 2003 issued by Yizheng Administration of Industry and Commerce. The original registered capital is USD 4,000,000.

Jiangsu Salcon Water & Environmental Development Co., Ltd. (Jiangsu Salcon) signed a share transfer agreement with Rongxin International Investment Co., Ltd. (Rongxin International). According to the agreement, Rongxin international transferred 100% equity interests in the Company to Jiangsu Salcon. The Company revised the articles of association and obtained an approval from Yizheng Administration of Industry and Commerce on 20 October 2010. According to the revised business licence No. 321000400005237, the Company's is registered as a domestic limited liability company. The registered capital and paid-in capital was changed to RMB 32,536,679.74.

The Company's period of operation is 40 years, and its principal activities are providing sewage treatment operation, developing and producing related technology and equipments and selling related products.

2 BASIS OF PREPARATION

These financial statements have been translated into English from the Company's statutory financial statements issued in the PRC in Chinese.

The principal accounting policies adopted in the preparation of the financial statements are in conformity with Accounting Standards for Business Enterprises-Basic Standard issued in 2006, specific accounting standards issued before 2006 and the Accounting Regulations for Business Enterprises, all issued by the Ministry of Finance of the PRC (MOF). The accounting policies comply with the legal and reporting requirements of the relevant government authorities. Accordingly, the basis of measurement and presentation in these financial statements may not be in compliance with the accounting principles and practices generally accepted in countries and jurisdictions other than the PRC and may not be suitable for any purpose other than for statutory reporting.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES**(a) Accounting year**

The accounting year of the Company is from 1 January to 31 December.

(b) Basis of preparation and measurement basis

The financial statements of the Company have been prepared on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost.

(c) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the income statement.

(d) Provision for bad and doubtful debts

The provision for bad and doubtful debts is estimated by management based on individual accounts receivable which show signs of uncollectibility and an ageing analysis. Provision for other receivables is determined based on their specific nature and management's estimate of their collectibility.

(e) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost comprises all costs of purchase, costs of conversion and other costs. Inventories are measured at their actual cost upon acquisition. The cost of inventories is calculated using the specific identification method.

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Fixed assets

Fixed assets are assets with relatively high unit values held by the Company for use in the production of goods, for use in the supply of services and for administrative purposes. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(g)).

Fixed assets are depreciated using the straight-line method over their estimated useful lives. The respective estimated useful lives and the estimated rate of residual values on cost for the Company's fixed assets are as follows:

	<i>Estimated useful life</i>	<i>Estimated rate of residual value</i>	<i>Rate of depreciation</i>
Plant and buildings	30 years	10%	3%
Machinery and equipment	15 years	10%	6%
Motor vehicles	10 years	10%	9%
Office and other equipment	5 years	10%	18%

(g) Provision for impairment

The carrying amounts of fixed assets are assessed regularly to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in conditions indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment is calculated on an item-by-item basis and recognised as an expense in the income statement.

If there is an indication that there has been a change in the factors used to determine the provision for impairment and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversals of impairment losses are recognised in the income statement. An impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(h) Income tax**

Income tax is recognised when payable under the tax payable method. Income tax for the year is provided at the applicable tax rate on taxable income.

(i) Revenue recognition

When it is probable that the economic benefits will flow to the Company and the revenue and costs can be measured reliably, revenue is recognised in the income statement according to the following methods:

(i) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the services performed to date as a percentage of the total services to be performed. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the costs incurred that are expected to be recoverable.

(ii) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable rate.

(iii) Subsidy income

Subsidy income is recognised in the income statement upon receipt of the subsidy.

(j) Borrowing costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period until the fixed assets are ready for their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

(k) Repair and maintenance expenses

Repair and maintenance expenses (including major overhaul expenses) are recognised in the income statement when incurred.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(l) Retirement benefits**

Pursuant to the relevant laws and regulations in the PRC, the Company has joined a defined contribution retirement plan for the employees arranged by a governmental organisation. The Company makes contributions to the retirement scheme at the applicable rates based on the employees' salaries. The contributions are capitalised into cost of assets or charged to the income statement on an accrual basis. After the payment of the contributions under the retirement plan, the Company does not have any other obligations in this respect.

(m) Related parties

If the Company has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Company and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

4 TAXATION AND SURCHARGE

(a) The types of tax and surcharge applicable to the Company's rendering of sewage water treatment services include value added tax (VAT). Pursuant to the Cai Shui [2008] No. 156 Notice of VAT Policy on Comprehensive Utilisation of Resources and Other Products, the sewage treatment service the Company provides is exempted from VAT.

(b) Income tax

Income tax in the income statement represents:

	<i>2012</i>	<i>2011</i>
Provision for income tax for the year	1,646,423.08	831,892.50
Under provision for income tax in respect of preceding year	<u>45,589.83</u>	<u>1,020,587.02</u>
Total	<u><u>1,692,012.91</u></u>	<u><u>1,852,479.52</u></u>

The statutory income tax rate of the Company is 25% (2011: 25%).

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

4 TAXATION AND SURCHARGE (CONTINUED)

(c) Taxes payable

	2012	2011
Income tax payable	1,458,268.57	831,892.50
Property tax payable	13,533.27	13,515.37
Land use tax payable	51,188.00	51,188.00
Individual income tax payable	645.99	255.99
Others	<u>4,052.62</u>	<u>-</u>
Total	<u>1,527,688.45</u>	<u>896,851.86</u>

5 CASH AT BANK AND ON HAND

	2012	2011
Cash on hand	-	5,000.00
Demand deposits	<u>2,925,233.07</u>	<u>4,524,879.40</u>
Total	<u>2,925,233.07</u>	<u>4,529,879.40</u>

6 ACCOUNTS RECEIVABLE

The ageing analysis of the Company's accounts receivable is as follows:

	<u>2012</u>		
	<i>RMB</i>	<i>Percentage of total accounts receivable</i>	<i>Provision for bad and doubtful debts</i>
Within 1 year	<u>11,616,232.27</u>	<u>100%</u>	<u>-</u>
	<u>2011</u>		
	<i>RMB</i>	<i>Percentage of total accounts receivable</i>	<i>Provision for bad and doubtful debts</i>
Within 1 year	<u>4,344,272.31</u>	<u>100%</u>	<u>-</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

7 OTHER RECEIVABLES

The ageing analysis of the Company's other receivables is as follows:

	<u>2012</u>		
	<i>RMB</i>	<i>Percentage of total other receivables</i>	<i>Provision for bad and doubtful debts</i>
Within 1 year	<u>8,160.00</u>	<u>100%</u>	<u>-</u>
	<u>2011</u>		
	<i>RMB</i>	<i>Percentage of total other receivables</i>	<i>Provision for bad and doubtful debts</i>
Within 1 year	<u>9,200.00</u>	<u>100%</u>	<u>-</u>

8 INVENTORIES

	<u>2012</u>	<u>2011</u>
Raw materials	<u>56,216.25</u>	<u>38,087.50</u>

All the above inventories are purchased from others.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)
9 FIXED ASSETS

	<i>Plant and equipment</i>	<i>Machinery and equipment</i>	<i>Motor Vehicles</i>	<i>Office and other equipment</i>	<i>Total</i>
Valuation/Cost					
As at 1 January 2012	48,032,733.00	25,788,880.00	479,525.26	553,439.70	74,854,577.96
Additions	<u>15,619,828.00</u>	<u>15,201,324.00</u>	<u>227,905.00</u>	<u>45,302.21</u>	<u>31,094,359.21</u>
As at 31 December 2012	<u>63,652,561.00</u>	<u>40,990,204.00</u>	<u>707,430.26</u>	<u>598,741.91</u>	<u>105,948,937.17</u>
Accumulated depreciation					
As at 1 January 2012	(4,800,747.95)	(5,837,740.32)	(99,195.61)	(314,021.68)	(11,051,705.56)
Charge for the year	<u>(1,636,208.59)</u>	<u>(1,927,835.41)</u>	<u>(51,703.71)</u>	<u>(104,137.99)</u>	<u>(3,719,885.70)</u>
As at 31 December 2012	<u>(6,436,956.54)</u>	<u>(7,765,575.73)</u>	<u>(150,899.32)</u>	<u>(418,159.67)</u>	<u>(14,771,591.26)</u>
Carrying amount					
As at 31 December 2012	<u>57,215,604.46</u>	<u>33,224,628.27</u>	<u>556,530.94</u>	<u>180,582.24</u>	<u>91,177,345.91</u>
As at 31 December 2011	<u>43,231,985.05</u>	<u>19,951,139.68</u>	<u>380,329.65</u>	<u>239,418.02</u>	<u>63,802,872.40</u>

In 2010, Rongxin International transferred 100% equity interest in the Company to Jiangsu Salcon. Based on the asset valuation report (Su Xin Hua Lian Ping Bao Zi (2010) No.178) issued by Jiangsu Xinhualian Asset Valuation Co., Ltd. on 12 August 2010, the Company increased the carrying amount of fixed assets by RMB 17,224,386.35, of which the original cost was increased by RMB 13,924,460.44 while the accumulated depreciation was decreased by RMB 3,299,925.91.

10 OTHER PAYABLES

	<i>2012</i>	<i>2011</i>
Due from related party	10,348,995.00	7,348,995.00
Accrual for acquisition of fixed assets	30,754,252.00	-
Others	<u>-</u>	<u>3,627.20</u>
Total	<u>41,103,247.00</u>	<u>7,352,622.20</u>

11 LONG-TERM LOANS/LONG-TERM LIABILITIES DUE WITHIN ONE YEAR

	<i>2012</i>				<i>2011</i>			
	<i>Principal</i>	<i>Maturity</i>	<i>Interest rate (p.a.)</i>	<i>Secured/ guaranteed</i>	<i>Principal</i>	<i>Maturity</i>	<i>Interest rate (p.a.)</i>	<i>Secured/ guaranteed</i>
Bank of China Yizheng Branch	11,000,000.00	2009/2/20 -2014/1/20	(i)	(ii)	16,000,000.00	2009/2/20 -2014/1/20	(i)	(ii)
Less: Long-term liabilities due within one year	<u>(5,500,000.00)</u>				<u>(5,000,000.00)</u>			
	<u>5,500,000.00</u>				<u>11,000,000.00</u>			

- i) The interest rate is 105% of People's Bank of China (PBOC) rate for 3 - 5 years loans.
- (ii) The loan is pledged by the charge right of sewage treatment service arising from the service concession contract signed between Rongxin International and Yizheng Government.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

12 PAID-IN CAPITAL

Registered capital and paid-in capital	<u>2012 and 2011</u>	
	<i>RMB</i>	<i>%</i>
Jiangsu Salcon	<u>32,536,679.74</u>	<u>100%</u>

Certified Public Accountants have verified the above capital contributions, and issued related capital verification reports.

13 CAPITAL RESERVE

	<u>2012 and 2011</u>	
Revaluation gain on fixed assets	<u>17,224,386.35</u>	

14 SURPLUS RESERVE

	<i>Statutory surplus reserve</i>	
As at 1 January 2012	-	
Profit appropriation (note 15)	<u>221,757.17</u>	
As at 31 December 2012	<u>221,757.17</u>	

15 PROFIT APPROPRIATION

Appropriation to various funds

In accordance with the Articles of Association, the Company made appropriation to the following funds:

Statutory surplus reserve	10%
---------------------------	-----

16 SALES FROM PRINCIPAL ACTIVITIES

	<i>2012</i>	<i>2011</i>
Rendering of sewage treatment services	<u>16,038,181.23</u>	<u>12,051,696.59</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

17 FINANCIAL EXPENSES

	2012	2011
Net interest expense	820,885.63	1,098,898.51
Less: interest income	(6,366.38)	(12,832.41)
Other financial expenses	<u>1,863.50</u>	<u>1,949.26</u>
Total	<u>816,382.75</u>	<u>1,088,015.36</u>

18 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties with controlling relationships

	<i>Registered address</i>	<i>Principal activities</i>	<i>Relationship with the Company</i>	<i>Types of legal entity</i>
Jiangsu Salcon	Jiangsu	Producing water and sewage treatment	Parent company	Limited liability company

Registered capital of related parties with controlling relationships and its changes

	<i>At the beginning of the year</i>	<i>Change</i>	<i>At the end of the year</i>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Jiangsu Salcon	120,000,000.00	-	120,000,000.00

Equity interests held by related parties with controlling relationships and their changes

	<i>At the beginning of the year</i>		<i>Increase/(decrease)</i>		<i>At the end of the year</i>	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
Jiangsu Salcon	32,536,679.74	100%	-	%	32,536,679.74	100%

(b) Relationship between the Company and related parties without controlling relationships

Relationship with the Company

Salcon Investment and Consulting (Shanghai) Co., Ltd. (Salcon Investment and Consulting)	Fellow subsidiary
--	-------------------

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

18 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) The amounts of the Company's related party transactions during the year and its balances with related parties at the year end are summarised as follows:

i) The material related-party transactions of the Company are summarised as follows:

	<i>2012</i>	<i>2011</i>
Receiving services		
- Salcon Investment and Consulting	250,000.00	250,000.00

The Board of Directors of the Company is of the opinion that the above transactions were carried out in the normal course of business and on normal commercial terms.

ii) The balances of related party receivables and payables are summarised as follows:

	<i>2012</i>	<i>2011</i>
Other payables		
- Jiangsu Salcon	10,348,995.00	7,348,995.00

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

仪征实康污水处理有限公司

自 2012 年 1 月 1 日
至 2012 年 12 月 31 日止年度财务报表

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

KPMG Huazhen
(Special General Partnership)
50th Floor, Plaza 66
1266 Nanjing West Road
Shanghai 200040
China

毕马威华振
会计师事务所
(特殊普通合伙)
中国上海
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邮政编码: 200040

Telephone 电话 +86 (21) 2212 2888
Fax 传真 +86 (21) 6288 1889
Internet 网址 kpmg.com/cn

审计报告

毕马威华振沪审字第 1301393 号

仪征实康污水处理有限公司董事会：

我们审计了后附的第 1 页至第 16 页的仪征实康污水处理有限公司(以下简称“贵公司”)财务报表，包括 2012 年 12 月 31 日的资产负债表、2012 年度的利润及利润分配表和现金流量表以及财务报表附注。

一、管理层对财务报表的责任

编制和公允列报财务报表是贵公司管理层的责任，这种责任包括：(1)按照中华人民共和国财政部颁布的企业会计准则(指 2006 年颁布的《企业会计准则—基本准则》及 2006 年以前颁布的具体会计准则，下同)和《企业会计制度》的规定编制财务报表，并使其实现公允反映；(2)设计、执行和维护必要的内部控制，以使财务报表不存在由于舞弊或错误导致的重大错报。

二、注册会计师的责任

我们的责任是在执行审计工作的基础上对财务报表发表审计意见。我们按照中国注册会计师审计准则的规定执行了审计工作。中国注册会计师审计准则要求我们遵守中国注册会计师职业道德守则，计划和执行审计工作以对财务报表是否不存在重大错报获取合理保证。

审计工作涉及实施审计程序，以获取有关财务报表金额和披露的审计证据。选择的审计程序取决于注册会计师的判断，包括对由于舞弊或错误导致的财务报表重大错报风险的评估。在进行风险评估时，注册会计师考虑与财务报表编制和公允列报相关的内部控制，以设计恰当的审计程序，但目的并非对内部控制的有效性发表意见。审计工作还包括评价管理层选用会计政策的恰当性和作出会计估计的合理性，以及评价财务报表的总体列报。

我们相信，我们获取的审计证据是充分、适当的，为发表保留意见提供了基础。

KPMG Huazhen (Special General Partnership), a special general partnership in China and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

We are authorised to practise under the name of KPMG Huazhen (Special General Partnership).

毕马威华振会计师事务所(特殊普通合伙) - 中国特殊普通合伙制会计师事务所，是与瑞士实体 - 毕马威国际合作组织("毕马威国际")相关联的独立成员所网络中的成员。

本分所已获毕马威华振会计师事务所(特殊普通合伙)总所授权执行业务。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)



审计报告(续)

毕马威华振沪审字第 1301393 号

三、导致保留意见的事项

在我们对贵公司 2011 年度的财务报表进行审计的过程中，我们注意到贵公司于 2010 年发生了股东变更事宜，原股东荣信国际投资有限公司将其持有的贵公司的全部股权转让予江苏实康水务环保发展有限公司。根据江苏新华联资产评估有限公司于 2010 年 8 月 12 日出具的苏新华联评报字(2010)第 178 号资产评估报告，贵公司调增固定资产净额人民币 17,224,386.35 元，其中调增固定资产原价人民币 13,924,460.44 元，调减累计折旧人民币 3,299,925.91 元。然而，根据企业会计准则的相关规定，固定资产应当按其成本入账，贵公司按照评估值对固定资产进行调整的上述做法不符合企业会计准则的规定。我们已就有关事项在对贵公司 2011 年度财务报表出具的审计报告中发表了保留意见。如果管理层按照企业会计准则的规定进行核算，贵公司于 2012 年 12 月 31 日的固定资产原价将减少人民币 13,924,460.44 元(2011 年 12 月 31 日：人民币 13,924,460.44 元)，累计折旧将增加人民币 1,701,099.51 元(2011 年 12 月 31 日：人民币 2,267,733.26 元)；资本公积将减少人民币 17,224,386.35 元(2011 年 12 月 31 日：人民币 17,224,386.35 元)；未分配利润将减少人民币 1,598,826.40 元(2011 年 12 月 31 日：人民币 1,032,192.65 元)，2012 年度的主营业务成本将减少人民币 566,633.75 元(2011 年度：人民币 601,147.17 元)。

四、保留意见

我们认为，除了上述“三、导致保留意见的事项”所述事项产生的影响外，贵公司财务报表在所有重大方面按照中华人民共和国财政部颁布的企业会计准则和《企业会计制度》的规定编制，公允反映了贵公司 2012 年 12 月 31 日的财务状况以及 2012 年度的经营成果和现金流量。

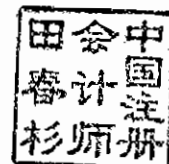
毕马威华振会计师事务所(特殊普通合伙)
上海分所

中国注册会计师

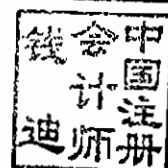
中国 上海



田春杉
田春杉



钱迪
钱迪



二〇一三年四月十二日

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

仪征实康污水处理有限公司

资产负债表

2012年12月31日

(金额单位：人民币元)

	附注	<u>2012年</u>	<u>2011年</u>
资产			
流动资产			
货币资金	5	2,925,233.07	4,529,879.40
应收账款	6	11,616,232.27	4,344,272.31
其他应收款	7	8,160.00	9,200.00
预付账款		-	64,600.00
存货	8	<u>56,216.25</u>	<u>38,087.50</u>
流动资产合计		<u>14,605,841.59</u>	<u>8,986,039.21</u>
固定资产			
固定资产原价		105,948,937.17	74,854,577.96
减：累计折旧		<u>(14,771,591.26)</u>	<u>(11,051,705.56)</u>
固定资产净额	9	<u>91,177,345.91</u>	<u>63,802,872.40</u>
资产总计		<u>105,783,187.50</u>	<u>72,788,911.61</u>

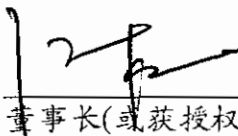
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AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

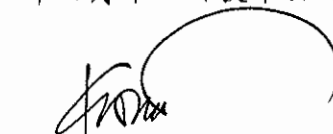
仪征实康污水处理有限公司
资产负债表(续)
2012年12月31日
(金额单位:人民币元)

	附注	2012年	2011年
负债和所有者权益			
流动负债			
应付账款		113,263.00	-
应付工资		36,000.00	33,000.00
应交税金	4(c)	1,527,688.45	896,851.86
其他应付款	10	41,103,247.00	7,352,622.20
预提费用		24,351.24	33,110.00
一年内到期的长期负债	11	<u>5,500,000.00</u>	<u>5,000,000.00</u>
流动负债合计		<u>48,304,549.69</u>	<u>13,315,584.06</u>
长期负债			
长期借款	11	<u>5,500,000.00</u>	<u>11,000,000.00</u>
负债合计		<u>53,804,549.69</u>	<u>24,315,584.06</u>
所有者权益			
实收资本	12	32,536,679.74	32,536,679.74
资本公积	13	17,224,386.35	17,224,386.35
盈余公积	14	221,757.17	-
未分配利润/(未弥补亏损)		<u>1,995,814.55</u>	<u>(1,287,738.54)</u>
所有者权益合计		<u>51,978,637.81</u>	<u>48,473,327.55</u>
负债和所有者权益总计		<u>105,783,187.50</u>	<u>72,788,911.61</u>

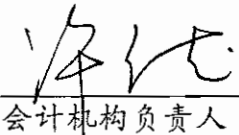
此财务报表已于二〇一三年四月十二日获本公司董事会批准。


董事长(或获授权董事)

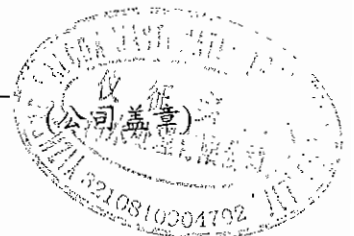
(签名和盖章)


主管会计工作的
公司负责人

(签名和盖章)


会计机构负责人

(签名和盖章)



刊载于第7页至第16页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

仪征实康污水处理有限公司
 利润及利润分配表
 2012 年度
 (金额单位：人民币元)

	附注	2012 年	2011 年
主营业务收入	16	16,038,181.23	12,051,696.59
减：主营业务成本		(7,632,307.08)	(5,428,457.51)
主营业务税金及附加	4(a)	-	-
主营业务利润		8,405,874.15	6,623,239.08
加：其他业务利润		-	56,580.00
减：管理费用		(2,391,941.69)	(3,012,485.53)
财务费用	17	(816,382.75)	(1,088,015.36)
营业利润		5,197,549.71	2,579,318.19
加：营业外收入		-	60,000.00
减：营业外支出		(226.54)	(4,065.90)
利润总额		5,197,323.17	2,635,252.29
减：所得税	4(b)	(1,692,012.91)	(1,852,479.52)
净利润		3,505,310.26	782,772.77
加：年初未弥补亏损		(1,287,738.54)	(2,070,511.31)
可供分配的利润/(未弥补亏损)		2,217,571.72	(1,287,738.54)
减：提取盈余公积	15	(221,757.17)	-
年末未分配利润/(未弥补亏损)		<u>1,995,814.55</u>	<u>(1,287,738.54)</u>

刊载于第 7 页至第 16 页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

仪征实康污水处理有限公司

现金流量表

2012 年度

(金额单位: 人民币元)

	现金流量表 补充说明	2012 年	2011 年
经营活动产生的现金流量:			
提供服务收到的现金		8,766,221.27	12,391,626.30
收到的其他与经营活动有关的现金		<u>3,000,000.00</u>	<u>3,102,971.02</u>
现金流入小计		11,766,221.27	15,494,597.32
		-----	-----
购买商品和接受劳务所支付的现金		(2,751,272.26)	(2,307,548.06)
支付给职工以及为职工支付的现金		(1,221,135.60)	(356,109.72)
支付的各项税费		(1,322,089.63)	(1,688,478.48)
支付的其他与经营活动有关的现金		<u>(1,916,984.89)</u>	<u>(2,696,274.61)</u>
现金流出小计		(7,211,482.38)	(7,048,410.87)
		-----	-----
经营活动产生的现金流量净额	i	<u>4,554,738.89</u>	<u>8,446,186.45</u>
		-----	-----
投资活动产生的现金流量:			
利息收入产生的现金		<u>6,366.38</u>	<u>12,832.41</u>
现金流入小计		6,366.38	12,832.41
		-----	-----
购建固定资产所支付的现金		<u>(336,107.21)</u>	<u>(440,444.96)</u>
现金流出小计		(336,107.21)	(440,444.96)
		-----	-----
投资活动使用的现金流量净额		<u>(329,740.83)</u>	<u>(427,612.55)</u>
		-----	-----

刊载于第 7 页至第 16 页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

仪证实康污水处理有限公司
现金流量表(续)
2012 年度
(金额单位: 人民币元)

	现金流量表 补充说明	2012 年	2011 年
筹资活动产生的现金流量:			
偿还债务所支付的现金		(5,000,000.00)	(5,000,000.00)
偿付利息所支付的现金		<u>(829,644.39)</u>	<u>(1,103,886.01)</u>
现金流出小计		<u>(5,829,644.39)</u>	<u>(6,103,886.01)</u>
筹资活动使用的现金流量净额		<u>(5,829,644.39)</u>	<u>(6,103,886.01)</u>
现金净(减少)/增加额	ii	<u>(1,604,646.33)</u>	<u>1,914,687.89</u>

刊载于第 7 页至第 16 页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

仪征实康污水处理有限公司
现金流量表(续)
2012 年度
(金额单位: 人民币元)

	现金流量表 补充说明	2012 年	2011 年
现金流量表补充说明			
i	将净利润调节为经营活动的现金流量:		
	净利润	3,505,310.26	782,772.77
	加: 固定资产折旧	3,719,885.70	3,120,909.45
	财务费用	814,519.25	1,086,066.10
	存货的增加	(18,128.75)	(38,087.50)
	经营性应收项目的(增加)/减少	(7,210,319.96)	267,129.71
	经营性应付项目的增加	<u>3,743,472.39</u>	<u>3,227,395.92</u>
	经营活动产生的现金流量净额	<u>4,554,738.89</u>	<u>8,446,186.45</u>
ii	现金净(减少)/增加情况:		
	现金的年末余额	2,925,233.07	4,529,879.40
	减: 现金的年初余额	<u>(4,529,879.40)</u>	<u>(2,615,191.51)</u>
	现金净(减少)/增加额	<u>(1,604,646.33)</u>	<u>1,914,687.89</u>

刊载于第 7 页至第 16 页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

仪征实康污水处理有限公司

财务报表附注

(金额单位：人民币元)

1 公司基本情况

仪征实康污水处理有限公司(原“仪征荣信污水处理有限公司”，以下简称“本公司”)是由荣信国际投资有限公司(以下简称“荣信国际”)在中华人民共和国江苏省仪征市成立的外商独资企业，并于2003年8月27日领取了扬州市仪征工商行政管理局颁发的321000400005237号企业法人营业执照。本公司原注册资本为美元400万元。

江苏实康水务环保发展有限公司(以下简称“江苏实康”)于2010年8月20日与荣信国际签订了《股权转让协议》。根据该协议，荣信国际将其在本公司的所有股权转让予江苏实康。本公司就有关变更事项修订了公司章程，并于2010年10月20日取得了扬州市仪征工商行政管理局公司准予变更登记通知书。根据本公司领取的更新的321000400005237号企业法人营业执照，本公司的公司类型为有限公司(法人独资)内资，本公司注册资本及实收资本变更为人民币32,536,679.74元。

本公司经营期限40年，主要从事污水处理及相关技术、设备的开发、生产，销售本公司自产产品。

2 编制基础

本公司编制财务报表所采用的主要会计政策，是根据中华人民共和国财政部在2006年颁布的《企业会计准则—基本准则》、2006年以前颁布的具体会计准则和《企业会计制度》制订的。这些会计政策必须符合有关法规和向有关政府部门报告的要求。

3 主要会计政策**(a) 会计年度**

本公司的会计年度自公历1月1日起至12月31日止。

(b) 记账基础和计量原则

本公司的记账基础为权责发生制。除特别声明外，计量原则为历史成本法。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策(续)

(c) 外币折算

外币业务按业务发生当日中国人民银行公布的外汇牌价折合为人民币。年末各项货币性外币资产、负债账户按资产负债表日中国人民银行公布的外汇牌价折合为人民币。外币折算差异作为汇兑损益计入当期损益账户。

(d) 坏账准备

坏账准备是由本公司根据单独认定已有迹象表明回收困难的应收账款和账龄分析估计计提。其他应收款的坏账准备是本公司根据其性质估计相应回收风险而计提的。

(e) 存货

存货以成本与可变现净值之较低者计量。

存货成本包括采购成本、加工成本和其他成本。存货在取得时按实际成本入账。发出存货的成本按个别计价法核算。

按单个存货项目计算的成本高于可变现净值的差额计入存货跌价准备。可变现净值指在正常生产经营过程中以存货的估计售价减去至完工估计将要发生的成本、估计的销售费用以及相关税金后的金额。

(f) 固定资产

固定资产指本公司为提供服务 and 经营管理而持有的，使用期限超过 1 年且单位价值较高的资产。

固定资产以评估值减累计折旧及减值准备(参见附注 3(g))记入资产负债表内。

本公司对固定资产在预计使用年限内按直线法计提折旧，各类固定资产的预计使用年限和预计净残值率分别为：

	<u>预计使用年限</u>	<u>预计净残值率</u>	<u>年折旧率</u>
房屋建筑物	30 年	10%	3%
机器设备	15 年	10%	6%
运输设备	10 年	10%	9%
办公设备及其他	5 年	10%	18%

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策(续)

(g) 资产减值准备

本公司对固定资产的账面价值定期进行审阅，以评估可收回金额是否已跌至低于账面价值。当发生事项或情况变化显示账面价值可能无法收回的，这些资产便需进行减值测试。若出现减值情况，账面价值会减低至可收回金额，减计的价值即为资产减值损失。

可收回金额是指销售净价与预期从该资产的持续使用和使用寿命结束时的处置中形成的预计未来现金流量的现值两者中的较高者。

本公司按单项项目计算资产减值损失，并将减值损失计入当期损益。

如果有迹象表明以前年度据以计提资产减值的各种因素发生变化，使得资产的可收回金额大于其账面价值，则以前年度已确认的资产减值损失便会转回，转回的资产减值损失计入当期损益，但转回后资产的账面价值不应高于假如资产没有计提资产减值情况下的账面价值。

(h) 所得税

所得税按应付税款法核算。当期所得税费用按当期应纳税所得额及适用税率计算。

(i) 收入确认

收入是在经济利益能够流入本公司，以及相关的收入和成本能够可靠地计量时，根据下列方法确认：

(i) 提供服务收入

当服务交易的结果能够可靠估计时，提供服务收入根据服务的完成程度按已完工作的进度于提供服务的期间内确认收入。假如服务交易的结果不能可靠估计的，则按已经发生并预计能够得到补偿的服务成本金额确认收入。

(ii) 利息收入

利息收入是按资金本金和适用利率计算，并以时间为基准确认。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策(续)

(i) 收入确认(续)

(iii) 补贴收入

补贴收入按实际收到的补贴款确认。

(j) 借款费用

用于购建固定资产的专门借款的借款费用在使有关固定资产达到预定可使用状态所必要的购建期间内予以资本化，计入所购建固定资产的成本。

除上述借款费用外，其他借款费用均于发生当期确认为财务费用。

(k) 维修及保养支出

维修及保养支出(包括大修费用)于实际发生时计入当期损益。

(l) 退休福利

按照中国有关法规，本公司为员工参加了政府组织安排的定额供款退休计划。本公司按员工工资的一定比率，向退休计划供款。上述供款按照权责发生制原则计入资产成本或当期损益。按供款计划缴款后，本公司不再有其他支付义务。

(m) 关联方

如果本公司有能力直接或间接控制、共同控制另一方或对另一方施加重大影响；或另一方有能力直接或间接控制或共同控制本公司或对本公司施加重大影响；或本公司与另一方或多方同受一方控制，均被视为关联方。关联方可为个人或企业。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

4 税项

(a) 本公司适用的与提供污水处理服务相关的税金为增值税。根据财税[2008]156号《关于资源综合利用及其他产品增值税政策的通知》，本公司提供的污水处理服务免征收增值税。

(b) 所得税

在利润表中的所得税包括：

	<u>2012年</u>	<u>2011年</u>
本年度企业所得税	1,646,423.08	831,892.50
补缴以前年度少提所得税	<u>45,589.83</u>	<u>1,020,587.02</u>
合计	<u>1,692,012.91</u>	<u>1,852,479.52</u>

本公司的法定税率为25%(2011年：25%)。

(c) 应交税金

	<u>2012年</u>	<u>2011年</u>
应交企业所得税	1,458,268.57	831,892.50
应交房产税	13,533.27	13,515.37
应交土地使用税	51,188.00	51,188.00
应交个人所得税	645.99	255.99
应交其他税金	<u>4,052.62</u>	<u>-</u>
合计	<u>1,527,688.45</u>	<u>896,851.86</u>

5 货币资金

	<u>2012年</u>	<u>2011年</u>
现金	-	5,000.00
活期存款	<u>2,925,233.07</u>	<u>4,524,879.40</u>
合计	<u>2,925,233.07</u>	<u>4,529,879.40</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

6 应收账款

应收账款账龄分析如下:

	2012 年		
	金额	占总额比例	坏账准备
一年以内	<u>11,616,232.27</u>	<u>100%</u>	<u>-</u>
	2011 年		
	金额	占总额比例	坏账准备
一年以内	<u>4,344,272.31</u>	<u>100%</u>	<u>-</u>

7 其他应收款

其他应收款账龄分析如下:

	2012 年		
	金额	占总额比例	坏账准备
一年以内	<u>8,160.00</u>	<u>100%</u>	<u>-</u>
	2011 年		
	金额	占总额比例	坏账准备
一年以内	<u>9,200.00</u>	<u>100%</u>	<u>-</u>

8 存货

	2012 年	2011 年
原材料	<u>56,216.25</u>	<u>38,087.50</u>

以上存货均为购买形成。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

9 固定资产

	房屋建筑物	机器设备	运输设备	办公设备 及其他	合计
评估值/成本:					
年初余额	48,032,733.00	25,788,880.00	479,525.26	553,439.70	74,854,577.96
本年增加	<u>15,619,828.00</u>	<u>15,201,324.00</u>	<u>227,905.00</u>	<u>45,302.21</u>	<u>31,094,359.21</u>
年末余额	63,652,561.00	40,990,204.00	707,430.26	598,741.91	105,948,937.17
累计折旧:					
年初余额	(4,800,747.95)	(5,837,740.32)	(99,195.61)	(314,021.68)	(11,051,705.56)
本年计提折旧	<u>(1,636,208.59)</u>	<u>(1,927,835.41)</u>	<u>(51,703.71)</u>	<u>(104,137.99)</u>	<u>(3,719,885.70)</u>
年末余额	(6,436,956.54)	(7,765,575.73)	(150,899.32)	(418,159.67)	(14,771,591.26)
净额:					
年末余额	<u>57,215,604.46</u>	<u>33,224,628.27</u>	<u>556,530.94</u>	<u>180,582.24</u>	<u>91,177,345.91</u>
年初余额	<u>43,231,985.05</u>	<u>19,951,139.68</u>	<u>380,329.65</u>	<u>239,418.02</u>	<u>63,802,872.40</u>

本公司于 2010 年发生了股东变更事宜，荣信国际将其持有的本公司的全部股权转让予江苏实康。根据江苏新华联资产评估有限公司于 2010 年 8 月 12 日出具的苏新华联评报字(2010)第 178 号资产评估报告，本公司调增固定资产净额人民币 17,224,386.35 元，其中调增固定资产原价人民币 13,924,460.44 元，调减累计折旧人民币 3,299,925.91 元。

10 其他应付款

	2012 年	2011 年
应付关联方	10,348,995.00	7,348,995.00
暂估固定资产应付款	30,754,252.00	-
其他	-	3,627.20
	<u>41,103,247.00</u>	<u>7,352,622.20</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

11 长期借款/一年内到期的长期负债

	2012年				2011年			
	金额	期限	年利率	抵押/担保	金额	期限	年利率	抵押/担保
中国银行仪征支行	11,000,000.00	2009/2/20 -2014/1/20	(i)	(ii)	16,000,000.00	2009/2/20 -2014/1/20	(i)	(ii)
其中：一年内到期的 长期负债	<u>(5,500,000.00)</u>				<u>(5,000,000.00)</u>			
	<u>5,500,000.00</u>				<u>11,000,000.00</u>			

(i) 采用中国人民银行同期人民币贷款基准利率上浮5%。

(ii) 以本公司按荣信国际与江苏省仪征市人民政府签署的《扬州市真州5万吨污水处理厂项目特许权经营合同》所获取的一期污水处理特许经营权相关的污水处理收费权进行质押。

12 实收资本

注册资本和实收资本	2012年及2011年	
	人民币	%
江苏实康	<u>32,536,679.74</u>	<u>100%</u>

上述实收资本已由会计师事务所验证，并出具了验资报告。

13 资本公积

	2012年及2011年
固定资产评估增值	<u>17,224,386.35</u>

14 盈余公积

	附注	法定盈余公积 人民币元
年初余额		-
利润余额	15	<u>221,757.17</u>
年末余额		<u>221,757.17</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

15 利润分配

提取盈余公积

本公司按公司章程按本年净利润弥补以前年度累计亏损后提取以下盈余公积：

提取盈余公积-法定盈余公积 10%

16 主营业务收入

	<u>2012 年</u>	<u>2011 年</u>
污水处理服务收入	<u>16,038,181.23</u>	<u>12,051,696.59</u>

17 财务费用

	<u>2012 年</u>	<u>2011 年</u>
利息支出	820,885.63	1,098,898.51
减：利息收入	(6,366.38)	(12,832.41)
其他财务费用	<u>1,863.50</u>	<u>1,949.26</u>
合计	<u>816,382.75</u>	<u>1,088,015.36</u>

18 关联方及其交易

(a) 存在控制关系的关联方

	<u>注册地</u>	<u>主营业务</u>	<u>与本公司关系</u>	<u>经济性质或类型</u>
江苏实康	江苏	生产加工生活 饮用水及污水处理	投资方	有限公司

存在控制关系的关联方的股本及其变化

	<u>年初数</u>	<u>本年变更</u>	<u>年末数</u>
	人民币	人民币	人民币
江苏实康	120,000,000.00	-	120,000,000.00

存在控制关系的关联方所持股份及其变化

	<u>年初数</u>		<u>本年增加/(减少)</u>		<u>年末数</u>	
	金额	%	金额	%	金额	%
	人民币		人民币		人民币	
江苏实康	32,536,679.74	100%	-	%	32,536,679.74	100%

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

18 关联方及其交易(续)

(b) 不存在控制关系的关联方

与本公司关系

实康投资咨询(上海)有限公司

(以下简称“实康投资咨询”)

同一母系子公司

(c) 本公司与关联方于本年度进行的交易的金额及年末的往来余额如下:

i) 本公司与关联方之间的重大交易列示如下:

	<u>2012 年</u>	<u>2011 年</u>
接受劳务		
- 实康投资咨询	250,000.00	250,000.00

本公司董事会认为上述交易根据正常的商业交易条件进行,并以一般交易价格为定价基础。

ii) 本公司与关联方于年末的往来余额如下:

	<u>2012 年</u>	<u>2011 年</u>
其他应付款:		
- 江苏实康	10,348,995.00	7,348,995.00

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012

Salcon Fujian (HK) Limited

實康福建(香港)有限公司

Financial Statements
for the year ended 31 December 2012

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Report of the directors

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2012.

Principal place of business

Salcon Fujian (HK) Limited (“the company”) is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 20/F, Fung House, No. 19-20 Connaught Road Central, Hong Kong.

Principal activity

The principal activity of the company is investment holding. Details of the company’s subsidiary are set out in note 8 to the financial statements.

Financial statements

The loss of the company for the year ended 31 December 2012 and the state of the company’s affairs as at that date are set out in the financial statements on pages 5 to 22.

Transfer to reserves

Losses attributable to shareholders of HK\$764,343 (2011: HK\$55,414) have been transferred to reserves. Other movements in reserves are set out in the statement of changes in equity.

The directors do not recommend the payment of a dividend for the year ended 31 December 2012 (2011: Nil).

Share capital

Details of the share capital of the company are set out in note 10(b) to the financial statements. There were no movements during the year.

Directors

The directors during the financial year and up to the date of this report were:

Tee Tiam Lee
Leong Kok Wah
Law Woo Hock

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Directors' interests

There being no provision in the company's articles of association in connection with the retirement of directors, all existing directors continue in office for the following year.

At no time during the year was the company, or any of its holding company, subsidiary or fellow subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

No contract of significance to which the company, or any of its holding company, subsidiary or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Director

Hong Kong

30 APR 2013

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)



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**Independent auditor's report to the shareholders of
 Salcon Fujian (HK) Limited**
(Incorporated in Hong Kong with limited liability)

We have audited the unconsolidated financial statements of Salcon Fujian (HK) Limited ("the company") set out on pages 5 to 22, which comprise the company's statement of financial position as at 31 December 2012, the company's statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

KPMG, a Hong Kong partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

**Independent auditor's report to the shareholders of
Salcon Fujian (HK) Limited (continued)
(Incorporated in Hong Kong with limited liability)**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis of adverse opinion

As explained in note 2(a) to the financial statements, the company has a subsidiary but did not prepare consolidated financial statements for the year ended 31 December 2012 because the directors of the company considered that the preparation of consolidated financial statements would involve expense and delay out of proportion to the value to the members of the company. As disclosed in notes 2(d) and 8 to the financial statements, investment in a subsidiary is stated at cost less any impairment losses. In our opinion, this accounting treatment does not comply with section 124 of the Hong Kong Companies Ordinance and Hong Kong Accounting Standard 27, *Consolidated and separate financial statements*, issued by the Hong Kong Institute of Certified Public Accountants, so far as the preparation of consolidated financial statements is concerned and the effects of such departure are material and pervasive and have not been quantified. We qualified our opinion in respect of the same disagreement about accounting treatment in our auditor's reports on the financial statements for all years since the year ended 31 December 2011.

Adverse opinion

In our opinion, because of the significance of the matter discussed in the basis for adverse opinion paragraph, the unconsolidated financial statements do not give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and the requirements of the Hong Kong Companies Ordinance. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 APR 2013

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

**Statement of comprehensive income
for the year ended 31 December 2012**

(Expressed in Hong Kong dollars)

	<i>Note</i>	<u>2012</u> <i>HKD</i>	<u>2011</u> <i>HKD</i>
Turnover	4	-	-
Administrative and operating expenses		<u>(764,343)</u>	<u>(55,414)</u>
Loss before taxation	5	(764,343)	(55,414)
Income tax	6(a)	<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>(764,343)</u></u>	<u><u>(55,414)</u></u>

The notes on pages 9 to 22 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

Statement of financial position at 31 December 2012

(Expressed in Hong Kong dollars)

	Note	2012 HKD	2011 HKD
Non-current asset			
Investment in a subsidiary	8	123,265,032	83,528,186
Current assets			
Amount due from ultimate holding company	9	1	1
Cash and bank balances		19,798	8,791
		19,799	8,792
Current liabilities			
Accrued liabilities		24,800	24,800
Amount due to ultimate holding company	9	12,673	-
Amount due to immediate holding company	9	40,438,213	-
Amounts due to fellow subsidiaries	9	110,381	49,071
		40,586,067	73,871
Net current liabilities		(40,566,268)	(65,079)
NET ASSETS		82,698,764	83,463,107
CAPITAL AND RESERVE			
Share capital	10	84,617,950	84,617,950
Accumulated losses	10(b)	(1,919,186)	(1,154,843)
TOTAL EQUITY		82,698,764	83,463,107

Approved and authorised for issue by the board of directors on **30 APR 2013**


 Directors

The notes on pages 9 to 22 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (*Cont'd*)

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

**Statement of changes in equity
for the year ended 31 December 2012**

(Expressed in Hong Kong dollars)

	<i>Share capital</i> <i>HKD</i> <i>(note 10(b))</i>	<i>Accumulated losses</i> <i>HKD</i>	<i>Total</i> <i>HKD</i>
Balance at 31 December 2010 and 1 January 2011	1	(1,099,429)	(1,099,428)
Changes in equity for 2011			
Debt capitalisation	84,617,949	-	84,617,949
Total comprehensive income for the year	<u>-</u>	<u>(55,414)</u>	<u>(55,414)</u>
Balance at 31 December 2011 and 1 January 2012	84,617,950	(1,154,843)	83,463,107
Changes in equity for 2012			
Total comprehensive income for the year	<u>-</u>	<u>(764,343)</u>	<u>(764,343)</u>
Balance at 31 December 2012	<u>84,617,950</u>	<u>(1,919,186)</u>	<u>82,698,764</u>

The notes on pages 9 to 22 form part of these financial statements.

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

Cash flow statement
for the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
Operating activities		
Loss before taxation and operating loss before changes in working capital	(764,343)	(55,414)
Increase in accrued liabilities	-	6,050
Increase in amount due to ultimate holding company	12,673	-
Increase in amount due to immediate holding company	40,438,213	-
Increase in amounts due to fellow subsidiaries	61,310	49,071
Net cash generated from/(used in) operating activities	39,747,853	(293)
Investing activities		
Investment in a subsidiary	(39,736,846)	-
Net cash used in investing activities	(39,736,846)	-
Net increase/(decrease) in cash and cash equivalents	11,007	(293)
Cash and cash equivalents at 1 January	8,791	9,084
Cash and cash equivalents at 31 December	19,798	8,791

The notes on pages 9 to 22 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1. Principle activity

The principle activity of the company is investment holding. Details of subsidiary are set out in note 8 to the financial statements.

2 Significant accounting policies**(a) Statement of compliance**

As disclosed in note 8, the company has a subsidiary but group accounts in the form of consolidated financial statements as required under section 124 of the Hong Kong Companies Ordinance have not been prepared as the directors of the company are of the opinion that it would involve expenses and delay out of proportion to the value to the members of the company.

For the purposes of compliance with sections 122 and 123 of the Hong Kong Companies Ordinance, these financial statements have been prepared to present a true and fair view of the state of affairs and profit or loss of the company only. Consequently, they have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance which apply to the preparation of separate unconsolidated financial statements. A summary of the significant accounting policies adopted by the company is set out below.

These financial statements do not comply with HKAS 27, *Consolidated and separate financial statements*, so far as the preparation of consolidated financial statements is concerned. As a consequence, the financial statements do not give all the information required by HKAS 27 about the economic activities of the group of which the company is the parent. Full compliance with HKAS 27 would require the company to produce consolidated financial statements which disclose this information.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the company for the current and prior accounting periods reflected in these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(b) Basis of preparation of the financial statements**

Notwithstanding the company had net current liabilities of HK\$40,566,268 as at 31 December 2012, the financial statements have been prepared on a going concern basis because Salcon Berhad, the ultimate holding company, has confirmed that it will provide such financial assistance as is necessary to maintain the company as a going concern.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments and estimates made by management in the application of HKFRSs that have significant effect on the financial statements are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued certain amendments to HKFRSs and new Interpretations that are first effective or available for early adoption for the current accounting period of the company. None of the developments is relevant to the company's financial statements.

The company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiary

Subsidiaries are entities controlled by the company. Control exists when the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(e)).

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(e) Impairment of assets****(i) Impairments of other receivables**

Other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the company about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses for other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the company is satisfied that recovery is remote, the amount considered irrecoverable is written off against the receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(e) Impairment of assets (continued)****(ii) Impairment of other assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the investment in a subsidiary may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in profit or loss whenever the carrying amount of such an asset exceeds its recoverable amount.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

*Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012*

2. Significant accounting policies (continued)**(f) Other receivables (including amounts due from related parties)**

Other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(e)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(e)(i)).

(g) Other payables (including amounts due to related parties)

Other payables are initially recognised at fair value and thereafter are stated at amortised cost, except where the payables are interest-free loans from related parties without any fixed term of repayment or the effect of discounting would be immaterial, in which case they are stated at cost.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(i) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(i) Income tax (continued)**

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Dividends

Dividend income is recognised when the shareholder's right to receive payment is established.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(l) Translation of foreign currencies**

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the end of each reporting period. Exchange gains and losses are recognised in profit or loss.

(m) Related parties

- (a) A person, or a close member of that person's family, is related to the company if that person:
- (i) has control or joint control over the company;
 - (ii) has significant influence over the company; or
 - (iii) is a member of the key management personnel of the company or the company's parent.
- (b) An entity is related to the company if any of the following conditions applies:
- (i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(m) Related parties (continued)**

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. Accounting judgements and estimates**(a) Impairment of investment in a subsidiary**

Internal and external sources of information are reviewed by the company at the end of each reporting period to assess whether there is any indication that investment in a subsidiary may be impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

(b) Going concern

As disclosed in note 2(b), the directors have prepared the financial statements on a going concern basis as they are of the opinion that the company will be able to secure the continued financial assistance from the ultimate holding company to enable the company to operate as a going concern. Discontinuation of financial assistance for the ultimate holding company would affect the conclusion that the company is able to continue as going concern, in which case the financial statements would have to be prepared on a break-up basis.

4. Turnover

The principal activity of the company is investment holding.

The company did not generate any income from its investments during the year.

5. Loss before taxation

Loss before taxation is arrived at after charging:

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
Auditor's remuneration	22,300	22,300

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

6. Income tax in the statement of comprehensive income

- (a) No provision has been made for Hong Kong Profits Tax as the company has no assessable profit for the current year and the prior year.

No deferred tax assets or liabilities have been recognised as the company has no significant deductible or taxable temporary differences which would give rise to deferred tax assets or liabilities.

- (b) *Reconciliation between tax expense and accounting loss at an applicable tax rate:*

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
Loss before taxation	(764,343)	(55,414)
Notional tax on profit before taxation, calculated at 16.5% (2011: 16.5%)	(126,117)	(9,143)
Tax effect of non-taxable income and non-deductible expenses	126,117	9,143
Actual tax expense	-	-

7. Directors' remuneration

There is no directors' remuneration for the year ended 31 December 2012, which is required to be disclosed pursuant to section 161 of the Hong Kong Companies Ordinance.

8. Investment in a subsidiary

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
Capital contribution, at cost	123,265,032	83,528,186

The company's partially-owned subsidiary, Nan An Water Company Limited was set up on 11 April 2008 as a co-operative joint venture company. The company can exercise unilateral control over the co-operative joint venture company. On 16 August 2012, the company further contributed a capital of RMB32,500,000 (equivalent to HK\$39,736,846) into the subsidiary.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

*Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012*

8. Investment in a subsidiary (continued)

Particulars of the subsidiary are as follows:

<i>Name</i>	<i>Place of incorporation/ registration and operations</i>	<i>Particulars of paid up capital</i>	<i>Percentage of equity interest held by the company</i>	<i>Principal activities</i>
Nan An Salcon Water Company Limited	The People's Republic of China ("PRC")	RMB 97,500,000	65%	Management and operation of water production and distribution of water

The directors of the company consider that the investment to be valued at cost is appropriate.

No impairment loss on investment in a subsidiary has been provided as, in the opinion of the directors, the recoverable amount of investment in the subsidiary would exceed the company's cost of investment.

Post-acquisition loss of the subsidiary attributable to the company based on the audited financial statements of the subsidiary prepared in accordance with the Generally Accepted Accounting Principles of the PRC are summarised as below:

	<i>Current year</i>	<i>Prior years</i>	<i>Total</i>
Amount dealt with in the financial statements of the company	-	-	-
Amount not dealt with in the financial statements of the company	<u>(3,046,372)</u>	<u>(5,448,632)</u>	<u>(8,495,004)</u>
Total	<u>(3,046,372)</u>	<u>(5,448,632)</u>	<u>(8,495,004)</u>

9. Amounts due from/(to) ultimate holding company, immediate holding company, and fellow subsidiaries

The amounts are unsecured, non-interest bearing and repayable on demand.

10. Capital and reserve

(a) Components of the company's capital and reserve

The opening and closing balances of each component of the company's equity and reconciliation between these amounts are set out in the statement of changes in equity.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

10. Capital and reserve (continued)**(b) Authorised and issued share capital**

	<i>At 31 December 2012 and 2011</i>	
	<i>No. of shares</i>	<i>Amount</i>
Authorised:		
Ordinary share of HK\$1 each	<u>300,000,000</u>	<u>300,000,000</u>
Issued and fully paid:		
At 1 January	84,617,950	1
Capitalisation	<u>-</u>	<u>84,617,949</u>
At 31 December	<u>84,617,950</u>	<u>84,617,950</u>

On 12 January 2011, the authorised share capital of the company increased to 300,000,000 shares of HK\$1 each.

On 12 January 2011, the amount due to a fellow subsidiary, Salcon Water (Asia) Limited of HK\$84,617,949 was capitalised as ordinary shares of the company of which 84,617,949 shares of HK\$1 each were issued. Consequently, Salcon Water (Asia) Limited became the immediate parent of the company.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to company's residual assets.

(c) Capital management

The company's primary objectives when managing capital are to safeguard the company's ability to continue as a going concern, so that it can continue to provide returns for shareholders by securing access to finance at a reasonable cost. As the company is part of a larger group, the company's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The company defines "capital" as including all components of equity.

The company's capital structure is regularly reviewed and managed with due regard to the capital management practices of the group to which the company belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the company or the group, to the extent that these do not conflict with the directors' fiduciary duties towards the company or the requirements of the Hong Kong Companies Ordinance. The company is not subject to externally imposed capital requirements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

11. Financial risk management and fair values

Exposure to credit and liquidity risks arises in the normal course of the company's business. The company's exposure to these risks and the financial risk management policies and practices used by the company to manage these risks are described below.

(a) Credit risk

The company's credit risk is primarily attributable to cash at bank and due from related companies. The directors consider the company's exposure to bad debts from inter-company balances is not significant since these group companies are creditworthy.

Bank deposits are normally placed with financial institutions that have a good credit rating.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The company does not provide any other guarantees which would expose the company to credit risk.

(b) Liquidity risk

The company's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

All of the company's financial liabilities at the end of the reporting period do not bear interest and are repayable within one year or on demand.

(c) Fair values

All financial instruments are carried at amounts not materially different from their fair value as at 31 December 2012.

12. Material related party transactions

There are no material related party transactions during the year.

The outstanding balances at the end of the reporting period are as follows:

	<u>2012</u>	<u>2011</u>
	<i>HKD</i>	<i>HKD</i>
Amount due from ultimate holding company		
Salcon Berhad	<u>1</u>	<u>1</u>
Amount due to ultimate holding company		
Salcon Berhad	<u>12,673</u>	<u>-</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

12. Material related party transactions (continued)

The outstanding balances at the end of the reporting period are as follows (continued):

	<u>2012</u>	<u>2011</u>
	<i>HKD</i>	<i>HKD</i>
Amount due to immediate holding company		
Salcon Water (Asia) Limited	<u>40,438,213</u>	<u>-</u>
Amounts due to fellow subsidiaries		
Salcon Engineering Berhad	50,240	49,071
Salcon Services (HK) Limited	<u>60,141</u>	<u>-</u>
Total	<u>110,381</u>	<u>49,071</u>

The outstanding balances are unsecured, interest free, have no fixed repayment terms and are included in note 9.

13. Immediate and ultimate controlling party

At 31 December 2012, the directors consider the immediate parent of the company to be Salcon Water (Asia) Limited, which is incorporated in Hong Kong. The directors consider the ultimate controlling party of the company to be Salcon Berhad, which is incorporated in Malaysia. Salcon Berhad produces financial statements prepared in accordance with International Financial Reporting Standards and Malaysian Financial Reporting Standards, generally accepted accounting principles and the Companies Act, 1965 in Malaysia available for public use.

14. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements. These included the following which may be relevant to the company:

	<i>Effective for accounting periods beginning on or after</i>
Amendments to HKAS 1, <i>Presentation of financial statements – Presentation of items of other comprehensive income</i>	1 July 2012
HKFRS 13, <i>Fair value measurement</i>	1 January 2013
HKFRS 9, <i>Financial instruments</i>	1 January 2015

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

Salcon Fujian (HK) Limited
Financial statements for the year ended 31 December 2012

14. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012 (continued)

The company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's results of operations and financial position.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012

(Translated based on the original audited financial statements in Chinese)

NAN AN SALCON WATER
COMPANY LIMITED

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS
FOR THE YEAR 1 JANUARY 2012 TO 31 DECEMBER 2012
IF THERE IS ANY CONFLICT BETWEEN THE CHINESE VERSION
AND ITS ENGLISH TRANSLATION, THE CHINESE VERSION WILL PREVAIL

SALCON BERHAD (593796-T)

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

AUDITORS' REPORT

毕马威华振沪审字第 1301353 号

The Board of Directors of Nan An Salcon Water Co., Ltd.:

We have audited the accompanying financial statements of Nan An Salcon Water Co., Ltd. ("the Company") on pages 1 to 20, which comprise the balance sheet as at 31 December 2012, and the income statement and cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises (hereinafter represents Accounting Standards for Business Enterprises-Basic Standard issued in 2006 and specific accounting standards issued before 2006) and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Those standards require that we comply with China Code of Ethics for Certified Public Accountants, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

AUDITORS' REPORT (continued)

毕马威华振沪审字第 1301353 号

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and the financial performance and the cash flows of the Company for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

KPMG Huazhen (Special General Partnership)
Shanghai Branch

Certified Public Accountants
Registered in the People's Republic of
China

Shanghai, The People's Republic of China

Tian Chunshan

Qian Di

Date: 12 April 2013

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the People's Republic of China. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the People's Republic of China.

SALCON BERHAD (593796-T)

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

Nan An Salcon Water Co., Ltd.
Balance sheet as at 31 December 2012
(Expressed in Renminbi Yuan)

	Note	2012	2011
Assets			
Current assets			
Cash at bank and on hand	5	15,083,465.31	12,744,736.76
Accounts receivable	6	1,573,108.53	1,023,937.53
Other receivables	7	4,748,202.60	261,919.60
Payments in advance	8	<u>1,000,000.00</u>	<u>29,590,361.16</u>
Total current assets		<u>22,404,776.44</u>	<u>43,620,955.05</u>
Fixed assets			
Cost		305,338,208.66	5,381,107.00
Less: Accumulated depreciation		<u>(1,765,353.51)</u>	<u>(976,131.49)</u>
Carrying amount	9	303,572,855.15	4,404,975.51
Construction in progress	10	<u>-</u>	<u>209,878,835.71</u>
Total fixed assets		<u>303,572,855.15</u>	<u>214,283,811.22</u>
Intangible assets and other assets			
Intangible assets	11	475,318.86	494,783.58
Long-term deferred expenses	12	<u>176,400.78</u>	<u>261,446.94</u>
Total intangible assets and other assets		<u>651,719.64</u>	<u>756,230.52</u>
Total assets		<u>326,629,351.23</u>	<u>258,660,996.79</u>

The notes on pages 7 to 20 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

Nan An Salcon Water Co., Ltd.
Balance sheet as at 31 December 2012 (continued)
(Expressed in Renminbi Yuan)

	Note	2012	2011
Liabilities and owners' equity			
Current liabilities			
Accounts payable	13	557,997.55	588,477.16
Accrued payroll		258,385.11	75,191.33
Taxes payable	4(c)	152,182.85	80,991.43
Other creditors		29,344.63	1,636.37
Other payables	14	31,369,455.37	4,723,634.69
Long-term liabilities due within one year	15	<u>8,000,000.00</u>	<u>6,000,000.00</u>
Total current liabilities		<u>40,367,365.51</u>	<u>11,469,930.98</u>
Long-term liabilities			
Long-term loans	15	<u>146,000,000.00</u>	<u>154,000,000.00</u>
Total long-term liabilities		<u>146,000,000.00</u>	<u>154,000,000.00</u>
Total liabilities		<u>186,367,365.51</u>	<u>165,469,930.98</u>
Owners' equity			
Paid-in capital	16	150,000,000.00	100,000,000.00
Accumulated losses		<u>(9,738,014.28)</u>	<u>(6,808,934.19)</u>
Total owners' equity		<u>140,261,985.72</u>	<u>93,191,065.81</u>
Total liabilities and owners' equity		<u>326,629,351.23</u>	<u>258,660,996.79</u>

These financial statements have been approved by the Board of Directors of the Company on 12 April 2013.

Huang Qingrui
Chairman of the Board
(Signature and stamp)

Zhang Fan
Financial Controller
(Signature and stamp)

(Company stamp)

The notes on pages 7 to 20 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Nan An Salcon Water Co., Ltd.
Income statement
for the year ended 31 December 2012
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>2012</i>	<i>2011</i>
Sales from principal activities	<i>17</i>	10,180,972.45	7,227,618.32
Less: Cost of sales from principal activities		(8,178,501.59)	(5,608,847.58)
Business taxes and surcharges	<i>4(a)</i>	<u>(610,815.80)</u>	<u>(368,610.18)</u>
Profit from principal activities		1,391,655.06	1,250,160.56
Less: General and administrative expenses (Financial expenses) /		(2,931,188.69)	(2,910,488.81)
Add: Net financial income	<i>18</i>	<u>(1,371,046.95)</u>	<u>849,543.99</u>
Operating loss		(2,910,580.58)	(810,784.26)
Less: Non-operating expenses		<u>(18,499.51)</u>	<u>(1,610.92)</u>
Loss before income tax		(2,929,080.09)	(812,395.18)
Less: Income tax	<i>4(b)</i>	<u>-</u>	<u>-</u>
Net loss for the year		(2,929,080.09)	(812,395.18)
Add: Accumulated losses at the beginning of the year		<u>(6,808,934.19)</u>	<u>(5,996,539.01)</u>
Accumulated losses carried forward		<u>(9,738,014.28)</u>	<u>(6,808,934.19)</u>

The notes on pages 7 to 20 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

Nan An Salcon Water Co., Ltd.
Cash flow statement
for the year ended 31 December 2012
(Expressed in Renminbi Yuan)

	<i>Note to the cash flow statement</i>	2012	2011
Cash flows from operating activities:			
Cash received from rendering of services		<u>9,631,801.45</u>	<u>6,203,680.79</u>
Sub-total of cash inflows		<u>9,631,801.45</u>	<u>6,203,680.79</u>
Cash flows from investing activities:			
Cash paid for goods and services		(7,133,355.13)	(4,639,007.64)
Cash paid to and for employees		(1,411,408.50)	(828,916.65)
Cash paid for all types of taxes		(550,067.97)	(321,874.58)
Cash paid relating to other operating activities		<u>(2,237,563.75)</u>	<u>(3,066,432.66)</u>
Sub-total of cash outflows		<u>(11,332,395.35)</u>	<u>(8,856,231.53)</u>
Net cash outflow from operating activities	<i>i</i>	<u>(1,700,593.90)</u>	<u>(2,652,550.74)</u>
Cash flows from investing activities:			
Cash received relating to other investing activities		<u>239,630.03</u>	<u>852,674.46</u>
Sub-total of cash inflows		<u>239,630.03</u>	<u>852,674.46</u>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		<u>(30,285,921.25)</u>	<u>(65,214,386.80)</u>
Sub-total of cash outflows		<u>(30,285,921.25)</u>	<u>(65,214,386.80)</u>
Net cash outflow from investing activities		<u>(30,046,291.22)</u>	<u>(64,361,712.34)</u>

The notes on pages 7 to 20 form part of these financial statements.

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

Nan An Salcon Water Co., Ltd.
Cash flow statement
for the year ended 31 December 2012 (continued)
(Expressed in Renminbi Yuan)

	<i>Note to the cash flow statement</i>	2012	2011
Cash flows from financing activities:			
Cash received from investors		50,000,000.00	-
Cash received from borrowings		<u>-</u>	<u>45,000,000.00</u>
Sub-total of cash inflows		<u>50,000,000.00</u>	<u>45,000,000.00</u>
Cash repayments of borrowings		(6,000,000.00)	(5,000,000.00)
Cash paid for interest expenses		<u>(9,914,386.33)</u>	<u>(8,821,540.57)</u>
Sub-total of cash outflows		<u>(15,914,386.33)</u>	<u>(13,821,540.57)</u>
Net cash inflow from financing activities		<u>34,085,613.67</u>	<u>31,178,459.43</u>
Net increase/(decrease) in cash	<i>ii</i>	<u>2,338,728.55</u>	<u>(35,835,803.65)</u>

The notes on pages 7 to 20 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Nan An Salcon Water Co., Ltd.
Cash flow statement
for the year ended 31 December 2012 (continued)
(Expressed in Renminbi Yuan)

Notes to the cash flow statement

i Reconciliation of net loss to cash flows from operating activities

	2012	2011
Net loss	(2,929,080.09)	(812,395.18)
Add: Depreciation of fixed assets	789,222.02	385,959.60
Amortisation of intangible assets	19,464.72	11,979.42
Amortisation of long-term deferred expenses	85,046.16	85,046.16
Financial expenses/(net financial income)	1,366,250.61	(852,674.46)
Increase in gross operating receivables	(205,063.50)	(1,731,937.13)
(Decrease)/increase in operating payables	<u>(826,433.82)</u>	<u>261,470.85</u>
Net cash outflow from operating activities	<u>(1,700,593.90)</u>	<u>(2,652,550.74)</u>

ii Net increase/(decrease) in cash

	2012	2011
Cash at the end of the year	15,083,465.31	12,744,736.76
Less: Cash at the beginning of the year	<u>(12,744,736.76)</u>	<u>(48,580,540.41)</u>
Net increase/(decrease) in cash	<u>2,338,728.55</u>	<u>(35,835,803.65)</u>

The notes on pages 7 to 20 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Nan An Salcon Water Co., Ltd.
Notes to the financial statements
(Expressed in Renminbi Yuan)

1 COMPANY STATUS

Nan An Salcon Water Co., Ltd. (the Company) is an equity joint venture established in Quanzhou, Fujian Province in the People's Republic of China (PRC) by Nan An Trade, Industry and Agriculture Investment Co., Ltd. registered in China (Nan An Investment) and Salcon Fujian (HK) Limited registered in Hong Kong. The Company obtained an approval certificate Shang Wai Zi Min Fu He Zi Zi [2008] No. 0004 from People's Government of Fujian Province on 25 March 2008, and a business license No. 350500400020300 on 18 April 2008 issued by Quanzhou Administration of Industry and Commerce. The original registered capital is RMB 100,000,000.

The Company's Board of Directors resolved to increase the Company's registered capital by RMB 50,000,000. The registered capital was increased from RMB 100,000,000 to RMB 150,000,000. The Company obtained approval from People's Government of Fujian Province on 13 January 2013. The articles of association were revised on 29 December 2011 accordingly. The Company obtained a revised approval certificate Shang Wai Zi Min Fu He Zi Zi [2008] No. 0004 on 13 January 2013 and a revised business licence No. 350500400020300 on 22 August 2012 issued by Nan An Administration of Industry and Commerce.

The Company's period of operation is 50 years, and its principal activities are supplying raw water. The Company commenced its operation on 1 March 2011.

2 BASIS OF PREPARATION

These financial statements have been translated into English from the Company's statutory financial statements issued in the PRC in Chinese.

The principal accounting policies adopted in the preparation of the financial statements are in conformity with Accounting Standards for Business Enterprises-Basic Standard issued in 2006, specific accounting standards issued before 2006 and the Accounting Regulations for Business Enterprises, all issued by the Ministry of Finance of the PRC (MOF). The accounting policies comply with the legal and reporting requirements of the relevant government authorities. Accordingly, the basis of measurement and presentation in these financial statements may not be in compliance with the accounting principles and practices generally accepted in countries and jurisdictions other than the PRC and may not be suitable for any purpose other than for statutory reporting.

The financial statements have been prepared on the basis that the Company will continue to operate throughout the next accounting period until at least 31 December 2013 as a going concern.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

2 BASIS OF PREPARATION (CONTINUED)

The Company had accumulated losses of RMB 9,738,014.28 while its current liabilities exceeded its current assets by RMB 17,962,589.07 as at 31 December 2012. Since Salcon Fujian (HK) Limited have undertaken to provide such financial support to the Company as may be necessary to ensure its continuing operation for the year 2013, the financial statements have been prepared on a going concern basis.

3 SIGNIFICANT ACCOUNTING POLICIES**(a) Accounting year**

The accounting year of the Company is from 1 January to 31 December.

(b) Basis of preparation and measurement basis

The financial statements of the Company have been prepared on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost.

(c) Functional currency

The Company's functional currency is the Renminbi.

(d) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the balance sheet date. Exchange gains and losses on foreign currency translation, except for the exchange gains and losses directly relating to the construction of fixed assets, are dealt with in the income statement.

(e) Fixed assets and construction in progress

Fixed assets are assets with relatively high unit values held by the Company for use in the supply of services and for administrative purposes. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(i)). Construction in progress is stated in the balance sheet at cost less impairment losses (see note 3(i)).

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Fixed assets and construction in progress (continued)

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalised as construction in progress. Those costs include borrowing costs (including foreign exchange differences arising from the loan principal and the related interest) on specific borrowings for the construction of the fixed assets during the construction period. Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

Fixed assets are depreciated using the straight-line method over their estimated useful lives. The respective estimated useful lives and the estimated rate of residual values on cost for the Company's fixed assets are as follows:

	<i>Estimated useful life</i>	<i>Estimated rate of residual value</i>	<i>Rate of depreciation</i>
Pipelines	28 years	0% - 10%	3% - 4%
Machinery and equipment	5 - 28 years	10%	3% - 18%
Office and other equipment	5 years	10%	18%
Motor vehicles	5 years	10%	18%
Others	5 years	10%	18%

(f) Operating lease charges

Rental payments under operating leases are charged as expenses on a straight-line basis over the lease term.

(g) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 3(i)). The cost of the intangible assets is amortised on a straight-line basis over their estimated useful lives. The amortisation period for the intangible assets is as follows:

Software	5 years
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(h) Long-term deferred expenses

Long-term deferred expenses are amortised on a straight-line basis over their beneficial periods. The Company's long-term deferred expenses are office decoration and its amortization period is 5 years.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(i) Provision for impairment**

The carrying amounts of assets (including fixed assets, construction in progress, intangible assets and other assets) are assessed regularly to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in conditions indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment is calculated on an item-by-item basis and recognised as an expense in the income statement.

If there is an indication that there has been a change in the factors used to determine the provision for impairment and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversals of impairment losses are recognised in the income statement. An impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(j) Income tax

Income tax is recognised when payable under the tax payable method. Income tax for the year is provided at the applicable tax rate on taxable income.

(k) Provisions and contingent liabilities

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(l) Revenue recognition**

When it is probable that the economic benefits will flow to the Company and the revenue and costs can be measured reliably, revenue is recognised in the income statement according to the following methods:

(i) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the progress of work performed. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the costs incurred that are expected to be recoverable.

(ii) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable rate.

(m) Borrowing costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period until the fixed assets are ready for their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

(n) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Company has joined a defined contribution retirement plan for the employees arranged by a governmental organisation. The Company makes contributions to the retirement scheme at the applicable rates based on the employees' salaries. The contributions are capitalised into cost of assets or charged to the income statement on an accrual basis. After the payment of the contributions under the retirement plan, the Company does not have any other obligations in this respect.

(o) Related parties

If the Company has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Company and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

4 TAXATION AND SURCHARGE

- (a) The types of tax and surcharge applicable to the Company's rendering of services include business tax, urban maintenance and construction tax, education fee surcharge and local education fee surcharge.

<u>Tax name</u>	<u>Tax basis and applicable rate</u>
Business tax	5% of taxable revenue
Urban maintenance and construction tax	7 % of the business tax paid
Education fee surcharge	3 % of the business tax paid
Local education fee surcharge	2 % of the business tax paid

Business taxes and surcharges include business tax, urban maintenance and construction tax, education fee surcharge and local education fee surcharge.

- (b) Income tax

The statutory income tax rate of the Company is 25% (2011: 25%). Since the Company had accumulated losses, no income tax is payable.

- (c) Taxes payable

	2012	2011
Business tax payable	89,039.63	81,818.49
Urban maintenance and construction tax	64,022.33	-
Others	<u>(879.11)</u>	<u>(827.06)</u>
Total	<u>152,182.85</u>	<u>80,991.43</u>

5 CASH AT BANK AND ON HAND

	2012	2011
Cash on hand	4,737.42	3,691.58
Demand deposits	<u>15,078,727.89</u>	<u>12,741,045.18</u>
Total	<u>15,083,465.31</u>	<u>12,744,736.76</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

6 ACCOUNTS RECEIVABLE

The ageing analysis of the Company's accounts receivable is as follows:

	2012		2011	
	Percentage of total accounts receivable RMB	Provision for bad and doubtful debts	Percentage of total accounts receivable RMB	Provision for bad and doubtful debts
Within 1 year	1,573,108.53	100%	-	-
			1,023,937.53	100%

7 OTHER RECEIVABLES

The ageing analysis of the Company's other receivables is as follows:

	2012		2011	
	RMB	Percentage of total other receivables	RMB	Percentage of total other receivables
Within 1 year	4,704,565.00	99.1%	218,699.60	83.5%
After 1 year but within 2 years	43,127.60	0.9%	27,360.00	10.4%
After 2 year but within 3 years	510.00	0.0%	15,860.00	6.1%
Total	4,748,202.60	100%	261,919.60	100%

The balance of other receivables over one year is rental deposit and the management considers no need to provide bad debt provision. The ageing is calculated since other receivables are recognised.

8 PAYMENT IN ADVANCE

	2012	2011
Prepayment to suppliers	1,000,000.00	28,899,761.16
Others	-	690,600.00
Total	1,000,000.00	29,590,361.16

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

8 PAYMENT IN ADVANCE (CONTINUED)

The ageing analysis of the Company's payment in advance is as follows:

	2012		2011	
	RMB	Percentage of total payment in advance	RMB	Percentage of total payment in advance
Within 1 year	-	0%	22,271,282.66	75%
After 1 year but within 2 years	1,000,000.00	100%	7,319,078.50	25%
Total	1,000,000.00	100%	29,590,361.16	100%

Payment in advance would be transferred to construction in progress based on the construction progress and therefore no provision is made. The ageing is calculated since payment in advance is recognised.

9 FIXED ASSETS

	Pipelines	Machinery and equipment	Office and other equipment	Motor Vehicles	Others	Total
Cost						
As at 1 January 2012	-	3,776,120.00	218,260.00	1,298,773.00	87,954.00	5,381,107.00
Additions	-	-	69,799.00	-	-	69,799.00
Transfer from construction in progress	272,738,532.11	27,148,770.55	-	-	-	299,887,302.66
As at 31 December 2012	272,738,532.11	30,924,890.55	288,059.00	1,298,773.00	87,954.00	305,338,208.66
Accumulated depreciation						
As at 1 January 2012	-	(98,785.68)	(108,879.34)	(729,477.35)	(38,989.12)	(976,131.49)
Charge for the year	(150,535.28)	(346,060.26)	(43,015.56)	(233,779.20)	(15,831.72)	(789,222.02)
As at 31 December 2012	(150,535.28)	(444,845.94)	(151,894.90)	(963,256.55)	(54,820.84)	(1,765,353.51)
Carrying amount						
As at 31 December 2012	272,587,996.83	30,480,044.61	136,164.10	335,516.45	33,133.16	303,572,855.15
As at 31 December 2011	-	3,677,334.32	109,380.66	569,293.65	48,964.88	4,404,973.51

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

10 CONSTRUCTION IN PROGRESS

		<i>Including: Borrowing costs capitalised</i>
Cost		
As at 1 January 2012	209,878,835.71	11,968,255.57
Additions during the year	94,365,466.95	8,272,880.69
Decreases during the year (i)	(4,357,000.00)	(4,357,000.00)
Transfer to fixed assets during the year	<u>(299,887,302.66)</u>	<u>(15,884,136.26)</u>
As at 31 December 2012	<u> -</u>	<u> -</u>

The capitalisation rate used to determine the borrowing costs to be capitalised was 6.31% (2011: 6.35%).

- (i) The decrease is due to the government's subsidy for the Company's borrowing costs.

11 INTANGIBLE ASSETS

	<i>Land use rights</i>	<i>Software</i>	<i>Total</i>
Cost			
As at 1 January/ 31 December 2012	503,013.00	7,500.00	510,513.00
Accumulated amortisation			
As at 1 January 2012	(10,479.42)	(5,250.00)	(15,729.42)
Charge for the year	<u>(17,964.72)</u>	<u>(1,500.00)</u>	<u>(19,464.72)</u>
As at 31 December 2012	<u>(28,444.14)</u>	<u>(6,750.00)</u>	<u>(35,194.14)</u>
Carrying amount			
As at 31 December 2012	<u>474,568.86</u>	<u>750.00</u>	<u>475,318.86</u>
As at 31 December 2011	<u>492,533.58</u>	<u>2,250.00</u>	<u>494,783.58</u>

The Company obtained land use rights through purchase from third parties and related certificates are being processed.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

12 LONG-TERM DEFERRED EXPENSES

	<i>Office decoration</i>
As at 1 January 2012	261,446.94
Amortisation	<u>(85,046.16)</u>
As at 31 December 2012	<u>176,400.78</u>

13 ACCOUNTS PAYABLE

	<i>2012</i>	<i>2011</i>
Raw water payable	352,308.88	505,378.41
Others	<u>205,688.67</u>	<u>83,098.75</u>
Total	<u>557,997.55</u>	<u>588,477.16</u>

14 OTHER PAYABLES

	<i>2012</i>	<i>2011</i>
Construction payable	30,105,307.94	2,379,502.59
Deposits	1,210,492.68	2,268,792.68
Others	<u>53,654.75</u>	<u>75,339.42</u>
Total	<u>31,369,455.37</u>	<u>4,723,634.69</u>

15 LONG-TERM LOANS/LONG-TERM LIABILITIES DUE WITHIN ONE YEAR

	<u>2012</u>			<u>2011</u>		
	<i>Principal</i>	<i>Maturity/ Interest rate (p.a.)</i>	<i>Pledged/ guaranteed</i>	<i>Principal</i>	<i>Maturity/ Interest rate (p.a.)</i>	<i>Pledged/ guaranteed</i>
Bank loans	154,000,000.00	10 years/ 5.90%	Pledged	160,000,000.00	10 years/ 6.35%	Pledged
Less: Long-term liabilities due within one year	<u>(8,000,000.00)</u>			<u>(6,000,000.00)</u>		
	<u>146,000,000.00</u>			<u>154,000,000.00</u>		

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)
15 LONG-TERM LOANS/LONG-TERM LIABILITIES DUE WITHIN ONE YEAR (CONTINUED)

On 17 March 2010, the Company signed a loan contract with Industrial and Commercial Bank of China Limited Nan An Xinhua Branch to finance the construction of Phase I of water supply project in Nan An. The total facility is RMB 165,000,000 with a term of 120 months and the interest rate is 90% of People's Bank of China rate. The loan is pledged by the Company's accounts receivable with the pledge contract No. 14080148-2010 Nian Xin Hua (Zhi) Zi 0003.

16 PAID-IN CAPITAL

Registered capital

	2012		2011	
	RMB	%	RMB	%
Nan An Investment	52,500,000.00	35%	35,000,000.00	35%
Salcon Fujian (HK) Limited	97,500,000.00	65%	65,000,000.00	65%
	<u>150,000,000.00</u>	<u>100%</u>	<u>100,000,000.00</u>	<u>100%</u>

Paid-in capital

	2012			2011		
	Amount in original currency USD	Amount in RMB equivalent	%	Amount in original currency USD	Amount in RMB equivalent	%
Nan An Investment		52,500,000.00	35%		35,000,000.00	35%
Salcon Fujian (HK) Limited	9,421,980.00	65,000,000.00 32,500,000.00		9,421,980.00	65,000,000.00	
		97,500,000.00	65%		65,000,000.00	65%
		<u>150,000,000.00</u>	<u>100%</u>		<u>100,000,000.00</u>	<u>100%</u>

Capital contributions in foreign currency have been translated into Renminbi at the exchange rates prevailing at the dates of each contribution received as quoted by the People's Bank of China.

Certified Public Accountants have verified the above capital contributions, and issued related capital verification reports.

17 SALES FROM PRINCIPAL ACTIVITIES

	2012	2011
Raw water supply	<u>10,180,972.45</u>	<u>7,227,618.32</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

18 FINANCIAL EXPENSES /(NET FINANCIAL INCOME)

	2012	2011
Interest expense incurred	9,914,386.33	8,821,540.57
Less: Borrowing costs capitalised	<u>(8,272,880.69)</u>	<u>(8,821,540.57)</u>
Net interest expense	1,641,505.64	-
Less: interest income	(275,255.03)	(852,674.46)
Other financial expenses	<u>4,796.34</u>	<u>3,130.47</u>
Total	<u>1,371,046.95</u>	<u>(849,543.99)</u>

19 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties with controlling relationships

	<i>Registered address</i>	<i>Principal activities</i>	<i>Relationship with the Company</i>	<i>Types of legal entity</i>	<i>Authorised representative</i>
Salcon Fujian (HK) Limited	HK	Investment holding	Parent Company	Limited liability company	Zheng Tianli

Registered capital of related parties with controlling relationships and its changes

	<i>At the beginning/ end of year HKD</i>
Salcon Fujian (HK) Limited	84,617,950.00

Equity interests held by related parties with controlling relationships and their changes

	<i>At the beginning of the year</i>		<i>Increase</i>		<i>At the end of the year</i>	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
Salcon Fujian (HK) Limited	65,000,000.00	65%	32,500,000.00	65%	97,500,000.00	65%

(b) Relationship between the Company and related parties without controlling relationships

	<i>Relationship with the Company</i>
Linyi Salcon Water Co., Ltd.	Fellow subsidiary
Salcon Investment and Consulting (Shanghai) Co., Ltd. (Salcon Investment and Consulting)	Fellow subsidiary
Salcon Alliance (Shanghai) Company Limited (Shanghai Alliance)	Fellow subsidiary
Nan An Investment	Investor

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

19 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) The amounts of the Company's related party transactions during the year and its balances with related parties at the year end are summarised as follows:

(i) The material related-party transactions of the Company are summarised as follows:

	<i>2012</i>	<i>2011</i>
Management and consulting fee		
- Shanghai Alliance	500,000.00	458,333.00
- Salcon Investment and Consulting	-	41,667.00

The Board of Directors of the Company is of the opinion that the above transactions were carried out in the normal course of business and on normal commercial terms.

(ii) The balances of related party receivables and payables are summarised as follows:

	<i>2012</i>	<i>2011</i>
Other payables		
- Linyi Salcon Water Co., Ltd.	7,356.90	22,351.32

20 COMMITMENTS

(a) Capital commitments

As at 31 December 2012, capital commitments of the Company are summarised as follows:

	<i>2012</i>	<i>2011</i>
Authorised but not contracted for	11,000,000.00	-
Contracted for	<u>-</u>	<u>81,668,146.72</u>
	<u>11,000,000.00</u>	<u>81,668,146.72</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

20 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

As at 31 December 2012, the future minimum lease payments under non-cancellable operating leases in respect of the leasing of properties, were payable as follows:

	<i>2012</i>	<i>2011</i>
Within 1 year	85,560.00	85,560.00
After 1 year but within 2 years	<u>57,040.00</u>	<u>85,560.00</u>
Total	<u><u>142,600.00</u></u>	<u><u>171,120.00</u></u>

21 COMPARATIVE FIGURES

Certain items in these comparative figures of 2011 have been reclassified to conform with the current year's presentation to facilitate comparison.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 *(Cont'd)*

南安实康水务有限公司

自 2012 年 1 月 1 日
至 2012 年 12 月 31 日止年度财务报表

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

KPMG Huazhen
(Special General Partnership)
50th Floor, Plaza 66
1266 Nanjing West Road
Shanghai 200040
China

毕马威华振
会计师事务所
(特殊普通合伙)
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Internet 网址 kpmg.com/cn

审计报告

毕马威华振沪审字第 1301353 号

南安实康水务有限公司董事会:

我们审计了后附的第 1 页至第 19 页的南安实康水务有限公司(以下简称“贵公司”)财务报表,包括 2012 年 12 月 31 日的资产负债表、2012 年度的利润表和现金流量表以及财务报表附注。

一、管理层对财务报表的责任

编制和公允列报财务报表是贵公司的责任,这种责任包括:(1)按照中华人民共和国财政部颁布的企业会计准则(指 2006 年颁布的《企业会计准则—基本准则》及 2006 年以前颁布的具体会计准则,下同)和《企业会计制度》的规定编制财务报表,并使其实现公允反映;(2)设计、执行和维护必要的内部控制,以使财务报表不存在由于舞弊或错误导致的重大错报。

二、注册会计师的责任

我们的责任是在执行审计工作的基础上对财务报表发表审计意见。我们按照中国注册会计师审计准则的规定执行了审计工作。中国注册会计师审计准则要求我们遵守中国注册会计师职业道德守则,计划和执行审计工作以对财务报表是否不存在重大错报获取合理保证。

审计工作涉及实施审计程序,以获取有关财务报表金额和披露的审计证据。选择的审计程序取决于注册会计师的判断,包括对由于舞弊或错误导致的财务报表重大错报风险的评估。在进行风险评估时,注册会计师考虑与财务报表编制和公允列报相关的内部控制,以设计恰当的审计程序,但目的并非对内部控制的有效性发表意见。审计工作还包括评价管理层选用会计政策的恰当性和作出会计估计的合理性,以及评价财务报表的总体列报。

我们相信,我们获取的审计证据是充分、适当的,为发表审计意见提供了基础。

KPMG Huazhen (Special General Partnership), a special general partnership in China and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

We are authorised to practise under the name of KPMG Huazhen (Special General Partnership).

毕马威华振会计师事务所(特殊普通合伙) - 中国特殊普通合伙会计师事务所,是与瑞士实体 - 毕马威国际合作组织("毕马威国际")相关联的独立成员所网络中的成员。

本分所已获毕马威华振会计师事务所(特殊普通合伙)总所授权执行业务。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)



审计报告(续)

毕马威华振沪审字第 1301353 号

三、 审计意见

我们认为，贵公司财务报表在所有重大方面按照中华人民共和国财政部颁布的企业会计准则和《企业会计制度》的规定编制，公允反映了贵公司 2012 年 12 月 31 日的财务状况以及 2012 年度的经营成果和现金流量。

毕马威华振会计师事务所(特殊普通合伙) 中国注册会计师
上海分所

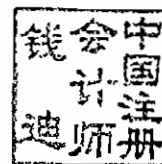
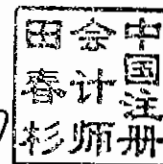


中国 上海

中国注册会计师

田春杉

钱迪



2013 年 4 月 12 日

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

南安实康水务有限公司

资产负债表

2012年12月31日

(金额单位：人民币元)

	附注	2012年	2011年
资产			
流动资产			
货币资金	5	15,083,465.31	12,744,736.76
应收账款	6	1,573,108.53	1,023,937.53
其他应收款	7	4,748,202.60	261,919.60
预付账款	8	<u>1,000,000.00</u>	<u>29,590,361.16</u>
流动资产合计		<u>22,404,776.44</u>	<u>43,620,955.05</u>
固定资产			
固定资产原价		305,338,208.66	5,381,107.00
减：累计折旧		<u>(1,765,353.51)</u>	<u>(976,131.49)</u>
固定资产净值	9	303,572,855.15	4,404,975.51
在建工程	10	<u>-</u>	<u>209,878,835.71</u>
固定资产合计		<u>303,572,855.15</u>	<u>214,283,811.22</u>
无形资产及其他资产			
无形资产	11	475,318.86	494,783.58
长期待摊费用	12	<u>176,400.78</u>	<u>261,446.94</u>
无形资产及其他资产合计		<u>651,719.64</u>	<u>756,230.52</u>
资产总计		<u><u>326,629,351.23</u></u>	<u><u>258,660,996.79</u></u>

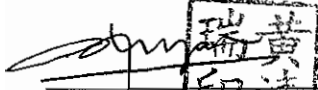
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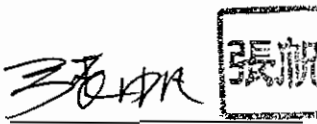
AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

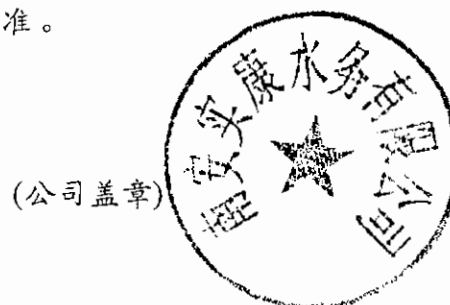
南安实康水务有限公司
资产负债表(续)
2012年12月31日
(金额单位:人民币元)

	附注	2012年	2011年
负债和所有者权益			
流动负债			
应付账款	13	557,997.55	588,477.16
应付工资		258,385.11	75,191.33
应交税金	4(c)	152,182.85	80,991.43
其他应交款		29,344.63	1,636.37
其他应付款	14	31,369,455.37	4,723,634.69
一年内到期的长期负债	15	<u>8,000,000.00</u>	<u>6,000,000.00</u>
流动负债合计		<u>40,367,365.51</u>	<u>11,469,930.98</u>
长期负债			
长期借款	15	<u>146,000,000.00</u>	<u>154,000,000.00</u>
长期负债合计		<u>146,000,000.00</u>	<u>154,000,000.00</u>
负债合计		<u>186,367,365.51</u>	<u>165,469,930.98</u>
所有者权益			
实收资本	16	150,000,000.00	100,000,000.00
未弥补亏损		<u>(9,738,014.28)</u>	<u>(6,808,934.19)</u>
所有者权益合计		<u>140,261,985.72</u>	<u>93,191,065.81</u>
负债和所有者权益总计		<u>326,629,351.23</u>	<u>258,660,996.79</u>

此财务报表已于2013年4月12日获本公司董事会批准。


黄清瑞
董事长
(签名和盖章)


张帆
财务总监
(签名和盖章)



刊载于第7页至第19页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

南安实康水务有限公司

利润表

2012 年度

(金额单位：人民币元)

	附注	<u>2012 年</u>	<u>2011 年</u> (附注 21)
主营业务收入	17	10,180,972.45	7,227,618.32
减： 主营业务成本		(8,178,501.59)	(5,608,847.58)
主营业务税金及附加	4(a)	<u>(610,815.80)</u>	<u>(368,610.18)</u>
主营业务利润		1,391,655.06	1,250,160.56
减： 管理费用		(2,931,188.69)	(2,910,488.81)
财务费用/加： 财务净收益	18	<u>(1,371,046.95)</u>	<u>849,543.99</u>
营业亏损		(2,910,580.58)	(810,784.26)
减： 营业外支出		<u>(18,499.51)</u>	<u>(1,610.92)</u>
亏损总额		(2,929,080.09)	(812,395.18)
减： 所得税	4(b)	<u>-</u>	<u>-</u>
净亏损		(2,929,080.09)	(812,395.18)
加： 年初未弥补亏损		<u>(6,808,934.19)</u>	<u>(5,996,539.01)</u>
年末未弥补亏损		<u><u>(9,738,014.28)</u></u>	<u><u>(6,808,934.19)</u></u>

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AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

南安实康水务有限公司
现金流量表
2012 年度
(金额单位: 人民币元)

	现金流量表 补充说明	2012 年	2011 年
经营活动产生的现金流量:			
提供劳务收到的现金		9,631,801.45	6,203,680.79
现金流入小计		9,631,801.45	6,203,680.79
购买商品和接受劳务支付的现金		(7,133,355.13)	(4,639,007.64)
支付给职工以及为职工支付的现金		(1,411,408.50)	(828,916.65)
支付的各项税费		(550,067.97)	(321,874.58)
支付的其他与经营活动有关的现金		(2,237,563.75)	(3,066,432.66)
现金流出小计		(11,332,395.35)	(8,856,231.53)
经营活动使用的现金流量净额	i	(1,700,593.90)	(2,652,550.74)
投资活动产生的现金流量:			
收到的其他与投资活动有关的现金		239,630.03	852,674.46
现金流入小计		239,630.03	852,674.46
购建固定资产、无形资产和其他 长期资产所支付的现金		(30,285,921.25)	(65,214,386.80)
现金流出小计		(30,285,921.25)	(65,214,386.80)
投资活动使用的现金流量净额		(30,046,291.22)	(64,361,712.34)

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AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

南安实康水务有限公司

现金流量表(续)

2012 年度

(金额单位: 人民币元)

	现金流量表 补充说明	2012 年	2011 年
筹资活动产生的现金流量:			
吸收投资所收到的现金		50,000,000.00	-
借款所收到的现金		-	45,000,000.00
现金流入小计		50,000,000.00	45,000,000.00
偿还债务所支付的现金		(6,000,000.00)	(5,000,000.00)
偿付利息所支付的现金		(9,914,386.33)	(8,821,540.57)
现金流出小计		(15,914,386.33)	(13,821,540.57)
筹资活动产生的现金流量净额		34,085,613.67	31,178,459.43
现金净增加/(减少)额	ii	2,338,728.55	(35,835,803.65)

刊载于第 7 页至第 19 页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

南安实康水务有限公司
现金流量表(续)
2012年度
(金额单位:人民币元)

现金流量表补充说明

	<u>2012年</u>	<u>2011年</u>
i 将净亏损调节为经营活动的现金流量:		
净亏损	(2,929,080.09)	(812,395.18)
加: 固定资产折旧	789,222.02	385,959.60
无形资产摊销	19,464.72	11,979.42
长期待摊费用摊销	85,046.16	85,046.16
财务费用/(净收益)	1,366,250.61	(852,674.46)
经营性应收项目的增加	(205,063.50)	(1,731,937.13)
经营性应付项目的(减少)/增加	<u>(826,433.82)</u>	<u>261,470.85</u>
经营活动使用的现金流量净额	<u>(1,700,593.90)</u>	<u>(2,652,550.74)</u>
ii 现金净增加/(减少)情况:		
现金的年末余额	15,083,465.31	12,744,736.76
减: 现金的年初余额	<u>(12,744,736.76)</u>	<u>(48,580,540.41)</u>
现金净增加/(减少)额	<u>2,338,728.55</u>	<u>(35,835,803.65)</u>

刊载于第7页至第19页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

南安实康水务有限公司

财务报表附注

(金额单位：人民币元)

1 公司基本情况

南安实康水务有限公司(以下简称“本公司”)是由南安市贸工农投资经营有限公司和在香港注册的实康福建(香港)有限公司在中华人民共和国福建省泉州市成立的中外合资经营企业。本公司于2008年3月25日经福建省人民政府批准,领取了商外资闽府合资字[2008]0004号批准证书,并于2008年4月18日领取了中华人民共和国福建省泉州市工商行政管理局颁发的350500400020300号企业法人营业执照。注册资本为人民币100,000,000.00元。

本公司董事会决定将本公司的注册资本增加人民币50,000,000.00元,即从人民币100,000,000.00元增加到人民币150,000,000.00元,并于2012年1月13日取得福建省人民政府批准。本公司于2011年12月29日修订了章程,于2012年1月13日领取了更新的高外资闽府合资字[2008]0004号批准证书,并于2012年8月22日领取了更新的中华人民共和国福建省南安市工商行政管理局颁发的350500400020300号企业法人营业执照。

本公司营业期限为50年,主要从事原水供应相关的业务。本公司于2011年3月1日正式开始生产经营。

2 编制基础

本公司编制财务报表所采用的主要会计政策,是根据中华人民共和国财政部在2006年颁布的《企业会计准则—基本准则》、2006年以前颁布的具体会计准则和《企业会计制度》制订的。这些会计政策必须符合有关法规和向有关政府部门报告的要求。

本公司财务报表是在假设本报告期后至2013年12月31日止期间本公司仍然可以持续经营的基础上编制的。

于资产负债表日,本公司的未弥补亏损为人民币9,738,014.28元,同时,流动负债已超过流动资产人民币17,962,589.07元。鉴于实康福建(香港)有限公司承诺在2013年度继续对本公司提供资金支持,以确保本公司能够持续经营,因此本财务报表仍然以持续经营为基础编制。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策

(a) 会计年度

本公司的会计年度自公历1月1日起至12月31日止。

(b) 记账基础和计量原则

本公司的记账基础为权责发生制。除特别声明外，计量原则为历史成本法。

(c) 记账本位币

本公司的记账本位币为人民币。

(d) 外币折算

外币业务按业务发生当日中国人民银行公布的外汇牌价折合为人民币。年末各项货币性外币资产、负债账户按资产负债表日中国人民银行公布的外汇牌价折合为人民币。除与购建固定资产直接有关的汇兑损益外，外币折算差异作为汇兑损益计入当期损益账户。

(e) 固定资产及在建工程

固定资产指本公司为提供劳务和经营管理而持有的，使用期限超过1年且单位价值较高的资产。

固定资产以成本减累计折旧及减值准备(参见附注4(i))记入资产负债表内。在建工程以成本减减值准备(参见附注4(i))记入资产负债表内。

在有关建造的资产达到预定使用状态之前发生的与购建固定资产有关的一切直接或间接成本，包括在购建期间利用专门借款进行购建所发生的借款费用(包括有关借款本金和利息的汇兑损益)，全部资本化为在建工程。在建工程于达到预定可使用状态时转入固定资产。在建工程不计提折旧。

本公司对固定资产在预计使用年限内按直线法计提折旧，各类固定资产的预计使用年限和预计净残值率分别为：

	预计使用年限	预计净残值率	年折旧率
管网建设工程	28年	0% - 10%	3% - 4%
机器设备	5 - 28年	10%	3% - 18%
办公设备及其他设备	5年	10%	18%
运输工具	5年	10%	18%
其他	5年	10%	18%

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策(续)

(f) 经营租赁费用

经营租赁的租金在租赁期内按直线法确认为费用。

(g) 无形资产

无形资产以成本减累计摊销及减值准备(参见附注 4(i))记入资产负债表内。无形资产的成本按直线法在预计使用年限摊销。各项无形资产的摊销期限分别为：

软件 5 年

(h) 长期待摊费用

长期待摊费用按直线法在受益期限内平均摊销。本公司长期待摊费用为办公室装修费用，摊销期限为 5 年。

(i) 资产减值准备

本公司对各项资产(包括固定资产、在建工程、无形资产及其他资产)的账面价值定期进行审阅，以评估可收回金额是否已跌至低于账面价值。当发生事项或情况变化显示账面价值可能无法收回的，这些资产便需进行减值测试。若出现减值情况，账面价值会减低至可收回金额，减计的价值即为资产减值损失。

可收回金额是指销售净价与预期从该资产的持续使用和使用寿命结束时的处置中形成的预计未来现金流量的现值两者中的较高者。

本公司按单项项目计算资产减值损失，并将减值损失计入当期损益。

如果有迹象表明以前年度据以计提资产减值的各种因素发生变化，使得资产的可收回金额大于其账面价值，则以前年度已确认的资产减值损失便会转回，转回的资产减值损失计入当期损益，但转回后资产的账面价值不应高于假如资产没有计提资产减值情况下的账面价值。

(j) 所得税

所得税按应付税款法核算。当期所得税费用按照当期应纳税所得额及适用税率计算。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策(续)

(k) 预计负债及或有负债

如果本公司须就已发生的事件承担现时义务，且该义务的履行很可能会导致经济利益流出企业，以及有关金额能够可靠地估计，本公司便会对该义务计提预计负债。

如果上述义务的履行导致经济利益流出企业的可能性较低，或是无法对有关金额作出可靠地估计，该义务将被披露为或有负债。

(l) 收入确认

收入是在经济利益能够流入本公司，以及相关的收入和成本能够可靠地计量时，根据下列方法确认：

(i) 提供劳务收入

当劳务交易的结果能够可靠估计时，提供劳务收入根据劳务的完成程度于提供劳务的期间内确认收入。假如劳务交易的结果不能可靠估计，则按已经发生并预计能够得到补偿的劳务成本金额确认收入。

(ii) 利息收入

利息收入是按资金本金和适用利率计算，并以时间为基准确认。

(m) 借款费用

用于购建固定资产的专门借款的借款费用在使有关固定资产达到预定可使用状态所必要的购建期间内予以资本化，计入所购建固定资产的成本。

除上述借款费用外，其他借款费用均于发生当期确认为财务费用。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策(续)

(n) 退休福利

按照中国有关法规，本公司为员工参加了政府组织安排的定额供款退休计划。本公司按员工工资的一定比率，向退休计划供款。上述供款按照权责发生制原则计入资产成本或当期损益。按供款计划缴款后，本公司不再有其他支付义务。

(o) 关联方

如果本公司有能力直接或间接控制、共同控制另一方或对另一方施加重大影响；或另一方有能力直接或间接控制或共同控制本公司或对本公司施加重大影响；或本公司与另一方或多方同受一方控制，均被视为关联方。关联方可为个人或企业。

4 税项

- (a) 本公司适用的与提供服务相关的税金及附加有营业税、城市维护建设税、教育费附加及地方教育费附加。

税种	计缴标准
营业税	应税营业收入的 5%
城市维护建设税	实缴营业税额的 7%
教育费附加	实缴营业税额的 3%
地方教育费附加	实缴营业税额的 2%

主营业务税金及附加，包括营业税、城市维护建设税、教育费附加及地方教育费附加。

(b) 所得税

本公司的法定税率为 25%。本公司本年度按 25% 执行(2011: 25%)。本公司尚处于亏损阶段，无需缴纳所得税。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

4 税项(续)

(c) 应交税金

	<u>2012 年</u>	<u>2011 年</u>
应交营业税	89,039.63	81,818.49
城市维护建设税	64,022.33	-
其他	<u>(879.11)</u>	<u>(827.06)</u>
合计	<u>152,182.85</u>	<u>80,991.43</u>

5 货币资金

	<u>2012 年</u>	<u>2011 年</u>
现金	4,737.42	3,691.58
活期存款	<u>15,078,727.89</u>	<u>12,741,045.18</u>
合计	<u>15,083,465.31</u>	<u>12,744,736.76</u>

6 应收账款

应收账款账龄分析如下:

	<u>2012 年</u>			<u>2011 年</u>		
	金额	占总额 比例	坏账准备	金额	占总额 比例	坏账准备
一年以内	<u>1,573,108.53</u>	<u>100%</u>	<u>-</u>	<u>1,023,937.53</u>	<u>100%</u>	<u>-</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

7 其他应收款

其他应收款账龄分析如下：

	2012 年		2011 年	
	金额	占总额比例	金额	占总额比例
一年以内	4,704,565.00	99.1%	218,699.60	83.5%
一年至二年	43,127.60	0.9%	27,360.00	10.4%
二年至三年	510.00	0.0%	15,860.00	6.1%
合计	<u>4,748,202.60</u>	<u>100%</u>	<u>261,919.60</u>	<u>100%</u>

本公司账龄在一年以上的其他应收款均为房屋押金，无需计提坏账准备。账龄自其他应收款确认日起开始计算。

8 预付账款

	2012 年	2011 年
预付供应商	1,000,000.00	28,899,761.16
其他	-	690,600.00
合计	<u>1,000,000.00</u>	<u>29,590,361.16</u>

预付账款账龄分析如下：

	2012 年		2011 年	
	金额	占总额比例	金额	占总额比例
一年以内	-	0%	22,271,282.66	75%
一年至二年	1,000,000.00	100%	7,319,078.50	25%
合计	<u>1,000,000.00</u>	<u>100%</u>	<u>29,590,361.16</u>	<u>100%</u>

本公司预付账款将根据工程进度逐步结转至在建工程，无需计提坏账准备。账龄自预付账款确认开始日起计算。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

9 固定资产

	管网建设工程	机器设备	办公设备	运输工具	其他	合计
成本:						
年初余额	-	3,776,120.00	218,260.00	1,298,773.00	87,954.00	5,381,107.00
本年增加	-	-	69,799.00	-	-	69,799.00
在建工程转入	272,738,532.11	27,148,770.55	-	-	-	299,887,302.66
年末余额	272,738,532.11	30,924,890.55	288,059.00	1,298,773.00	87,954.00	305,338,208.66
累计折旧:						
年初余额	-	(98,785.68)	(108,879.34)	(729,477.35)	(38,989.12)	(976,131.49)
本年计提折旧	(150,535.28)	(346,060.26)	(43,015.56)	(233,779.20)	(15,831.72)	(789,222.02)
年末余额	(150,535.28)	(444,845.94)	(151,894.90)	(963,256.55)	(54,820.84)	(1,765,353.51)
净额:						
年末余额	272,587,996.83	30,480,044.61	136,164.10	335,516.45	33,133.16	303,572,855.15
年初余额	-	3,677,334.32	109,380.66	569,295.65	48,964.88	4,404,975.51

10 在建工程

其中: 借款费用
资本化金额

成本:		
年初余额	209,878,835.71	11,968,255.57
本年增加	94,365,466.95	8,272,880.69
本年减少 (i)	(4,357,000.00)	(4,357,000.00)
本年转入固定资产	(299,887,302.66)	(15,884,136.26)
年末余额	-	-

本公司本年度用于确定借款费用资本化金额的资本化率为 6.31% (2011 年: 6.35%)。

(i) 本年减少为政府对本公司项目贷款利息支出的贴息补偿款。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

11 无形资产

	<u>土地使用权</u>	<u>软件</u>	<u>合计</u>
成本:			
年初/年末余额	503,013.00	7,500.00	510,513.00
	-----	-----	-----
累计摊销:			
年初余额	(10,479.42)	(5,250.00)	(15,729.42)
本年增加	<u>(17,964.72)</u>	<u>(1,500.00)</u>	<u>(19,464.72)</u>
年末余额	(28,444.14)	(6,750.00)	(35,194.14)
	-----	-----	-----
净额:			
年末余额	<u>474,568.86</u>	<u>750.00</u>	<u>475,318.86</u>
年初余额	<u>492,533.58</u>	<u>2,250.00</u>	<u>494,783.58</u>

本公司土地使用权为外购取得，相关的产权关系尚在办理中。

12 长期待摊费用

	<u>办公室装修</u>
年初余额	261,446.94
本年减少	<u>(85,046.16)</u>
年末余额	<u>176,400.78</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

13 应付账款

	<u>2012 年</u>	<u>2011 年</u>
应付源水费	352,308.88	505,378.41
应付其他	<u>205,688.67</u>	<u>83,098.75</u>
合计	<u>557,997.55</u>	<u>588,477.16</u>

14 其他应付款

	<u>2012 年</u>	<u>2011 年</u>
应付工程款	30,105,307.94	2,379,502.59
押金及保证金	1,210,492.68	2,268,792.68
其他	<u>53,654.75</u>	<u>75,339.42</u>
合计	<u>31,369,455.37</u>	<u>4,723,634.69</u>

15 长期借款/一年内到期的长期负债

	<u>2012 年</u>			<u>2011 年</u>		
	金额	期限及 年利率	质押/担保	金额	期限及 年利率	质押/担保
银行借款	154,000,000.00	10 年/ 5.90%	质押	160,000,000.00	10 年/ 6.35%	质押
减: 一年内到期的 长期负债	<u>(8,000,000.00)</u>			<u>(6,000,000.00)</u>		
	<u>146,000,000.00</u>			<u>154,000,000.00</u>		

2010年3月17日,本公司与中国工商银行股份有限公司南安新华支行签订了为南安市沿海三镇供水一期工程项目的固定资产投资的专门借款合同,借款总金额为人民币165,000,000.00元,借款利率为中国人民银行基准贷款利率下浮10%,期限为120个月。上述借款由本公司应收账款质押,权利质押合同编号:14080148-2010年新华(质)字0003号。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

16 实收资本

注册资本	2012 年		2011 年	
	金额	%	金额	%
南安市贸工农投资经营有限公司	52,500,000.00	35%	35,000,000.00	35%
实康福建(香港)有限公司	97,500,000.00	65%	65,000,000.00	65%
	<u>150,000,000.00</u>	<u>100%</u>	<u>100,000,000.00</u>	<u>100%</u>

实收资本	2012 年			2011 年		
	原币金额 美元	等值人民币 金额	%	原币金额 美元	等值人民币 金额	%
南安市贸工农投资经营有限公司		52,500,000.00	35%		35,000,000.00	35%
实康福建(香港)有限公司	9,421,980.00	65,000,000.00 32,500,000.00		9,421,980.00	65,000,000.00 -	
		97,500,000.00	65%		65,000,000.00	65%
		<u>150,000,000.00</u>	<u>100%</u>		<u>100,000,000.00</u>	<u>100%</u>

在实收资本账户中，外币换算为人民币时采用的汇率是收到出资当日中国人民银行公布的汇率。

上述实收资本已由会计师事务所验证，并出具了验资报告。

17 主营业务收入

	2012 年	2011 年
供应原水收入	<u>10,180,972.45</u>	<u>7,227,618.32</u>

18 财务费用/(净收益)

	2012 年	2011 年
发生的利息支出	9,914,386.33	8,821,540.57
减：资本化的利息支出	<u>(8,272,880.69)</u>	<u>(8,821,540.57)</u>
净利息支出	1,641,505.64	-
减：利息收入	(275,255.03)	(852,674.46)
其他财务费用	<u>4,796.34</u>	<u>3,130.47</u>
合计	<u>1,371,046.95</u>	<u>(849,543.99)</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

19 关联方及其交易

(a) 存在控制关系的关联方

	注册地	主营业务	与本公司关系	经济性质或类型	法定代表人
实康福建(香港)有限公司	香港	投资	投资者	外资企业	郑添利

存在控制关系的关联方的注册资本及其变化

	年初/年末数 港币
实康福建(香港)有限公司	84,617,950.00

存在控制关系的关联方所持股份或权益及其变化

	年初数		本年增加		年末数	
	人民币	%	人民币	%	人民币	%
实康福建(香港)有限公司	65,000,000.00	65%	32,500,000.00	65%	97,500,000.00	65%

(b) 不存在控制关系的关联方

	与本公司关系
临沂实康水务有限公司	同一母系子公司
实康投资咨询(上海)有限公司	同一母系子公司
实盟企业管理咨询(上海)有限公司	同一母系子公司
南安市贸工农投资经营有限公司	中方投资者

(c) 本公司与关联方于本年度进行的交易及于年末的往来余额如下:

(i) 本公司与关联方之间的重大交易列示如下:

	2012年	2011年
管理咨询服务费		
- 实盟企业管理咨询(上海)有限公司	500,000.00	458,333.00
- 实盟投资咨询(上海)有限公司	-	41,667.00

本公司董事会认为上述交易根据正常的商业交易条件进行,并以一般交易价格为定价基础。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

19 关联方及其交易 (续)

(c) 本公司与关联方于本年度进行的交易及于年末的往来余额如下 (续):

(ii) 于年末本公司与关联方应付款余额列示如下:

	<u>2012 年</u>	<u>2011 年</u>
其他应付款		
- 临沂实康水务有限公司	7,356.90	22,351.32

20 承担

(a) 资本承担

本公司于 2012 年 12 月 31 日的资本承担如下:

	<u>2012 年</u>	<u>2011 年</u>
已批准但未订合同	11,000,000.00	-
已订合同	-	81,668,146.72
	<u>11,000,000.00</u>	<u>81,668,146.72</u>

(b) 经营租赁承担

根据不可撤销的有关房屋经营租赁协议, 本公司于 2012 年 12 月 31 日后应付的最低租赁付款额如下:

	<u>2012 年</u>	<u>2011 年</u>
一年以内	85,560.00	85,560.00
一年以上至两年	57,040.00	85,560.00
合计	<u>142,600.00</u>	<u>171,120.00</u>

21 上期比较数字

为方便作出相应的比较, 本公司对财务报表中 2011 年度的某些项目进行了重新分类。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012

Salcon Zhejiang (HK) Limited

實康浙江(香港)有限公司

Financial Statements
for the year ended 31 December 2012

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Report of the directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2012.

Principal place of business

Salcon Zhejiang (HK) Limited (“the company”) is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 20/F, Fung House, No. 19-20 Connaught Road Central, Hong Kong.

Principal activity

The principal activity of the company is investment holding. Details of the company’s subsidiary are set out in note 9 to the financial statements.

Financial statements

The profit of the company for the year ended 31 December 2012 and the state of the company’s affairs as at that date are set out in the financial statements on pages 5 to 23.

Transfer to reserves

Profits attributable to shareholders, before dividend, of HK\$8,304,556 (2011: HK\$8,013,868) have been transferred to reserves. Other movements in reserves are set out in the statement of changes in equity.

For the year ended 31 December 2012, an interim dividend of HK\$6,516,078 was declared (2011: HK\$6,500,000).

Share capital

Details of the share capital of the company are set out in note 11(c) to the financial statements. There were no movements during the year.

Directors

The directors during the financial year and up to the date of this report were:

Tee Tiam Lee
Leong Kok Wah
Law Woo Hock

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Directors' interests

There being no provision in the company's articles of association in connection with the retirement of directors, all existing directors continue in office for the following year.

At no time during the year was the company, or any of its holding companies, subsidiary or fellow subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

No contract of significance to which the company, or any of its holding companies, subsidiary or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Director

Hong Kong

30 APR 2013

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)



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Independent auditor's report to the shareholders of Salcon Zhejiang (HK) Limited (Incorporated in Hong Kong with limited liability)

We have audited the unconsolidated financial statements of Salcon Zhejiang (HK) Limited ("the company") set out on pages 5 to 23, which comprise the company's statement of financial position as at 31 December 2012, the company's statement of comprehensive income, the statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

KPMG, a Hong Kong partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

**Independent auditor's report to the shareholders of
Salcon Zhejiang (HK) Limited (continued)
(Incorporated in Hong Kong with limited liability)**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis of adverse opinion

As explained in note 2(a) to the financial statements, the company has a subsidiary but did not prepare consolidated financial statements for the year ended 31 December 2012 because the directors of the company considered that the preparation of consolidated financial statements would involve expense and delay out of proportion to the value of the members of the company. As disclosed in notes 2(d) and 9 to the financial statements, investment in a subsidiary is stated at cost less any impairment losses. In our opinion, this accounting treatment does not comply with section 124 of the Hong Kong Companies Ordinance and Hong Kong Accounting Standard 27, *Consolidated and separate financial statements*, issued by the Hong Kong Institute of Certified Public Accountants, so far as the preparation of consolidated financial statements is concerned and the effects of such departure are material and pervasive and have not been quantified. We qualified our opinion in respect of the same disagreement about accounting treatment in our auditor's reports on the financial statements for all years since the year ended 31 December 2011.

Adverse opinion

In our opinion, because of the significance of the matter discussed in the basis for adverse opinion paragraph, the unconsolidated financial statements do not give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and the requirements of the Hong Kong Companies Ordinance. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 APR 2013

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

**Statement of comprehensive income
for the year ended 31 December 2012**

(Expressed in Hong Kong dollars)

	<i>Note</i>	<u>2012</u> <i>HKD</i>	<u>2011</u> <i>HKD</i>
Turnover	4	8,817,252	8,510,837
Other revenue	5	452	378
Administrative and operating expenses		<u>(72,285)</u>	<u>(71,805)</u>
Profit before taxation	6	8,745,419	8,439,410
Income tax	7(a)	<u>(440,863)</u>	<u>(425,542)</u>
Profit and total comprehensive income for the year		<u><u>8,304,556</u></u>	<u><u>8,013,868</u></u>

The notes on pages 9 to 23 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 11(b).

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

*Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012*

Statement of financial position at 31 December 2012

(Expressed in Hong Kong dollars)

	Note	<u>2012</u> HKD	<u>2011</u> HKD
Non-current asset			
Investment in a subsidiary	9	71,259,817	71,259,817
Current asset			
Amount due from immediate holding company	10	4,826,151	-
Amount due from a fellow subsidiary	10	766,367	-
Cash and bank balances		<u>10,869,085</u>	<u>8,110,015</u>
		16,461,603	8,110,015
Current liabilities			
Accrued liabilities		30,300	30,300
Dividend payable		13,011,428	6,500,000
Amounts due to fellow subsidiaries	10	<u>101,253</u>	<u>49,571</u>
		13,142,981	6,579,871
Net current assets		<u>3,318,622</u>	<u>1,530,144</u>
NET ASSETS		<u>74,578,439</u>	<u>72,789,961</u>
CAPITAL AND RESERVE			
Share capital	11	61,829,945	61,829,945
Retained earnings	11(c)	<u>12,748,494</u>	<u>10,960,016</u>
TOTAL EQUITY		<u>74,578,439</u>	<u>72,789,961</u>

Approved and authorised for issue by the board of directors on **30 APR 2013**





 Directors

The notes on pages 9 to 23 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

**Statement of changes in equity
for the year ended 31 December 2012**

(Expressed in Hong Kong dollars)

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Total</i>
	<i>HKD</i>	<i>HKD</i>	<i>HKD</i>
	(note 11(c))		
Balance at 31 December 2010 and 1 January 2011	1	9,446,148	9,446,149
Changes in equity for 2011			
Debt capitalisation	61,829,944	-	61,829,944
Total comprehensive income for the year	-	8,013,868	8,013,868
Dividend declared in respect of the current year	-	(6,500,000)	(6,500,000)
Balance at 31 December 2011 and 1 January 2012	61,829,945	10,960,016	72,789,961
Changes in equity for 2012			
Total comprehensive income for the year	-	8,304,556	8,304,556
Dividend declared in respect of the current year	-	(6,516,078)	(6,516,078)
Balance at 31 December 2012	<u>61,829,945</u>	<u>12,748,494</u>	<u>74,578,439</u>

The notes on pages 9 to 23 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

**Cash flow statement
for the year ended 31 December 2012**

(Expressed in Hong Kong dollars)

	<u>2012</u> HKD	<u>2011</u> HKD
Operating activities		
Profit before taxation	8,745,419	8,439,410
Adjustments for:		
Interest income	(452)	(378)
Dividend income	(8,817,252)	(8,510,837)
Net foreign exchange gain	<u>(4,650)</u>	<u>-</u>
Operating loss before changes in working capital	(76,935)	(71,805)
Increase in amount due from immediate holding company	(4,826,151)	-
Increase in amount due from a fellow subsidiary	(766,367)	-
Increase in accrued liabilities	-	6,050
Increase in amounts due to fellow subsidiaries	<u>51,682</u>	<u>49,571</u>
Net cash used in operating activities	<u>(5,617,771)</u>	<u>(16,184)</u>
Investing activities		
Interest received	452	378
Dividend received	<u>8,376,389</u>	<u>8,085,295</u>
Net cash generated from investing activities	<u>8,376,841</u>	<u>8,085,673</u>
Net increase in cash and cash equivalents	2,759,070	8,069,489
Cash and cash equivalents at 1 January	<u>8,110,015</u>	<u>40,526</u>
Cash and cash equivalents at 31 December	<u><u>10,869,085</u></u>	<u><u>8,110,015</u></u>

The notes on pages 9 to 23 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1. Principle activity

The principle activity of the company is investment holding. Details of subsidiary are set out in note 9 to the financial statements.

2. Significant accounting policies**(a) Statement of compliance**

As disclosed in note 9, the company has a subsidiary but group accounts in the form of consolidated financial statements as required under section 124 of the Hong Kong Companies Ordinance have not been prepared as the directors of the company are of the opinion that it would involve expenses and delay out of proportion to the value to the members of the company.

For the purposes of compliance with sections 122 and 123 of the Hong Kong Companies Ordinance, these financial statements have been prepared to present a true and fair view of the state of affairs and profit or loss of the company only. Consequently, they have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance which apply to the preparation of separate unconsolidated financial statements. A summary of the significant accounting policies adopted by the company is set out below.

These financial statements do not comply with HKAS 27, *Consolidated and separate financial statements*, so far as the preparation of consolidated financial statements is concerned. As a consequence, the financial statements do not give all the information required by HKAS 27 about the economic activities of the group of which the company is the parent. Full compliance with HKAS 27 would require the company to produce consolidated financial statements which disclose this information.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the company for the current and prior accounting periods reflected in these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(b) Basis of preparation of the financial statements**

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments and estimates made by management in the application of HKFRSs that have significant effect on the financial statements are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued certain amendments to HKFRSs and new Interpretations that are first effective or available for early adoption for the current accounting period of the company. None of the developments is relevant to the company's financial statements.

The company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiary

Subsidiaries are entities controlled by the company. Control exists when the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(e)).

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(e) Impairment of assets****(i) Impairments of other receivables**

Other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the company about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(e) Impairment of assets (continued)****(i) Impairments of other receivables (continued)**

Impairment losses for other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the company is satisfied that recovery is remote, the amount considered irrecoverable is written off against the receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the investment in a subsidiary may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in profit or loss whenever the carrying amount of such an asset exceeds its recoverable amount.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(e) Impairment of assets (continued)****(ii) Impairment of other assets (continued)**

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(f) Other receivables (including amounts due from related parties)

Other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(d)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(e)(i)).

(g) Other payables (including amounts due to related parties)

Other payables are initially recognised at fair value and thereafter are stated at amortised cost, except where the payables are interest-free loans from related parties without any fixed term of repayment or the effect of discounting would be immaterial, in which case they are stated at cost.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(i) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(i) Income tax (continued)**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(k) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Dividends

Dividend income is recognised when the shareholder's right to receive payment is established.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(k) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the end of each reporting period. Exchange gains and losses are recognised in profit or loss.

(l) Related parties

(a) A person, or a close member of that person's family, is related to the company if that person:

(i) has control or joint control over the company;

(ii) has significant influence over the company; or

(iii) is a member of the key management personnel of the company or the company's parent.

(b) An entity is related to the company if any of the following conditions applies:

(i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

2. Significant accounting policies (continued)**(l) Related parties (continued)**

- (b) An entity is related to the company if any of the following conditions applies: (continued)
- (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. Accounting judgements and estimates***Impairment of investment in a subsidiary***

Internal and external sources of information are reviewed by the company at the end of each reporting period to assess whether there is any indication that investment in a subsidiary may be impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

4. Turnover

The principal activity of the company is investment holding.

Turnover represents dividends received/receivable during the year.

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
Dividend income from a subsidiary	8,817,252	8,510,837

5 Other Revenue

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
Interest income	452	378

6. Profit before taxation

Profit before taxation is arrived at after charging:

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
Auditor's remuneration	22,300	22,300

7. Income tax in the statement of comprehensive income

(a) No provision has been made for Hong Kong Profits Tax as the company has no assessable profit for the current year and the prior year. Income tax for the current and prior years represents withholding tax on dividend income from a subsidiary.

No deferred tax assets or liabilities have been recognised as the company has no significant deductible or taxable temporary differences which would give rise to deferred tax assets or liabilities.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

*Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012*

7. Income tax in the statement of comprehensive income (continued)

(b) Reconciliation between tax expense and accounting profit at an applicable tax rate:

	<u>2012</u>	<u>2011</u>
	<i>HKD</i>	<i>HKD</i>
Profit before taxation	<u>8,745,419</u>	<u>8,439,410</u>
Notional tax on profit before taxation, calculated at 16.5% (2011:16.5%)	1,442,994	1,392,503
Tax effect of non-taxable income and non-deductible expenses	(1,442,994)	(1,392,503)
Withholding tax on dividend income	<u>440,863</u>	<u>425,542</u>
Actual tax expense	<u>440,863</u>	<u>425,542</u>

8. Directors' remuneration

There is no directors' remuneration for the year ended 31 December 2012, which is required to be disclosed pursuant to section 161 of the Hong Kong Companies Ordinance.

9. Investment in a subsidiary

	<u>2012</u>	<u>2011</u>
	<i>HKD</i>	<i>HKD</i>
Capital contribution	63,022,789	63,022,789
Cost directly attributable to investment	<u>8,237,028</u>	<u>8,237,028</u>
	<u>71,259,817</u>	<u>71,259,817</u>

The company's wholly-owned subsidiary, Haining Salcon Water Company Limited was set up on 31 August 2006 as a co-operative joint venture company. The company can exercise unilateral control over the co-operative joint venture company.

Particulars of the subsidiary are as follows:

<i>Name</i>	<i>Place of incorporation/ registration and operations</i>	<i>Particulars of paid up capital</i>	<i>Percentage of equity interest held by the company</i>	<i>Principal activities</i>
Haining Salcon Water Company Limited	The People's Republic of China ("PRC")	USD8,130,000	60%	Management and operation of water production and distribution of water

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

9. Investment in a subsidiary (continued)

The directors of the company consider that the investment to be valued at cost is appropriate.

No impairment loss on investment in subsidiary has been provided as, in the opinion of the directors, the company's share of net assets value of the subsidiary would exceed the company's cost of investment.

Post-acquisition profits of the subsidiary attributable to the company based on the audited financial statements of the subsidiary prepared in accordance with the Generally Accepted Accounting Principles of the PRC are summarised as below:

	<i>Current year</i>	<i>Prior years</i>	<i>Total</i>
Amount dealt with in the financial statements of the company	8,817,252	19,661,487	28,478,739
Amount not dealt with in the financial statements of the company	<u>(1,093,708)</u>	<u>20,839,021</u>	<u>19,745,313</u>
Total	<u>7,723,544</u>	<u>40,500,508</u>	<u>48,224,052</u>

10. Amounts due from/(to) immediate holding company and fellow subsidiaries

The amounts are unsecured, non-interest bearing and repayable on demand.

11. Capital and reserve**(a) Components of the company's capital and reserve**

The opening and closing balances of each component of the company's equity and reconciliation between these amounts are set out in the statement of changes in equity.

(b) Dividends

Dividends payable to equity shareholders of the company attributable to the year:

	<u>2012</u>	<u>2011</u>
	<i>HKD</i>	<i>HKD</i>
Interim dividend declared	<u>6,516,078</u>	<u>6,500,000</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

11. Capital and reserve (continued)**(c) Authorised and issued share capital**

	<i>At 31 December 2012 and 2011</i>	
	<i>No. of shares</i>	<i>Amount</i>
Authorised:		
Ordinary share of HK\$1 each	300,000,000	300,000,000
Issued and fully paid:		
At 1 January	61,829,945	1
Capitalisation	-	61,829,944
At 31 December	61,829,945	61,829,945

On 12 January 2011, the authorised share capital of the company increased to 300,000,000 shares of HK\$1 each.

On 12 January 2011, the amount due to a fellow subsidiary, Salcon Water (Asia) Limited of HK\$61,829,944 was capitalised as ordinary shares of the company of which 61,829,944 shares of HK\$1 each were issued. Consequently, Salcon Water (Asia) Limited became the immediate parent of the company.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to company's residual assets.

(d) Capital management

The company's primary objectives when managing capital are to safeguard the company's ability to continue as a going concern, so that it can continue to provide returns for shareholders by securing access to finance at a reasonable cost. As the company is part of a larger group, the company's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The company defines "capital" as including all components of equity.

The company's capital structure is regularly reviewed and managed with due regard to the capital management practices of the group to which the company belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the company or the group, to the extent that these do not conflict with the directors' fiduciary duties towards the company or the requirements of the Hong Kong Companies Ordinance. The company is not subject to externally imposed capital requirements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012

12. Financial risk management and fair values

Exposure to credit, liquidity and currency risks arises in the normal course of the company's business. The company's exposure to these risks and the financial risk management policies and practices used by the company to manage these risks are described below.

(a) Credit risk

The company's credit risk is primarily attributable to cash at bank and due from related companies. The directors consider the company's exposure to bad debts from inter-company balances is not significant since these group companies are creditworthy.

Bank deposits are normally placed with financial institutions that have a good credit rating.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The company does not provide any other guarantees which would expose the company to credit risk.

(b) Liquidity risk

The company's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

All of the company's financial liabilities at the end of the reporting period do not bear interest and are repayable within one year or on demand.

(c) Currency risk

The company is exposed to currency risks primarily arising from cash and cash equivalents denominated in United States dollars ("USD"). As the Hong Kong dollars ("HKD") is pegged to the USD, the company considers the risk of movements in exchange rates between the HKD and the USD to be insignificant.

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair value as at 31 December 2012.

13. Material related party transactions

There are no material related party transactions during the year.

The outstanding balances at the end of the reporting period are as follows:

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
Amount due from immediate holding company		
Salcon Water (Asia) Limited	4,826,151	-

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

*Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012*

13. Material related party transactions (continued)

The outstanding balances at the end of the reporting period are as follows (continued):

	<u>2012</u>	<u>2011</u>
	<i>HKD</i>	<i>HKD</i>
Amount due from a fellow subsidiary		
Salcon Services (HK) Limited	<u>766,367</u>	<u>-</u>
Amounts due to fellow subsidiaries		
Salcon Services (HK) Limited	51,025	-
Salcon Engineering Berhad	<u>50,228</u>	<u>49,571</u>
Total	<u>101,253</u>	<u>49,571</u>

The outstanding balances are unsecured, interest free, have no fixed repayment terms and are included in note 10.

14. Immediate and ultimate controlling party

At 31 December 2012, the directors consider the immediate parent of the company to be Salcon Water (Asia) Limited, which is incorporated in Hong Kong. The directors consider the ultimate controlling party of the company to be Salcon Berhad, which is incorporated in Malaysia. Salcon Berhad produces financial statements prepared in accordance with International Financial Reporting Standards and Malaysian Financial Reporting Standards, generally accepted accounting principles and the Companies Act, 1965 in Malaysia available for public use.

15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements. These included the following which may be relevant to the company:

	<i>Effective for accounting periods beginning on or after</i>
Amendments to HKAS 1, <i>Presentation of financial statements</i> – <i>Presentation of items of other comprehensive income</i>	1 July 2012
HKFRS 13, <i>Fair value measurement</i>	1 January 2013
HKFRS 9, <i>Financial instruments</i>	1 January 2015

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

*Salcon Zhejiang (HK) Limited
Financial statements for the year ended 31 December 2012*

15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012 (continued)

The company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's results of operations and financial position.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012

(Translated based on the original audited financial statements in Chinese)

HAINING SALCON
WATER COMPANY LIMITED

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS
FOR THE YEAR 1 JANUARY 2012 TO 31 DECEMBER 2012
IF THERE IS ANY CONFLICT BETWEEN THE CHINESE VERSION
AND ITS ENGLISH TRANSLATION, THE CHINESE VERSION WILL PREVAIL

SALCON BERHAD (593796-T)

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)**AUDITORS' REPORT**

毕马威华振沪审字第 1301995 号

The Board of Directors of Haining Salcon Water Co., Ltd.:

We have audited the accompanying financial statements of Haining Salcon Water Co., Ltd. ("the Company") on pages 1 to 21, which comprise the balance sheet as at 31 December 2012, and the income and profit appropriation statement and cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises (hereinafter represents Accounting Standards for Business Enterprises-Basic Standard issued in 2006 and specific accounting standards issued before 2006) and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Those standards require that we comply with China Code of Ethics for Certified Public Accountants, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)**AUDITORS' REPORT (continued)**

毕马威华振沪审字第 1301995 号

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and the financial performance and the cash flows of the Company for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

KPMG Huazhen (Special General Partnership)
Shanghai Branch

Certified Public Accountants
Registered in the People's Republic of
China

Shanghai, The People's Republic of China

Tian Chunshan

Qian Di

Date: 10 April 2013

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the People's Republic of China. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the People's Republic of China.

SALCON BERHAD (593796-T)

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Haining Salcon Water Co., Ltd.
Balance sheet as at 31 December 2012
(Expressed in Renminbi Yuan)

	Note	2012	2011 Note 24
Assets			
Current assets			
Cash at bank and on hand	5	3,822,033.04	17,564,335.12
Bills receivable	6	54,000,000.00	22,951,911.38
Accounts receivable	7	1,381,645.97	8,032,286.82
Other receivables	8	3,625,596.22	2,195,949.37
Inventories	9	1,535,282.44	3,500,974.06
Payments in advance		89,500.00	-
Deferred expenses		<u>57,014.70</u>	<u>54,576.94</u>
Total current assets		64,511,072.37	54,300,033.69
Fixed assets			
Cost		228,462,254.09	229,445,735.42
Less: Accumulated depreciation		<u>(50,060,134.08)</u>	<u>(38,649,471.32)</u>
Carrying amount	10	178,402,120.01	190,796,264.10
Construction in progress		<u>684,763.24</u>	-
Total fixed assets		179,086,883.25	190,796,264.10
Intangible assets and other assets			
Intangible assets	11	9,306.60	10,474.61
Long-term deferred expenses	12	4,081,277.51	4,193,411.91
Other long-term assets	13	<u>12,600,000.00</u>	<u>14,400,000.00</u>
Total intangible assets and other assets		16,690,584.11	18,603,886.52
Total assets		<u>260,288,539.73</u>	<u>263,700,184.31</u>

The notes on pages 7 to 21 form part of these financial statements.

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

Haining Salcon Water Co., Ltd.
Balance sheet as at 31 December 2012 (continued)
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>2012</i>	<i>2011</i> <i>Note 24</i>
Liabilities and owners' equity			
Current liabilities			
Short-term loans	<i>14</i>	32,500,000.00	-
Accounts payable		248,225.71	5,894,436.58
Accrued payroll		104,450.50	74,984.95
Taxes payable	<i>4(c)</i>	1,208,904.59	560,660.89
Other creditors		25,963.53	33,427.35
Other payables	<i>15</i>	16,477,396.85	95,908.43
Accrued expenses		470,882.55	305,383.45
Long-term liabilities due within one year	<i>16</i>	<u>27,000,000.00</u>	<u>34,000,000.00</u>
Total current liabilities		78,035,823.73	40,964,801.65
Long-term liabilities			
Long-term loans	<i>16</i>	<u>24,000,000.00</u>	<u>63,000,000.00</u>
Total liabilities		<u>102,035,823.73</u>	<u>103,964,801.65</u>
Owners' equity			
Paid-in capital	<i>17</i>	105,314,130.21	105,314,130.21
Capital reserve	<i>18</i>	38,000,000.00	38,000,000.00
Surplus reserve	<i>19</i>	5,293,691.22	4,229,949.55
Retained earnings		<u>9,644,894.57</u>	<u>12,191,302.90</u>
Total owners' equity		<u>158,252,716.00</u>	<u>159,735,382.66</u>
Total liabilities and owners' equity		<u>260,288,539.73</u>	<u>263,700,184.31</u>

These financial statements have been approved by the Board of Directors of the Company on 10 April 2013.

Chairman of the Board (Director on behalf of the Board) (Signature and stamp)	The person in-charge of the accounting affairs (Signature and stamp)	The head of the accounting department (Signature and stamp)	(Company stamp)
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The notes on pages 7 to 21 form part of these financial statements.

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

Haining Salcon Water Co., Ltd.
Income and profit appropriation statement
for the year ended 31 December 2012
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>2012</i>	<i>2011</i>
Sales from principal activities	<i>21</i>	56,270,506.54	61,233,185.56
Less: Cost of sales from principal activities		(30,088,556.60)	(31,066,986.05)
Business taxes and surcharges	<i>4(a)</i>	<u>(554,741.84)</u>	<u>(615,077.63)</u>
Profit from principal activities		25,627,208.10	29,551,121.88
Add: Profit from other operations		45,576.00	407.00
Less: General and administrative expenses		(6,860,621.78)	(5,919,136.90)
Financial expenses	<i>22</i>	<u>(6,975,312.65)</u>	<u>(6,986,225.97)</u>
Operating profit		11,836,849.67	16,646,166.01
Add: Non-operating income		7,080.00	-
Less: Non-operating expenses		<u>(56,688.02)</u>	<u>(5,347,770.19)</u>
Profit before income tax		11,787,241.65	11,298,395.82
Less: Income tax	<i>4(b)</i>	<u>(1,469,908.31)</u>	<u>-</u>
Net profit for the year		10,317,333.34	11,298,395.82
Add: Retained earnings at the beginning of the year		<u>12,191,302.90</u>	<u>13,753,919.96</u>
Profits available for distribution		22,508,636.24	25,052,315.78
Less: Statutory surplus reserve	<i>20</i>	<u>(1,063,741.67)</u>	<u>(1,061,012.88)</u>
Profits available for distribution to shareholders		21,444,894.57	23,991,302.90
Less: Cash dividends appropriated to shareholders	<i>20</i>	<u>(11,800,000.00)</u>	<u>(11,800,000.00)</u>
Retained earnings carried forward		<u>9,644,894.57</u>	<u>12,191,302.90</u>

The notes on pages 7 to 21 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Haining Salcon Water Co., Ltd.
Cash flow statement
for the year ended 31 December 2012
(Expressed in Renminbi Yuan)

	<i>Note to the cash flow statement</i>	<i>2012</i>	<i>2011</i>
Cash flows from operating activities:			
Cash received from sale of goods		31,873,058.77	39,027,321.05
Cash received relating to other operating activities		<u>115,929.15</u>	<u>49,810.86</u>
Sub-total of cash inflows		<u>31,988,987.92</u>	<u>39,077,131.91</u>
Cash paid for goods		(14,177,366.85)	(13,808,301.09)
Cash paid to and for employees		(5,847,141.62)	(5,182,681.19)
Cash paid for all types of taxes		(2,136,987.30)	(1,270,447.14)
Cash paid relating to other operating activities		<u>(2,244,705.84)</u>	<u>(3,252,661.76)</u>
Sub-total of cash outflows		<u>(24,406,201.61)</u>	<u>(23,514,091.18)</u>
Net cash inflow from operating activities	<i>i</i>	<u>7,582,786.31</u>	<u>15,563,040.73</u>
Cash flows from investing activities:			
Cash received from disposal of investments		-	10,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,800,000.00	1,800,000.00
Cash received relating to other investing activities		<u>291,077.15</u>	<u>746,506.13</u>
Sub-total of cash inflows		<u>2,091,077.15</u>	<u>12,546,506.13</u>
Cash paid for acquisition of fixed assets and intangible assets		<u>(5,349,954.32)</u>	<u>(6,925,402.59)</u>
Sub-total of cash outflows		<u>(5,349,954.32)</u>	<u>(6,925,402.59)</u>
Net cash outflow/(inflow) from investing activities		<u>(3,258,877.17)</u>	<u>5,621,103.54</u>

The notes on pages 7 to 21 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Haining Salcon Water Co., Ltd.
Cash flow statement
for the year ended 31 December 2012 (continued)
(Expressed in Renminbi Yuan)

	<i>Note to the cash flow statement</i>	2012	2011
Cash flows from financing activities:			
Cash received from borrowings		86,000,000.00	-
Sub-total of cash inflows		86,000,000.00	-
Cash repayments of borrowings		(83,500,000.00)	(19,000,000.00)
Cash paid for dividends or profits distribution		(11,800,000.00)	(11,800,000.00)
Cash paid for interest expenses		(6,489,213.38)	(7,155,213.44)
Cash paid relating to other financing activities		(2,276,997.84)	(369,708.92)
Sub-total of cash outflows		(104,066,211.22)	(38,324,922.36)
Net cash outflow from financing activities		(18,066,211.22)	(38,324,922.36)
Net decrease in cash	<i>ii</i>	(13,742,302.08)	(17,140,778.09)

The notes on pages 7 to 21 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Haining Salcon Water Co., Ltd.
Cash flow statement
for the year ended 31 December 2012 (continued)
(Expressed in Renminbi Yuan)

Notes to the cash flow statement

i Reconciliation of net profit to cash flows from operating activities

	2012	2011
Net profit	10,317,333.34	11,298,395.83
Add: Depreciation of fixed assets	11,410,662.76	12,487,688.81
Amortisation of intangible assets	3,629.55	4,612.67
Amortisation of long-term deferred expenses	172,646.36	52,877.09
Increase in deferred expenses	(2,437.76)	(15,461.55)
Increase/(decrease) in accrued expenses	183,548.89	(754,226.22)
Losses on disposal of fixed assets, intangible assets and other long-term assets	-	3,644,448.79
Financial expenses	6,957,084.28	6,975,617.60
Decrease in gross inventories	1,965,691.62	2,485,868.96
Increase in gross operating receivables	(24,477,106.58)	(22,451,804.30)
Increase in operating payables	<u>1,051,733.85</u>	<u>1,835,023.05</u>
Net cash inflow from operating activities	<u>7,582,786.31</u>	<u>15,563,040.73</u>

ii Net decrease in cash

	2012	2011
Cash at the end of the year	3,822,033.04	17,564,335.12
Less: Cash at the beginning of the year	<u>(17,564,335.12)</u>	<u>(34,705,113.21)</u>
Net decrease in cash	<u>(13,742,302.08)</u>	<u>(17,140,778.09)</u>

The notes on pages 7 to 21 form part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

Haining Salcon Water Co., Ltd.
Notes to the financial statements
(Expressed in Renminbi Yuan)

1 COMPANY STATUS

Haining Salcon Water Co., Ltd. (the Company) is an equity joint venture established in Haining, Zhejiang Province in the People's Republic of China (PRC) by Salcon Zhejiang (HK) Limited (Salcon Zhejiang) and Haining Water Investment Group Co., Ltd (Haining Water). The Company obtained an approval certificate Shang Wai Zi Zhe Fu Zi Jia Zi [2006] No. 03536 from the People's Government of Zhejiang Province on 21 September 2006, and a business license Qi He Zhe Jia Zong Zi No. 004136 on 25 September 2006 issued by Jiaxing Administration of Industry and Commerce. The original registered capital is USD 11,250,000.

The Company's Board of Directors resolved to increase the Company's registered capital by USD 2,300,000. The registered capital was increased from USD 11,250,000 to USD 13,550,000. The Company obtained approval from Haining Administration of Foreign Trade and Economic Co-operation for the change on 23 May 2007. The articles of associations were revised on 11 January 2007 accordingly. The Company obtained a revised approval certificate Shang Wai Zi Zhe Fu Zi Jia Zi [2006] No. 03536 on 24 May 2007 and a revised business licence Qi He Zhe Jia Zong Zi No. 004136 on 14 June 2007.

The Company's period of operation is 30 years, and its principal activities are water treatment and water supply. The Company commenced its operation on 28 September 2006.

2 BASIS OF PREPARATION

These financial statements have been translated into English from the Company's statutory financial statements issued in the PRC in Chinese.

The principal accounting policies adopted in the preparation of the financial statements are in conformity with Accounting Standards for Business Enterprises-Basic Standard issued in 2006, specific accounting standards issued before 2006 and the Accounting Regulations for Business Enterprises, all issued by the Ministry of Finance of the PRC (MOF). The accounting policies comply with the legal and reporting requirements of the relevant government authorities. Accordingly, the basis of measurement and presentation in these financial statements may not be in compliance with the accounting principles and practices generally accepted in countries and jurisdictions other than the PRC and may not be suitable for any purpose other than for statutory reporting.

The financial statements have been prepared on the basis that the Company will continue to operate throughout the next accounting period until at least 31 December 2013 as a going concern.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

2 BASIS OF PREPARATION (CONTINUED)

The Company's current liabilities exceeded its current assets by RMB 13,524,751.36 as at 31 December 2012. Since the Company obtained a long-term loan of 3 years amounting to RMB 50,000,000 from China Merchants Bank Financial Leasing Co., Ltd. on 29 March 2013, the financial statements have been prepared on a going concern basis.

3 SIGNIFICANT ACCOUNTING POLICIES**(a) Accounting year**

The accounting year of the Company is from 1 January to 31 December.

(b) Basis of preparation and measurement basis

The financial statements of the Company have been prepared on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost.

(c) Functional currency

The Company's functional currency is the Renminbi.

(d) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the balance sheet date. Exchange gains and losses on foreign currency translation, except for the exchange gains and losses directly relating to the construction of fixed assets (see note 3(g)), are dealt with in the income statement.

(e) Provision for bad and doubtful debts

The provision for bad and doubtful debts is estimated by management based on an ageing analysis. Provision for other receivables is determined based on their specific nature and management's estimate of their collectibility.

(f) Inventories

Inventories include packaging materials and low value consumables.

Inventories are carried at the lower of cost and net realisable value.

Cost comprises all costs of purchase, costs of conversion and other costs. Inventories are measured at their actual cost upon acquisition. The cost of inventories is calculated using the specific identification method.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Inventories (continued)

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes.

Low value consumables are amortised in instalments when they are used.

(g) Fixed assets

Fixed assets are assets with relatively high unit values held by the Company for use in the production of goods. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(k)).

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalised as construction in progress. Those costs include borrowing costs (including foreign exchange differences arising from the loan principal and the related interest) on specific borrowings for the construction of the fixed assets during the construction period. Construction in progress is transferred to fixed assets when it is ready for its intended use.

Fixed assets are depreciated using the straight-line method over the lower of their estimated useful lives and operating term stipulated in the concession agreement. The respective estimated useful lives and the estimated rate of residual values on cost for the Company's fixed assets are as follows:

	<i>Estimated useful life</i>	<i>Estimated rate of residual value</i>	<i>Rate of depreciation</i>
Land use rights	30 years	0%	3.33%
	29 years or		3.1% or
Plant and buildings	25.5 years	10%	3.5%
Machinery and equipment	10 years	10%	9%
Electronic equipment	5 years	10%	18%
Motor vehicles	5 years	10%	18%
Pipelines and other equipment	7 years	10%	12.86%

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(h) Lease

A lease can be classified as a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, whether or not the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

Operating lease charges

Rental payments under operating leases are charged as expenses on a straight-line basis over the lease term.

(i) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 3(k)). The cost of the intangible assets is amortised on a straight-line basis over their estimated useful lives. The amortisation period for the intangible assets is as follows:

Software	5-10 years
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(j) Long-term deferred expenses

Long-term deferred expenses are amortised on a straight-line basis over their beneficial periods. The respective amortisation periods for the long-term deferred expenses are as follows:

Other deferred expenses	5-25.5 years
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(k) Provision for impairment

The carrying amounts of assets (including fixed assets and intangible assets) are assessed regularly to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in conditions indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment is calculated on an item-by-item basis and recognised as an expense in the income statement.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Provision for impairment (continued)

If there is an indication that there has been a change in the factors used to determine the provision for impairment and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversals of impairment losses are recognised in the income statement. An impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(l) Income tax

Income tax is recognised when payable under the tax payable method. Income tax for the year is provided at the applicable tax rate on taxable income.

(m) Revenue recognition

When it is probable that the economic benefits will flow to the Company and the revenue and costs can be measured reliably, revenue is recognised in the income statement according to the following methods:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of the ownership of goods have been transferred to the buyers and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(ii) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable rate.

(n) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Company at no consideration except for any capital contribution from the government as an investor in the Company. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(o) Borrowing costs**

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period until the fixed assets are ready for their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

(p) Dividends appropriated to shareholders

Dividends appropriated to the shareholders are recognised in the income and profit appropriation statement upon approval. Cash dividends approved after the balance sheet date, but before the date on which the financial statements are authorised for issue, are disclosed in the balance sheet as a separate component under owners' equity.

(q) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Company has joined a defined contribution retirement plan for the employees arranged by a governmental organisation. The Company makes contributions to the retirement scheme at the applicable rates based on the employees' salaries. The contributions are capitalised into cost of assets or charged to the income statement on an accrual basis. After the payment of the contributions under the retirement plan, the Company does not have any other obligations in this respect.

(r) Related parties

If the Company has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Company and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

4 TAXATION AND SURCHARGE

- (a) The types of tax and surcharge applicable to the Company's sale of goods and rendering of services include value added tax (VAT), urban maintenance and construction tax, education fee surcharge and local education fee surcharge, etc..

<u>Tax name</u>	<u>Tax basis and applicable rate</u>
VAT	Output VAT is 13% of product sales, according to tax laws. The remaining balance of output VAT, after subtracting the deductible input VAT of the period, is VAT payable
Urban maintenance and construction tax	7 % of VAT paid
Education fee surcharge	3 % of VAT paid
Local education fee surcharge	2 % of VAT paid

Business taxes and surcharges include urban maintenance and construction tax, education fee surcharge and local education fee surcharge.

- (b) Income tax

The statutory income tax rate of the Company is 25%. Pursuant to the approval issued by the in charge tax authorities, the Company is entitled to a tax-free period from 2008 to 2009, and a 50% reduction in the income tax rate from 2010 to 2012. For the current year, the Company enjoys a preferential income tax rate of 12.5% (2011: 12.5%).

Pursuant to the approval issued by the in charge tax authorities, a tax credit of RMB8,205,276.23 was obtained as a result of purchase of domestically-made machines in 2007. The Company utilized the credit amounting to RMB6,677,481.28 and RMB1,515,732.69 in 2010 and 2011 respectively. After offsetting the remaining tax credit amounting to RMB103,790.20, the Company is subject to a current income tax of RMB1,469,908.31 for the current year.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

4 TAXATION AND SURCHARGE (CONTINUED)

(c) Taxes payable

	2012	2011
VAT payable	406,584.58	555,031.82
Income tax payable/(prepaid income tax)	402,672.75	(862,055.46)
Urban maintenance and construction tax payable	28,460.92	38,852.23
Property tax payable	190,715.06	433,608.04
Land use tax payable	179,091.00	393,857.67
Others	<u>1,380.28</u>	<u>1,366.59</u>
Total	<u>1,208,904.59</u>	<u>560,660.89</u>

5 CASH AT BANK AND ON HAND

	2012	2011
Cash on hand	4,100.48	2,222.83
Demand deposits	<u>3,817,932.56</u>	<u>17,562,112.29</u>
Total	<u>3,822,033.04</u>	<u>17,564,335.12</u>

6 BILLS RECEIVABLE

	2012	2011
Bank acceptance bills	<u>54,000,000.00</u>	<u>22,951,911.38</u>

7 ACCOUNTS RECEIVABLE

The ageing analysis of the Company's accounts receivable is as follows:

	<u>2012</u>		<u>2011</u>	
	<i>Percentage of total accounts RMB receivable</i>	<i>Provision for bad and doubtful debts</i>	<i>Percentage of total accounts RMB receivable</i>	<i>Provision for bad and doubtful debts</i>
Within 1 year	<u>1,381,645.97</u>	<u>100%</u>	<u>8,032,286.82</u>	<u>100%</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)
8 OTHER RECEIVABLES

The ageing analysis of the Company's other receivable is as follows:

	2012		2011	
	Percentage of total other RMB receivables	Provision for bad and doubtful debts	Percentage of total other RMB receivables	Provision for bad and doubtful debts
Within 1 year	3,445,138.85	95%	2,195,949.37	100%
After 1 year but within 2 years	180,457.37	5%	-	-
Total	3,625,596.22	100%	2,195,949.37	100%

9 INVENTORIES

	2012	2011
Raw materials	547,156.25	380,014.61
Low value consumables	988,126.19	3,120,959.45
Total	1,535,282.44	3,500,974.06

All the above inventories are purchased from others.

	2012	2011
Cost of inventories charged to costs and expenses in the income statement	5,334,962.42	5,569,801.32

10 FIXED ASSETS

	Land use rights	Plant and buildings	Machinery and equipment	Electronic equipment	Motor vehicles	Pipelines and other equipment	Total
Cost							
As at 1 January 2012	24,968,346.08	135,487,899.86	66,884,095.07	360,817.41	1,664,890.00	79,687.00	229,445,735.42
Additions	-	-	479,811.95	71,005.89	-	-	550,817.84
Accrual adjustment	(150.76)	(1,447,081.70)	(87,066.71)	-	-	-	(1,534,299.17)
As at 31 December 2012	24,968,195.32	134,040,818.16	67,276,840.31	431,823.30	1,664,890.00	79,687.00	228,462,254.09
Accumulated depreciation							
As at 1 January 2012	(3,260,154.72)	(14,109,558.97)	(19,645,360.67)	(227,968.70)	(1,369,800.84)	(36,627.42)	(38,649,471.32)
Charge for the year	(868,417.85)	(4,407,849.61)	(6,008,466.75)	(44,580.21)	(128,600.16)	(7,171.80)	(11,465,086.38)
Accrual adjustment	-	45,812.34	8,611.28	-	-	-	54,423.62
As at 31 December 2012	(4,128,572.57)	(18,471,596.24)	(25,645,216.14)	(272,548.91)	(1,498,401.00)	(43,799.22)	(50,060,134.08)
Carrying amount							
As at 31 December 2012	20,839,622.75	115,569,221.92	41,631,624.17	159,274.39	166,489.00	35,887.78	178,402,120.01
As at 31 December 2011	21,708,191.36	121,378,340.89	47,238,734.40	132,848.71	295,089.16	43,059.58	190,796,264.10

The Company obtained land use rights through purchase from third parties.

As at 31 December 2012, the carrying amount of the fixed assets that have been pledged for bank loans was RMB 55,108,867.01 (2011: nil).

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

11 INTANGIBLE ASSETS

	<i>Software</i>
Cost	
As at 1 January 2012	24,339.60
Adjustment	<u>2,461.54</u>
As at 31 December 2012	<u>26,801.14</u>
Accumulated amortisation	
As at 1 January 2012	(13,864.99)
Charge for the year	<u>(3,629.55)</u>
As at 31 December 2012	<u>(17,494.54)</u>
Carrying amount	
As at 31 December 2012	<u>9,306.60</u>
As at 31 December 2011	<u>10,474.61</u>

12 LONG-TERM DEFERRED EXPENSES

	<i>Other deferred expenses</i>
As at 1 January 2012	4,193,411.91
Additions during the year	60,511.96
Decrease during the year	<u>(172,646.36)</u>
As at 31 December 2012	<u>4,081,277.51</u>

13 OTHER LONG-TERM ASSETS

The balance represents proceeds from disposal of fixed assets to be received after 1 year.

14 SHORT-TERM LOANS

	<u>2012</u>			<u>2011</u>		
	<i>Principal</i>	<i>Interest rate (p.a.)</i>	<i>Secured/ guaranteed</i>	<i>Principal</i>	<i>Interest rate (p.a.)</i>	<i>Secured/ guaranteed</i>
China Zhesang Bank	20,000,000.00	6.6%	(i)	-	-	
China Merchants Bank Financial Leasing Co., Ltd. (CMB Financial Leasing)	<u>12,500,000.00</u>	(ii)	(iii)	-	-	
Total	<u>32,500,000.00</u>			<u>-</u>	<u>-</u>	

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)
14 SHORT-TERM LOANS (CONTINUED)

- (i) This loan is guaranteed by Haining Industrial Investment Group Co., Ltd., and the guarantee contract number is (335191) Zhe Shang Yin Gao Bao Zi (2012) No. 00015.
- (ii) The interest rate is People's Bank of China (PBOC) 1-year rate. The interest rate for current year is 6.0%.
- (iii) The Company pledged bank acceptance note amounting to RMB 54,000,000 to China Merchants Bank Haining Branch (CMB), and CMB issued financial guarantee letter amounting to RMB 51,000,000 with CMB Financial Leasing as the beneficiary in 2012.

The Company also pledged fixed assets for the bank loan.

15 OTHER PAYABLES

	2012	2011
Loan from relate party		
-Haining Water	16,014,933.33	-
Others	<u>462,463.52</u>	<u>95,908.43</u>
Total	<u>16,477,396.85</u>	<u>95,908.43</u>

The period of this loan from related party is from 15 December 2012 to 31 January 2013 with the interest rate of 5.6%.

16 LONG-TERM LOANS/LONG-TERM LIABILITIES DUE WITHIN ONE YEAR

	2012				2011			
	Principal	Maturity	Interest rate (p.a.)	Pledged/ guaranteed	Principal	Maturity	Interest rate (p.a.)	Pledged/ guaranteed
United Overseas Bank Shenzhen Branch (UOB)	21,000,000.00	2007/8/12 -2014/6/16	(i)	(ii)	35,000,000.00	2007/8/12 -2014/6/16	(i)	(ii)
Bank of China Haining Branch (BOC)	<u>30,000,000.00</u>	2009/3/27 -2014/12/20	(iii)	(iv)	<u>62,000,000.00</u>	2009/3/27 -2014/12/20	(iii)	(iv)
	<u>51,000,000.00</u>				<u>97,000,000.00</u>			
Less: Long-term liabilities due within one year								
UOB	(14,000,000.00)				(14,000,000.00)			
BOC	<u>(13,000,000.00)</u>				<u>(20,000,000.00)</u>			
	<u>(27,000,000.00)</u>				<u>(34,000,000.00)</u>			
Total	<u>24,000,000.00</u>				<u>63,000,000.00</u>			

- (i) The interest rate is PBOC 3-5 years rate. The interest rate for current year is 6.4% (2011: 6.9%).
- (ii) This loan is pledged by irrevocable standby letters of credit issued by EON Bank Berhad Malaysia and also irrevocably guaranteed by Salcon Berhad and Salcon Zhejiang.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

16 LONG-TERM LOANS/LONG-TERM LIABILITIES DUE WITHIN ONE YEAR (CONTINUED)

(iii) The interest rate is PBOC over 5-year rate. The interest rate for current year is 7.05% (2011: 6.6%).

(iv) This loan is guaranteed by Haining Water.

17 PAID-IN CAPITAL

Registered capital

	2012		2011	
	Amount USD	%	Amount USD	%
Salcon Zhejiang	8,130,000.00	60%	8,130,000.00	60%
Haining Water	5,420,000.00	40%	5,420,000.00	40%
Total	<u>13,550,000.00</u>	<u>100%</u>	<u>13,550,000.00</u>	<u>100%</u>

Paid-in capital

	2012 and 2011		
	Amount in original currency USD	Amount in RMB equivalent	%
Salcon Zhejiang	8,130,000.00	62,977,037.71	60%
Haining Water	5,420,000.00	42,337,092.50	40%
Total	<u>13,550,000.00</u>	<u>105,314,130.21</u>	<u>100%</u>

Capital contributions in foreign currency have been translated into Renminbi at the exchange rates prevailing at the dates of each contribution received as quoted by the People's Bank of China.

Certified Public Accountants have verified the above capital contributions, and issued related capital verification reports.

18 CAPITAL RESERVE

	2012	2011
Government subsidy	<u>38,000,000.00</u>	<u>38,000,000.00</u>

The amount represents subsidy from National Development and Reform Commission for the construction of city water supply project in 2011.

**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)**

19 SURPLUS RESERVE

	<i>General Reserve fund</i>
As at 1 January 2012	4,229,949.55
Profit appropriation	<u>1,063,741.67</u>
As at 31 December 2012	<u>5,293,691.22</u>

20 PROFIT APPROPRIATION

(a) Appropriation to various funds

In accordance with the Articles of Association, the Company made appropriation to the following funds:

Surplus reserve- General reserve fund 10%

(b) Cash dividends appropriated to owners

Cash dividends appropriated to owners during this year

The Board of Directors approved on 23 November 2012 the appropriation of a cash dividend of RMB 11,800,000.00 (2011: RMB 11,800,000.00).

21 SALES FROM PRINCIPAL ACTIVITIES

	<i>2012</i>	<i>2011</i>
Water supply income	<u>56,270,506.54</u>	<u>61,233,185.56</u>

22 FINANCIAL EXPENSES

	<i>2012</i>	<i>2011</i>
Net interest expense	6,471,163.59	7,352,414.81
Less: interest income	(291,077.15)	(746,506.13)
Other financial expenses	<u>795,226.21</u>	<u>380,317.29</u>
Total	<u>6,975,312.65</u>	<u>6,986,225.97</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

23 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties with controlling relationships

	<i>Registered address</i>	<i>Principal activities</i>	<i>Relationship with the Company</i>	<i>Types of legal entity</i>
Salcon Zhejiang	Hong Kong	Water resource exploration and investment	Investor	Limited liability company

Registered capital of related parties with controlling relationships and its changes

	<i>At the beginning/ end of year HKD</i>
Salcon Zhejiang	300,000,000.00

Equity interests held by related parties with controlling relationships and their changes

	<i>At the beginning/ end of year</i>	
	<i>Amount</i>	<i>%</i>
Salcon Zhejiang	62,977,037.71	60%

(b) Relationship between the Company and related parties without controlling relationships

	<i>Relationship with the Company</i>
Haining Water	Investor
Salcon Investment and Consulting (Shanghai) Co., Ltd. (Salcon Investment and Consulting)	Fellow subsidiary
Salcon Alliance (Shanghai) Company Limited (Salcon Alliance)	Fellow subsidiary

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

23 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) The amounts of the Company's related party transactions during the year and its balances with related parties at the year end are summarised as follows:

i) The material related-party transactions of the Company are summarised as follows:

	<i>2012</i>	<i>2011</i>
Repayment of borrowings		
- Haining Water	-	10,000,000.00
Receiving services		
- Salcon Investment and Consulting	-	25,000.00
- Salcon Alliance	300,000.00	275,000.00
Receipt of borrowings		
- Haining Water	16,000,000.00	-
Interest expenses		
- Haining Water	14,933.33	-

The Board of Directors of the Company is of the opinion that the above transactions were carried out in the normal course of business and on normal commercial terms.

ii) The balances of related party receivables and payables are summarised as follows:

	<i>2012</i>	<i>2011</i>
Other receivables		
- Salcon Investment and Consulting	12,420.00	-
Others payables		
- Haining Water	16,014,933.33	-

24 COMPARATIVE FIGURES

Certain items in these comparative figures of 2011 have been reclassified to conform with the current year's presentation to facilitate comparison.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

海宁实康水务有限公司

自 2012 年 1 月 1 日
至 2012 年 12 月 31 日止年度财务报表

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)



KPMG Huazhen
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审计报告

毕马威华振沪审字第 1301995 号

海宁实康水务有限公司董事会:

我们审计了后附的第 1 页至第 19 页的海宁实康水务有限公司(以下简称“贵公司”)财务报表,包括 2012 年 12 月 31 日的资产负债表、2012 年度的利润表及利润分配表和现金流量表以及财务报表附注。

一、管理层对财务报表的责任

编制和公允列报财务报表是贵公司管理层的责任,这种责任包括:(1)按照中华人民共和国财政部颁布的企业会计准则(指 2006 年颁布的《企业会计准则—基本准则》及 2006 年以前颁布的具体会计准则,下同)和《企业会计制度》的规定编制财务报表,并使其实现公允反映;(2)设计、执行和维护必要的内部控制,以使财务报表不存在由于舞弊或错误导致的重大错报。

二、注册会计师的责任

我们的责任是在执行审计工作的基础上对财务报表发表审计意见。我们按照中国注册会计师审计准则的规定执行了审计工作。中国注册会计师审计准则要求我们遵守中国注册会计师职业道德守则,计划和执行审计工作以对财务报表是否不存在重大错报获取合理保证。

审计工作涉及实施审计程序,以获取有关财务报表金额和披露的审计证据。选择的审计程序取决于注册会计师的判断,包括对由于舞弊或错误导致的财务报表重大错报风险的评估。在进行风险评估时,注册会计师考虑与财务报表编制和公允列报相关的内部控制,以设计恰当的审计程序,但目的并非对内部控制的有效性发表意见。审计工作还包括评价管理层选用会计政策的恰当性和作出会计估计的合理性,以及评价财务报表的总体列报。

我们相信,我们获取的审计证据是充分、适当的,为发表审计意见提供了基础。

KPMG Huazhen (Special General Partnership), a special general partnership in China and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

We are authorised to practise under the name of KPMG Huazhen (Special General Partnership)

毕马威华振会计师事务所(特殊普通合伙) - 中国特殊普通合伙制会计师事务所,是与瑞士实体 - 毕马威国际合作组织("毕马威国际")相关联的独立成员所网络中的成员。

本分所已获毕马威华振会计师事务所(特殊普通合伙)总部授权执行业务。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

审计报告(续)

毕马威华振沪审字第 1301995 号

三、 审计意见

我们认为，贵公司财务报表在所有重大方面按照中华人民共和国财政部颁布的企业会计准则和《企业会计制度》的规定编制，公允反映了贵公司 2012 年 12 月 31 日的财务状况以及 2012 年度的经营成果和现金流量。

毕马威华振会计师事务所(特殊普通合伙) 中国注册会计师
上海分所

中国 上海



田春杉
田春杉
中国注册会计师

钱迪
钱迪
中国注册会计师

二〇一三年四月十日

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

海宁实康水务有限公司

资产负债表

2012年12月31日

(金额单位：人民币元)

	附注	2012年	2011年 附注 24
资产			
流动资产			
货币资金	5	3,822,033.04	17,564,335.12
应收票据	6	54,000,000.00	22,951,911.38
应收账款	7	1,381,645.97	8,032,286.82
其他应收款	8	3,625,596.22	2,195,949.37
存货	9	1,535,282.44	3,500,974.06
预付账款		89,500.00	-
待摊费用		57,014.70	54,576.94
流动资产合计		64,511,072.37	54,300,033.69
固定资产			
固定资产原价		228,462,254.09	229,445,735.42
减：累计折旧		(50,060,134.08)	(38,649,471.32)
固定资产净额	10	178,402,120.01	190,796,264.10
在建工程		684,763.24	-
固定资产合计		179,086,883.25	190,796,264.10
无形资产及其他资产			
无形资产	11	9,306.60	10,474.61
长期待摊费用	12	4,081,277.51	4,193,411.91
其他长期资产	13	12,600,000.00	14,400,000.00
无形资产及其他资产合计		16,690,584.11	18,603,886.52
资产总计		260,288,539.73	263,700,184.31

刊载于第7页至第19页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

海宁实康水务有限公司
资产负债表(续)
2012年12月31日
(金额单位:人民币元)

	附注	2012年	2011年 附注 24
负债和所有者权益			
流动负债			
短期借款	14	32,500,000.00	-
应付账款		248,225.71	5,894,436.58
应付工资		104,450.50	74,984.95
应交税金	4(c)	1,208,904.59	560,660.89
其他应交款		25,963.53	33,427.35
其他应付款	15	16,477,396.85	95,908.43
预提费用		470,882.55	305,383.45
一年内到期的长期负债	16	27,000,000.00	34,000,000.00
流动负债合计		78,035,823.73	40,964,801.65
长期负债			
长期借款	16	24,000,000.00	63,000,000.00
负债合计		102,035,823.73	103,964,801.65
所有者权益			
实收资本	17	105,314,130.21	105,314,130.21
资本公积	18	38,000,000.00	38,000,000.00
盈余公积	19	5,293,691.22	4,229,949.55
未分配利润		9,644,894.57	12,191,302.90
所有者权益合计		158,252,716.00	159,735,382.66
负债和所有者权益总计		260,288,539.73	263,700,184.31

此财务报表已于二〇一三年四月十日获本公司董事会批准。

董事长(或获授权董事)

(签名和盖章)

主管会计工作的

公司
(签名和盖章)

会计机构负责人

(签名和盖章)

刊载于第7页至第19页的财务报表附注为本财务报表的组成部分。



AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

 海宁实康水务有限公司
 利润及利润分配表
 2012 年度
 (金额单位: 人民币元)

	附注	2012 年	2011 年
主营业务收入	21	56,270,506.54	61,233,185.56
减: 主营业务成本		(30,088,556.60)	(31,066,986.05)
主营业务税金及附加	4(a)	<u>(554,741.84)</u>	<u>(615,077.63)</u>
主营业务利润		25,627,208.10	29,551,121.88
加: 其他业务利润		45,576.00	407.00
减: 管理费用		(6,860,621.78)	(5,919,136.90)
财务费用	22	<u>(6,975,312.65)</u>	<u>(6,986,225.97)</u>
营业利润		11,836,849.67	16,646,166.01
加: 营业外收入		7,080.00	-
减: 营业外支出		<u>(56,688.02)</u>	<u>(5,347,770.19)</u>
利润总额		11,787,241.65	11,298,395.82
减: 所得税	4(b)	<u>(1,469,908.31)</u>	<u>-</u>
净利润		10,317,333.34	11,298,395.82
加: 年初未分配利润		<u>12,191,302.90</u>	<u>13,753,919.96</u>
可供分配的利润		22,508,636.24	25,052,315.78
减: 提取法定盈余公积	20	<u>(1,063,741.67)</u>	<u>(1,061,012.88)</u>
可供投资者分配的利润		21,444,894.57	23,991,302.90
减: 分配予投资者的现金股利	20	<u>(11,800,000.00)</u>	<u>(11,800,000.00)</u>
年末未分配利润		<u>9,644,894.57</u>	<u>12,191,302.90</u>

刊载于第 7 页至第 19 页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

海宁实康水务有限公司
现金流量表
2012 年度
(金额单位: 人民币元)

	现金流量表 补充说明	2012 年	2011 年
经营活动产生的现金流量:			
销售商品收到的现金		31,873,058.77	39,027,321.05
收到的其他与经营活动有关的现金		<u>115,929.15</u>	<u>49,810.86</u>
现金流入小计		<u>31,988,987.92</u>	<u>39,077,131.91</u>
购买商品所支付的现金		(14,177,366.85)	(13,808,301.09)
支付给职工以及为职工支付的现金		(5,847,141.62)	(5,182,681.19)
支付的各项税费		(2,136,987.30)	(1,270,447.14)
支付的其他与经营活动有关的现金		<u>(2,244,705.84)</u>	<u>(3,252,661.76)</u>
现金流出小计		<u>(24,406,201.61)</u>	<u>(23,514,091.18)</u>
经营活动产生的现金流量净额	i	<u>7,582,786.31</u>	<u>15,563,040.73</u>
投资活动产生的现金流量:			
收回投资所收到的现金		-	10,000,000.00
处置固定资产、无形资产和其他 长期资产所收回的现金净额		1,800,000.00	1,800,000.00
收到的其他与投资活动有关的现金		<u>291,077.15</u>	<u>746,506.13</u>
现金流入小计		<u>2,091,077.15</u>	<u>12,546,506.13</u>
购建固定资产及无形资产所支付的现金		<u>(5,349,954.32)</u>	<u>(6,925,402.59)</u>
现金流出小计		<u>(5,349,954.32)</u>	<u>(6,925,402.59)</u>
投资活动(使用)/产生的现金流量净额		<u>(3,258,877.17)</u>	<u>5,621,103.54</u>

刊载于第 7 页至第 19 页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

海宁实康水务有限公司
现金流量表(续)
2012 年度
(金额单位: 人民币元)

	现金流量表 补充说明	2012 年	2011 年
筹资活动产生的现金流量:			
借款所收到的现金		86,000,000.00	-
现金流入小计		86,000,000.00	-
偿还债务所支付的现金		(83,500,000.00)	(19,000,000.00)
分配股利所支付的现金		(11,800,000.00)	(11,800,000.00)
偿付利息所支付的现金		(6,489,213.38)	(7,155,213.44)
支付的其他与筹资活动有关的现金		(2,276,997.84)	(369,708.92)
现金流出小计		(104,066,211.22)	(38,324,922.36)
筹资活动使用的现金流量净额		(18,066,211.22)	(38,324,922.36)
现金净减少额	ii	(13,742,302.08)	(17,140,778.09)

刊载于第 7 页至第 19 页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)

海宁实康水务有限公司

现金流量表(续)

2012 年度

(金额单位: 人民币元)

	<u>2012 年</u>	<u>2011 年</u>
现金流量表补充说明		
i 将净利润调节为经营活动的现金流量:		
净利润	10,317,333.34	11,298,395.83
加: 固定资产折旧	11,410,662.76	12,487,688.81
无形资产摊销	3,629.55	4,612.67
长期待摊费用摊销	172,646.36	52,877.09
待摊费用增加	(2,437.76)	(15,461.55)
预提费用增加/(减少)	183,548.89	(754,226.22)
处置固定资产、无形资产和 其他长期资产的损失	-	3,644,448.79
财务费用	6,957,084.28	6,975,617.60
存货的减少	1,965,691.62	2,485,868.96
经营性应收项目的增加	(24,477,106.58)	(22,451,804.30)
经营性应付项目的增加	1,051,733.85	1,835,023.05
经营活动产生的现金流量净额	<u>7,582,786.31</u>	<u>15,563,040.73</u>
ii 现金净减少情况:		
	<u>2012 年</u>	<u>2011 年</u>
	人民币元	人民币元
现金的年末余额	3,822,033.04	17,564,335.12
减: 现金的年初余额	<u>(17,564,335.12)</u>	<u>(34,705,113.21)</u>
现金净减少额	<u>(13,742,302.08)</u>	<u>(17,140,778.09)</u>

刊载于第 7 页至第 19 页的财务报表附注为本财务报表的组成部分。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)海宁实康水务有限公司
财务报表附注
(金额单位：人民币元)

1 公司基本情况

海宁实康水务有限公司(以下简称“本公司”)是由实康浙江(香港)有限公司(以下简称“实康浙江”)及海宁市水务投资集团有限公司(以下简称“海宁水务”)在中华人民共和国浙江省海宁市成立的中外合资企业,于2006年9月21日领取了浙江省人民政府颁发的商外资浙府资嘉字[2006]03536号批准证书,并于2006年9月25日取得了嘉兴市工商行政管理局颁发的企合浙嘉总副字第004136号企业法人营业执照。本公司原注册资本为1,125万美元。

本公司董事会于2007年决定将本公司注册资本增加230万美元,即由1,125万美元增加至1,355万美元,并于2007年5月23日获取了海宁市对外贸易经济合作局的批准。本公司于2007年1月11日修改了公司章程,于2007年5月24日获取了更新的商外资浙府资嘉字[2006]03536号批准证书,并于2007年6月14日获取了更新的企合浙嘉总副字第004136号企业法人营业执照。

本公司经营期限30年,主要从事自来水处理及市政供水。本公司于2006年9月28日正式成立。

2 编制基础

本公司编制财务报表所采用的主要会计政策,是根据中华人民共和国财政部在2006年颁布的《企业会计准则—基本准则》、2006年以前颁布的具体会计准则和《企业会计制度》制订的。这些会计政策必须符合有关法规和向有关政府部门报告的要求。

本公司财务报表是在假设本报告期后至2013年12月31日止期间本公司仍然可以持续经营的基础上编制的。

于2012年12月31日,本公司的流动负债已超过流动资产人民币13,524,751.36元,鉴于本公司已于2013年3月29日自招银金融租赁有限公司取得一笔金额为人民币5,000万元,期限为3年的长期借款,因此本财务报表仍然以持续经营为基础编制。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策

(a) 会计年度

本公司的会计年度自公历1月1日起至12月31日止。

(b) 记账基础和计量原则

本公司的记账基础为权责发生制。除特别声明外，计量原则为历史成本法。

(c) 记账本位币

本公司的记账本位币为人民币。

(d) 外币折算

外币业务按业务发生当日中国人民银行公布的外汇牌价折合为人民币。年末各项货币性外币资产、负债账户按资产负债表日中国人民银行公布的外汇牌价折合为人民币。除与购建固定资产直接有关的汇兑损益(参见附注3(g))外，外币折算差异作为汇兑损益计入当期损益账户。

(e) 坏账准备

坏账准备是由本公司根据账龄分析估计计提。其他应收款的坏账准备是本公司根据其性质估计相应回收风险而计提的。

(f) 存货

存货包括包装物和低值易耗品。

存货以成本与可变现净值之较低者计量。

存货成本包括采购成本、加工成本和其他成本。存货在取得时按实际成本入账。发出存货的成本按个别计价法核算。

按单个存货项目计算的成本高于可变现净值的差额计入存货跌价准备。可变现净值指在正常生产经营过程中以存货的估计售价减去至完工估计将要发生的成本、估计的销售费用以及相关税金后的金额。

领用的低值易耗品采用分次摊销法进行核算。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策(续)

(g) 固定资产

固定资产指本公司为生产商品而持有的，使用期限超过1年且单位价值较高的资产。

固定资产以成本减累计折旧及减值准备(参见附注3(k))记入资产负债表内。

在有关建造的资产达到预定使用状态之前发生的与购建固定资产有关的一切直接或间接成本，包括在购建期间利用专门借款进行购建所发生的借款费用(包括有关借款本金和利息的汇兑损益)，全部资本化为在建工程。在建工程于达到预定可使用状态时转入固定资产。

本公司对固定资产在预计使用年限和特许经营协议中约定的经营期限两者中较短的期限内按直线法计提折旧，各类固定资产的预计使用年限和预计净残值率分别为：

	预计使用年限	预计净残值率	折旧率
土地使用权	30年	0%	3.33%
房屋及建筑物	29年及25.5年	10%	3.1%及3.5%
机器设备	10年	10%	9%
电子设备	5年	10%	18%
运输工具	5年	10%	18%
管道和沟槽	7年	10%	12.86%

(h) 租赁

租赁分为融资租赁和经营租赁。融资租赁是指无论所有权最终是否转移但实质上转移了与资产所有权有关的全部风险和报酬的租赁。经营租赁是指除融资租赁以外的其他租赁。

经营租赁费用

经营租赁的租金在租赁期内按实际发生的金额确认为费用。

(i) 无形资产

无形资产以成本减累计摊销及减值准备(参见附注3(k))记入资产负债表内。无形资产的成本按直线法在预计使用年限内摊销。各项无形资产的摊销期限分别为：

软件	5至10年
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AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策(续)

(j) 长期待摊费用

长期待摊费用按直线法在受益期限内平均摊销。该项费用的摊销期限为：

其他递延支出	5 至 25.5 年
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(k) 资产减值准备

本公司对各项资产(包括固定资产及无形资产)的账面价值定期进行审阅,以评估可收回金额是否已跌至低于账面价值。当发生事项或情况变化显示账面价值可能无法收回的,这些资产便需进行减值测试。若出现减值情况,账面价值会减低至可收回金额,减计的价值即为资产减值损失。

可收回金额是指销售净价与预期从该资产的持续使用和使用寿命结束时的处置中形成的预计未来现金流量的现值两者中的较高者。

本公司按单项项目计算资产减值损失,并将减值损失计入当期损益。

如果有迹象表明以前年度据以计提资产减值的各种因素发生变化,使得资产的可收回金额大于其账面价值,则以前年度已确认的资产减值损失便会转回,转回的资产减值损失计入当期损益,但转回后资产的账面价值不应高于假如资产没有计提资产减值情况下的账面价值。

(l) 所得税

所得税按应付税款法核算。当期所得税费用按当期应纳税所得额及适用税率计算。

(m) 收入确认

收入是在经济利益能够流入本公司,以及相关的收入和成本能够可靠地计量时,根据下列方法确认:

(i) 销售商品收入

销售商品的收入在商品所有权上主要风险和报酬已转移给购货方,并且公司没有保留通常与所有权相联系的继续管理权、也没有对已售出的商品实施控制时予以确认。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

3 主要会计政策(续)

(m) 收入确认(续)

(ii) 利息收入

利息收入是按资金本金和适用利率计算，并以时间为基准确认。

(n) 政府补助

政府补助是本公司从政府无偿取得的货币性资产或非货币性资产，但不包括政府以投资者身份向本公司投入的资本。政府拨入的投资补助等专项拨款中，国家相关文件规定作为资本公积处理的，也属于资本性投入的性质，不属于政府补助。

(o) 借款费用

用于购建固定资产的专门借款的借款费用在使有关固定资产达到预定可使用状态所必要的购建期间内予以资本化，计入所购建固定资产的成本。

除上述借款费用外，其他借款费用均于发生当期确认为财务费用。

(p) 分配予股东的股利

分配的股利于批准时计入当期利润及利润分配表。资产负债表日至财务报表批准报出日之间批准分配的现金股利在资产负债表所有者权益中单独列示。

(q) 退休福利

按照中国有关法规，本公司为员工参加了政府组织安排的定额供款退休计划。本公司按员工工资的一定比率，向退休计划供款。上述供款按照权责发生制原则计入资产成本或当期损益。按供款计划缴款后，本公司不再有其他支付义务。

(r) 关联方

如果本公司有能力直接或间接控制、共同控制另一方或对另一方施加重大影响；或另一方有能力直接或间接控制或共同控制本公司或对本公司施加重大影响；或本公司与另一方或多方同受一方控制，均被视为关联方。关联方可为个人或企业。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

4 税项及附加

- (a) 本公司适用的与产品销售提供服务关的税金及附加包括增值税、城市维护建设税、教育费附加及地方教育费附加等。

税种	计缴标准
增值税	按税法规定计算的销售货物收入的 13% 计算销项税额，在扣除当期允许抵扣的进项税额后，差额部分为应缴增值税
城市维护建设税	实际缴纳增值税税费的 7%
教育费附加	实际缴纳增值税税费的 3%
地方教育费附加	实际缴纳增值税税费的 2%

主营业务税金及附加，包括城市维护建设税、教育费附加及地方教育费附加。

- (b) 所得税

本公司法定税率为 25%，根据海宁市国家税务局《关于浙江哇哈哈昌盛罐头食品有限公司等 23 户外商投资企业要求减免企业所得税的批复》，本公司 2008 年度及 2009 年度免征企业所得税，2010 年度至 2012 年度减半征收企业所得税，本公司本年度按优惠税率 12.5% 执行 (2011: 12.5%)。

根据财税字[2000]49 号《关于外商投资企业和外国企业购买国产设备投资抵免企业所得税有关问题的通知》和浙国税外[2000]39 号《浙江省国家税务局转发国家税务总局关于印发〈外商投资企业和外国企业购买国产设备投资抵免企业所得税管理办法〉的通知》的规定以及海宁市国家税务局[2008]3 号文件的批复，本公司于 2007 年购买的国产设备可于未来年度抵扣企业所得税人民币 8,205,276.23 元。本公司已于 2010 年及 2011 年分别抵扣了当年企业所得税人民币 6,677,481.28 元和人民币 1,515,732.69 元，并于 2012 年抵扣了剩余的人民币 103,790.20 元。经抵扣后，本公司 2012 年度的企业所得税为人民币 1,469,908.31 元。

- (c) 应交税金

	<u>2012 年</u>	<u>2011 年</u>
应交增值税	406,584.58	555,031.82
应交/(预缴)企业所得税	402,672.75	(862,055.46)
应交城市维护建设税	28,460.92	38,852.23
应交房产税	190,715.06	433,608.04
应交土地使用税	179,091.00	393,857.67
其他	1,380.28	1,366.59
合计	<u>1,208,904.59</u>	<u>560,660.89</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

5 货币资金

	2012 年	2011 年
现金	4,100.48	2,222.83
活期存款	<u>3,817,932.56</u>	<u>17,562,112.29</u>
合计	<u>3,822,033.04</u>	<u>17,564,335.12</u>

6 应收票据

	2012 年	2011 年
银行承兑汇票	<u>54,000,000.00</u>	<u>22,951,911.38</u>

7 应收账款

应收账款账龄分析如下:

	2012 年			2011 年		
	金额	占总额 比例	坏账准备	金额	占总额 比例	坏账准备
一年以内	<u>1,381,645.97</u>	<u>100%</u>	-	<u>8,032,286.82</u>	<u>100%</u>	-

8 其他应收款

其他应收款账龄分析如下:

	2012 年			2011 年		
	金额	占总额 比例	坏账准备	金额	占总额 比例	坏账准备
一年以内	3,445,138.85	95%	-	2,195,949.37	100%	-
一年至二年	<u>180,457.37</u>	<u>5%</u>	-	-	-	-
合计	<u>3,625,596.22</u>	<u>100%</u>	-	<u>2,195,949.37</u>	<u>100%</u>	-

9 存货

	2012 年	2011 年
原材料	547,156.25	380,014.61
低值易耗品	<u>988,126.19</u>	<u>3,120,959.45</u>
合计	<u>1,535,282.44</u>	<u>3,500,974.06</u>

以上存货均为购买形成。

	2012 年	2011 年
于成本和费用中确认的存货成本	<u>5,334,962.42</u>	<u>5,569,801.32</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

10 固定资产

	土地使用权	房屋及建筑物	机器设备	电子设备	运输工具	管道和沟槽	合计
成本:							
年初余额	24,968,346.08	135,487,899.86	66,884,095.07	360,817.41	1,664,890.00	79,687.00	229,445,735.42
本年增加	-	-	479,811.95	71,005.89	-	-	550,817.84
暂估调整	(150.76)	(1,447,081.70)	(87,066.71)	-	-	-	(1,534,299.17)
年末余额	24,968,195.32	134,040,818.16	67,276,840.31	431,823.30	1,664,890.00	79,687.00	228,462,254.09
累计折旧:							
年初余额	(3,260,154.72)	(14,109,558.97)	(19,645,360.67)	(227,968.70)	(1,369,800.84)	(36,627.42)	(38,649,471.32)
本年计提折旧	(868,417.85)	(4,407,849.61)	(6,008,466.75)	(44,580.21)	(128,600.16)	(7,171.80)	(11,465,086.38)
暂估调整	-	45,812.34	8,611.28	-	-	-	54,423.62
年末余额	(4,128,572.57)	(18,471,596.24)	(25,645,216.14)	(272,548.91)	(1,498,401.00)	(43,799.22)	(50,060,134.08)
净额:							
年末余额	20,839,622.75	115,569,221.92	41,631,624.17	159,274.39	166,489.00	35,887.78	178,402,120.01
年初余额	21,708,191.36	121,378,340.89	47,238,734.40	132,848.71	295,089.16	43,059.58	190,796,264.10

本公司土地使用权为外购取得。

于2012年12月31日，本公司持有以上固定资产中已作抵押部分之账面价值为人民币55,108,867.01元(2011年：无)。

11 无形资产

	软件
成本	
年初余额	24,339.60
本年调整	2,461.54
年末余额	26,801.14
累计摊销	
年初余额	(13,864.99)
本年增加	(3,629.55)
年末余额	(17,494.54)
净额	
年末余额	9,306.60
年初余额	10,474.61

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

12 长期待摊费用

	其他递延支出
年初余额	4,193,411.91
本年增加	60,511.96
本年摊销	<u>(172,646.36)</u>
年末余额	<u>4,081,277.51</u>

13 其他长期资产

该金额为将于一年以上收回的固定资产处置款。

14 短期借款

	2012年			2011年		
	本金	年利率	抵押/担保	本金	年利率	抵押/担保
浙商银行	20,000,000.00	6.6%	(i)	-	-	
招银金融租赁 有限公司(简称 “招银租赁”)	<u>12,500,000.00</u>	(ii)	(iii)	-	-	
合计	<u>32,500,000.00</u>			<u>-</u>		

(i) 该笔借款由海宁市实业投资集团有限公司提供担保，担保合同编号为(335191)浙商银高保字(2012)第00015号。

(ii) 该笔借款以现行的中国人民银行公布的1年期贷款基准利率为准。本年执行利率为6.0%。

(iii) 本公司于2012年将金额为人民币5,400万的银行承兑汇票出质给招商银行股份有限公司嘉兴海宁支行(简称“招行”)，并由招行为本公司出具了以招银租赁为受益人的总金额为人民币5,100万的融资性保函。

本公司还以固定资产作为该笔借款的抵押物。

15 其他应付款

	2012年	2011年
关联方借款		
-海宁水务	16,014,933.33	-
其他	<u>462,463.52</u>	<u>95,908.43</u>
合计	<u>16,477,396.85</u>	<u>95,908.43</u>

该关联方借款期限为自2012年12月15日至2013年1月31日止，年利率为5.6%。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)
16 长期借款/一年内到期的长期负债

	2012 年				2011 年			
	金额	期限	年利率	抵押/担保	金额	期限	年利率	抵押/担保
大华银行深圳分行	21,000,000.00	2007/8/12 -2014/6/16	(i)	(ii)	35,000,000.00	2007/8/12 -2014/6/16	(i)	(ii)
中国银行海宁支行	30,000,000.00	2009/3/27 -2014/12/20	(iii)	(iv)	62,000,000.00	2009/3/27 -2014/12/20	(iii)	(iv)
	51,000,000.00				97,000,000.00			
减：一年内到期的 长期负债								
大华银行 深圳分行	(14,000,000.00)				(14,000,000.00)			
中国银行 海宁支行	(13,000,000.00)				(20,000,000.00)			
	(27,000,000.00)				(34,000,000.00)			
合计	24,000,000.00				63,000,000.00			

- (i) 该笔借款以中国人民银行公布的 3 至 5 年期贷款基准利率为准。本年执行利率为 6.4% (2011: 6.9%)。
- (ii) 该笔借款分别由 EON Bank Berhad Malaysia 开立不可撤销备用信用证，及由 Salcon Berhad 和实康浙江提供无条件及不可撤销的公司担保。
- (iii) 该笔借款以中国人民银行公布的 5 年期以上贷款基准利率为准。本年执行利率为 7.05% (2011: 6.6%)。
- (iv) 该笔借款由海宁水务提供担保。

17 实收资本

	2012 年		2011 年	
	金额 美元	%	金额 美元	%
实康浙江	8,130,000.00	60%	8,130,000.00	60%
海宁水务	5,420,000.00	40%	5,420,000.00	40%
合计	13,550,000.00	100%	13,550,000.00	100%
	2012 年和 2011 年 等值人民币			
实收资本	原币金额		金额	%
实康浙江	美元	8,130,000.00	62,977,037.71	60%
海宁水务	美元	5,420,000.00	42,337,092.50	40%
合计		13,550,000.00	105,314,130.21	100%

在实收资本账户中，实收资本美元换算为人民币时采用的汇率是收到出资当日中国人民银行公布的汇率。

上述实收资本已由会计师事务所验证，并出具了验资报告。

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

18 资本公积

	<u>2012 年</u>	<u>2011 年</u>
政府补贴	<u>38,000,000.00</u>	<u>38,000,000.00</u>

该政府补贴为 2011 年收到的国家发展改革委用于城市供水设施建设的拨款。

19 盈余公积

	<u>法定盈余公积</u>
年初余额	4,229,949.55
利润分配	<u>1,063,741.67</u>
年末余额	<u>5,293,691.22</u>

20 利润分配

(a) 提取盈余公积

本公司按公司章程规定提取 2012 年度以下盈余公积：

提取法定盈余公积 10%

(b) 向投资者分配股利

本年内投资者分配现金股利

董事会于 2012 年 11 月 23 日批准本公司向投资者分配现金股利人民币 11,800,000.00 元(2011 年：人民币 11,800,000.00 元)。

21 主营业务收入

	<u>2012 年</u>	<u>2011 年</u>
供水收入	<u>56,270,506.54</u>	<u>61,233,185.56</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

22 财务费用

	<u>2012 年</u>	<u>2011 年</u>
利息支出	6,471,163.59	7,352,414.81
减：利息收入	(291,077.15)	(746,506.13)
其他财务费用	<u>795,226.21</u>	<u>380,317.29</u>
合计	<u><u>6,975,312.65</u></u>	<u><u>6,986,225.97</u></u>

23 关联方及其交易

(a) 存在控制关系的关联方

	<u>注册地</u>	<u>主营业务</u>	<u>与本公司关系</u>	<u>经济性质或类型</u>
实康浙江	香港	饮用水资源开发投资	投资方	有限公司

存在控制关系的关联方的注册资本及其变化。

年初及年末数

实康浙江	港币 300,000,000.00
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存在控制关系的关联方的权益及其变化

年初及年末数

金额 %

实康浙江	62,977,037.71	60%
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(b) 不存在控制关系的关联方

与本公司关系

海宁水务	投资方
实康投资咨询(上海)有限公司 (以下简称“实康投资咨询”)	同一母系子公司
实盟企业管理(上海)有限公司 (以下简称“实盟企业管理”)	同一母系子公司

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)

23 关联方及其交易(续)

(c) 本公司与关联方于本年度进行的交易的金额及年末的往来余额如下:

i) 本公司与关联方之间的重大交易列示如下:

	<u>2012年</u>	<u>2011年</u>
收回借款		
- 海宁水务	-	10,000,000.00
接受劳务		
- 实康投资咨询	-	25,000.00
- 实盟企业管理	300,000.00	275,000.00
接收借款		
- 海宁水务	16,000,000.00	-
利息支出		
- 海宁水务	14,933.33	-

本公司董事会认为上述交易根据正常的商业交易条件进行,并以一般交易价格为定价基础。

ii) 本公司与关联方于年末的往来余额如下:

	<u>2012年</u>	<u>2011年</u>
其他应收款:		
- 实康投资咨询	12,420.00	-
其他应付款:		
- 海宁水务	16,014,933.33	-

24 上年比较数字

为方便作出相应的比较,本公司对财务报表中 2011 年度的某些项目进行了重新分类。