

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

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Salcon Linyi (HK) Limited

實康臨沂(香港)有限公司

Financial Statements  
for the year ended 31 December 2012

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

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## **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 Linyi (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 22.

### **Transfer to reserves**

Losses attributable to shareholders of HK\$54,707 (2011: HK\$56,573) 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  
Leong Kok Wah  
Law Woo Hock

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

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**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, 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 companies, 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**

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


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**KPMG**  
8th Floor  
Prince's Building  
10 Chater Road  
Central, Hong Kong  
P O Box 50  
General Post Office  
Hong Kong

毕马威  
会计师事务所  
香港中环遮打道10号  
太子大厦8楼  
香港邮政总局  
信箱50号

Telephone 电话 +852 2522 6022  
Fax 传真 +852 2845 2588  
Internet 网址 [www.kpmg.com/cn](http://www.kpmg.com/cn)

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

We have audited the unconsolidated financial statements of Salcon Linyi (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 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.

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 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 Linyi (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 subsidiaries 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 9 to the financial statements, investments in subsidiaries are 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*  
 8<sup>th</sup> Floor, Prince's Building  
 10 Chater Road  
 Central, Hong Kong

30 APR 2013

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


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*Salcon Linyi (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>
<b>Turnover</b>	4	-	-
Other revenue	5	6	6
Administrative and operating expenses		<u>(54,713)</u>	<u>(56,579)</u>
<b>Loss before taxation</b>	6	(54,707)	(56,573)
Income tax	7(a)	<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u><u>(54,707)</u></u>	<u><u>(56,573)</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 Linyi (HK) Limited*  
*Financial statements for the year ended 31 December 2012*

**Statement of financial position as 31 December 2012**  
*(Expressed in Hong Kong dollars)*

	<i>Note</i>	<u>2012</u> <i>HKD</i>	<u>2011</u> <i>HKD</i>
<b>Non-current asset</b>			
Investments in subsidiaries	9	39,102,927	39,102,927
<b>Current asset</b>			
Cash and bank balances		58,519	59,645
<b>Current liabilities</b>			
Accrued liabilities		30,300	30,300
Amount due to ultimate holding company	10	751	748
Amounts due to fellow subsidiaries	10	103,133	49,555
		134,184	80,603
<b>Net current liabilities</b>		(75,665)	(20,958)
<b>NET ASSETS</b>		<u>39,027,262</u>	<u>39,081,969</u>
<b>CAPITAL AND RESERVE</b>			
Share capital	11	40,345,802	40,345,802
Accumulated losses	11(b)	(1,318,540)	(1,263,833)
<b>TOTAL EQUITY</b>		<u>39,027,262</u>	<u>39,081,969</u>

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


  
 )  
 ) Directors  
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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 Linyi (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> (note 11(b))	<i>Accumulated losses</i> <i>HKD</i>	<i>Total</i> <i>HKD</i>
<b>Balance at 31 December 2010 and 1 January 2011</b>	1	(1,207,260)	(1,207,259)
<b>Changes in equity for 2011</b>			
Debt capitalisation	40,345,801	-	40,345,801
Total comprehensive income for the year	-	(56,573)	(56,573)
<b>Balance at 31 December 2011 and 1 January 2012</b>	40,345,802	(1,263,833)	39,081,969
<b>Changes in equity for 2012</b>			
Total comprehensive income for the year	-	(54,707)	(54,707)
<b>Balance at 31 December 2012</b>	<u>40,345,802</u>	<u>(1,318,540)</u>	<u>39,027,262</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 Linyi (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
<b>Operating activities</b>		
Loss before taxation	(54,707)	(56,573)
Adjustments for:		
Interest income	<u>(6)</u>	<u>(6)</u>
<b>Operating loss before changes in working capital</b>	(54,713)	(56,579)
Increase in accrued liabilities	-	6,050
Increase in amount due to ultimate holding company	3	748
Increase in amounts due to fellow subsidiaries	<u>53,578</u>	<u>49,555</u>
<b>Net cash used in operating activities</b>	<u>(1,132)</u>	<u>(226)</u>
<b>Investing activities</b>		
Interest received	<u>6</u>	<u>6</u>
<b>Net cash generated from investing activities</b>	<u>6</u>	<u>6</u>
<b>Net decrease in cash and cash equivalents</b>	(1,126)	(220)
<b>Cash and cash equivalents at 1 January</b>	<u>59,645</u>	<u>59,865</u>
<b>Cash and cash equivalents at 31 December</b>	<u><u>58,519</u></u>	<u><u>59,645</u></u>

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

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

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*Salcon Linyi (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 subsidiaries 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 subsidiaries 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 Linyi (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\$75,665 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, investments in subsidiaries are stated at cost less impairment losses (see note 2(e)).

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

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*Salcon Linyi (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.

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

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*Salcon Linyi (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.

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

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*Salcon Linyi (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.

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

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*Salcon Linyi (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.

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

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*Salcon Linyi (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).



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


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*Salcon Linyi (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 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>HKD</i>	<i>HKD</i>
Interest income	6	6

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


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

**6. Loss before taxation**

Loss before taxation is arrived at after charging:

	<u>2012</u>	<u>2011</u>
	<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.

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>HKD</i>	<i>HKD</i>
Loss before taxation	(54,707)	(56,573)
Notional tax on loss before taxation calculated at 16.5% (2011:16.5%)	(9,027)	(9,334)
Tax effect of non-taxable income and non-deductible expenses	9,027	9,334
Actual tax expense	-	-

**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.

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

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

**9. Investments in subsidiaries**

	<i>2012</i> <i>HKD</i>	<i>2011</i> <i>HKD</i>
Capital contribution	34,444,100	34,444,100
Cost directly attributable to investment	4,658,827	4,658,827
	39,102,927	39,102,927

The company's partially-owned subsidiary, Linyi Salcon Water Company Limited was set up on 7 November 2005 as a co-operative joint venture company. The company can exercise unilateral control over the co-operative joint venture company.

Particulars of the subsidiaries 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 held by a subsidiary</i>		<i>Principal activities</i>
Linyi Salcon Water Company Limited	The People's Republic of China ("PRC")	USD4,444,400	60%	-	Management and operation of water production and distribution of water
Linyi Runcheng Water Supply Project Company Limited	PRC	RMB120,000	-	100%	Installation and maintenance of tap water project

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	11,289,121	5,457,587	16,746,708
<b>Total</b>	<b>11,289,121</b>	<b>5,457,587</b>	<b>16,746,708</b>

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


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

**10. Amounts due to ultimate 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) Authorised and issued share capital**

	<i>At 31 December 2012 and 2011</i>	
	<i>No. of shares</i>	<i>Amount</i>
<b>Authorised:</b>		
Ordinary share of HK\$1 each	<u>300,000,000</u>	<u>300,000,000</u>
<b>Issued and fully paid:</b>		
At 1 January	40,345,802	1
Capitalisation	<u>-</u>	<u>40,345,801</u>
At 31 December	<u>40,345,802</u>	<u>40,345,802</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\$40,345,801 was capitalised as ordinary shares of the company of which 40,345,801 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.

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

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

**11. Capital and reserve (continued)****(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.

**12. 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.

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

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


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

**12. Financial risk management and fair values (continued)****(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.

**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>
	<i>HKD</i>	<i>HKD</i>
Amount due to ultimate holding company		
Salcon Berhad	<u>751</u>	<u>748</u>
Amounts due to fellow subsidiaries		
Salcon Services (HK) Limited	49,845	-
Salcon Engineering Berhad	<u>53,288</u>	<u>49,555</u>
Total	<u>103,133</u>	<u>49,555</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.

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


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*Salcon Linyi (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**

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:

*Effective for  
accounting periods  
beginning on or after*

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.

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

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

LINYI 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



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

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**AUDITORS' REPORT**

毕马威华振沪审字第 1301751 号

The Board of Directors of Linyi Salcon Water Co., Ltd.:

We have audited the accompanying financial statements of Linyi Salcon Water Co., Ltd. ("the Company") on pages 1 to 22, 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.

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

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**AUDITORS' REPORT (continued)**

毕马威华振沪审字第 1301751 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: 19 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)

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

	Note	2012	2011
<b>Assets</b>			
<b>Current assets</b>			
Cash at bank and on hand	5	5,590,843.62	24,196,529.50
Accounts receivable	6	975,723.40	1,141,748.42
Other receivables	7	22,853,788.02	19,906,766.71
Payments in advance		2,805,510.00	4,188,740.00
Inventories	8	<u>1,393,746.19</u>	<u>1,283,451.90</u>
Total current assets		<u>33,619,611.23</u>	<u>50,717,236.53</u>
<b>Long-term investments</b>			
Long-term equity investments	9	<u>7,091,576.14</u>	<u>6,092,415.30</u>
<b>Fixed assets</b>			
Cost		170,189,820.74	149,542,587.68
Less: Accumulated depreciation		<u>(38,300,808.26)</u>	<u>(31,709,922.27)</u>
Carrying amount	10	131,889,012.48	117,832,665.41
Construction in progress	11	<u>5,304,766.83</u>	<u>4,428,637.61</u>
Total fixed assets		<u>137,193,779.31</u>	<u>122,261,303.02</u>
<b>Intangible assets and other assets</b>			
Intangible assets	12	<u>2,193,174.81</u>	<u>2,292,864.60</u>
Total assets		<u>180,098,141.49</u>	<u>181,363,819.45</u>

The notes on pages 8 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)

Linyi 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>
Liabilities and owners' equity			
Current liabilities			
Accounts payable	<i>13</i>	1,544,017.57	939,708.91
Accrued payroll		196,351.29	56,717.37
Taxes payable	<i>4(c)</i>	1,282,271.70	985,590.45
Other payables		17,433,128.36	21,664,804.29
Long-term liabilities due within one year	<i>14</i>	<u>3,454,546.00</u>	<u>-</u>
Total current liabilities		<u>23,910,314.92</u>	<u>23,646,821.02</u>
Long-term liabilities			
Long-term loans	<i>14</i>	32,288,111.45	35,742,657.45
Long-term payables	<i>15</i>	<u>39,954,569.92</u>	<u>54,537,368.99</u>
Total long-term liabilities		<u>72,242,681.37</u>	<u>90,280,026.44</u>
Total liabilities		<u>96,152,996.29</u>	<u>113,926,847.46</u>

The notes on pages 8 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)

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

	Note	2012	2011
Liabilities and owners' equity (continued)			
Owners' equity			
Paid-in capital	16	59,999,964.00	59,999,964.00
Capital reserve	17	(117,660.00)	(117,660.00)
Surplus reserve	18	2,492,698.92	841,881.60
Retained earnings		<u>21,570,142.28</u>	<u>6,712,786.39</u>
Total owners' equity		<u>83,945,145.20</u>	<u>67,436,971.99</u>
Total liabilities and owners' equity		<u>180,098,141.49</u>	<u>181,363,819.45</u>

These financial statements have been approved by the Board of Directors of the Company on 19 April 2013.

Xu Lihua	Dai Jingqing	Zhou Dongxin	
Legal Representative	Chief Financial Officer	Financial Manager	(Company stamp)
<i>(Signature and stamp)</i>	<i>(Signature and stamp)</i>	<i>(Signature and stamp)</i>	

The notes on pages 8 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)

Linyi Salcon Water 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	20	43,171,891.50	38,649,946.19
Less: Cost of sales from principal activities		(33,787,519.06)	(29,453,628.81)
Business taxes and surcharges	4(a)	<u>(310,837.60)</u>	<u>(278,374.61)</u>
Profit from principal activities		9,073,534.84	8,917,942.77
Add: Profit from other operations		995,412.55	1,585,286.60
Less: Operating expenses		(180,553.90)	(184,365.95)
General and administrative expenses		(9,839,043.71)	(8,711,226.06)
Financial expenses	21	<u>(367,987.21)</u>	<u>(238,901.53)</u>
Operating (loss)/profit		(318,637.43)	1,368,735.83
Add: Investment income		999,160.84	996,380.23
Non-operating income	22	19,960,788.30	3,653,860.05
Less: Non-operating expenses		<u>(1,606,994.33)</u>	<u>(187,088.40)</u>
Profit before income tax		19,034,317.38	5,831,887.71
Less: Income tax	4(b)	<u>(2,526,144.17)</u>	<u>(660,388.28)</u>
Net profit for the year		16,508,173.21	5,171,499.43
Add: Retained earnings at the beginning of the year		<u>6,712,786.39</u>	<u>2,058,436.90</u>
Profits available for distribution		23,220,959.60	7,229,936.33
Less: Statutory surplus reserve	19	<u>(1,650,817.32)</u>	<u>(517,149.94)</u>
Retained earnings carried forward		<u>21,570,142.28</u>	<u>6,712,786.39</u>

The notes on pages 8 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)

Linyi 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		43,296,708.33	41,877,859.99
Cash received relating to other operating activities		<u>20,561,545.05</u>	<u>18,949,218.02</u>
Sub-total of cash inflows		<u>63,858,253.38</u>	<u>60,827,078.01</u>
Cash paid for goods		(20,662,044.56)	(15,637,732.86)
Cash paid to and for employees		(11,572,672.07)	(13,400,251.52)
Cash paid for all types of taxes		(3,439,852.58)	(4,741,008.78)
Cash paid relating to other operating activities		<u>(9,935,121.35)</u>	<u>(2,612,822.57)</u>
Sub-total of cash outflows		<u>(45,609,690.56)</u>	<u>(36,391,815.73)</u>
Net cash inflow from operating activities	<i>i</i>	<u>18,248,562.82</u>	<u>24,435,262.28</u>
Cash flows from investing activities:			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		21,800.00	2,000.00
Cash received relating to other investing activities		<u>166,778.89</u>	<u>259,470.27</u>
Sub-total of cash inflows		<u>188,578.89</u>	<u>261,470.27</u>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(21,928,755.52)	(13,485,584.13)
Cash paid for acquisition of investments		<u>(14,582,799.07)</u>	<u>(3,600,000.00)</u>
Sub-total of cash outflows		<u>(36,511,554.59)</u>	<u>(17,085,584.13)</u>
Net cash outflow from investing activities		<u>(36,322,975.70)</u>	<u>(16,824,113.86)</u>

The notes on pages 8 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)

Linyi 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>	<i>2012</i>	<i>2011</i>
Cash flows from financing activities:			
Cash repayments of borrowings		-	(3,454,545.55)
Cash paid for interest expenses		<u>(531,273.00)</u>	<u>(495,727.00)</u>
Sub-total of cash outflows		<u>(531,273.00)</u>	<u>(3,950,272.55)</u>
Net cash outflow from financing activities		<u>(531,273.00)</u>	<u>(3,950,272.55)</u>
Net (decrease)/increase in cash and cash equivalents	<i>ii</i>	<u>(18,605,685.88)</u>	<u>3,660,875.87</u>

The notes on pages 8 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)**

Linyi 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	16,508,173.21	5,171,499.43
Add: Provision for impairment	1,395,555.12	128,192.18
Depreciation of fixed assets	6,932,216.27	6,321,281.22
Amortisation of intangible assets	99,689.79	99,689.79
Losses on disposal of fixed assets, intangible assets and other long-term assets	161,390.51	170,288.40
Financial expenses	364,494.11	236,256.73
Investment income	(999,160.84)	(996,380.23)
Increase in gross inventories	(110,294.29)	(112,927.36)
Increase in gross operating receivables	(2,800,494.82)	(44,989.56)
(Decrease)/increase in operating payables	<u>(3,303,006.24)</u>	<u>13,462,351.68</u>
Net cash inflow from operating activities	<u>18,248,562.82</u>	<u>24,435,262.28</u>

*ii Net (decrease)/increase in cash and cash equivalents*

	2012	2011
Cash at the end of the year	5,590,843.62	24,196,529.50
Less: Cash at the beginning of the year	<u>(24,196,529.50)</u>	<u>(20,535,653.63)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(18,605,685.88)</u>	<u>3,660,875.87</u>

The notes on pages 8 to 22 form part of these financial statements.

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

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

**1 COMPANY STATUS**

Linyi Salcon Water Co., Ltd. (the Company) is an equity joint venture established in Linyi, Shandong Province in the People's Republic of China (PRC) by Salcon Linyi (HK) Limited registered in Hong Kong and Linyi Water Co., Ltd. registered in Linyi, PRC. The Company obtained an approval certificate Shang Wai Zi Lu Fu Lin Zi [2005] No. 3349 on 3 November 2005, and a business license Qi He Lu Lin Zi No. 101334 on 7 November 2005 issued by Linyi Administration of Industry and Commerce. The registered capital is USD 7,400,000.00. The Company obtained a revised business licence No. 371300400004665 on 6 April 2011.

The Company's period of operation is 30 years, and its principal activities are producing and selling water and providing water equipment installation and repairment service.

**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.

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.

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

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

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(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) Cash equivalents**

Cash equivalents represent short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

**(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) 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 first-in first-out method. In addition to the purchase cost of raw materials, work in progress and finished goods also include direct labour costs and an appropriate allocation of manufacturing overheads.

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, packaging and other materials are amortised in full when received for use.

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) 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.

Equity investment difference, which is the difference between the initial investment cost and the Company's share of the investee's equity, is accounted for as follows:

- 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.
- Any shortfall of the initial investment cost over the Company's share of the investee's equity is amortised on a straight-line basis over 10 years if the investment was acquired before the MOF's issuance of the "Questions and answers (2) on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" (Cai Kuai [2003] No.10). The unamortised balance is included in long-term equity investments at the year end. Such shortfalls are recognised in the "Capital surplus-Reserve for equity investment" if the investment was acquired after the issuance of Cai Kuai [2003] No.10.

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.

The Company makes provision for impairment losses on long-term equity investments (see note 3(j)).

**(h) Fixed assets and construction in progress**

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(j)). Construction in progress is stated in the balance sheet at cost less impairment losses (see note 3(j)).

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


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## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (h) 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>
Land use rights	30 years	0%	3.33%
Plant and buildings	20-30 years	5%	3%-5%
Machinery and equipment	5-10 years	5%	9.5%-19%
Office and other equipment	5-10 years	5%	9.5%-19%
Motor vehicles	8 years	5%	12%
Pipelines	30 years	5%	3%

## (i) Intangible assets

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

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Provision for impairment (continued)**

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) 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.

**(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) 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.

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

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## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (m) Revenue recognition (continued)

## (iii) Interest income

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

## (iv) Subsidy income

Fixed subsidy is calculated and recognised in the income statement according to the sales volume and the amount of the fixed subsidy as prescribed by the State. Subsidy income other than fixed subsidy is recognised in the income statement upon receipt of the subsidy.

## (n) 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.

## (o) Repair and maintenance expenses

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

## (p) 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.

## (q) 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, value added tax (VAT), urban maintenance and construction tax, education fee surcharge and water conservancy construction specific fee.

<u>Tax name</u>	<u>Tax basis and applicable rate</u>
Business tax	3% or 5% of taxable revenue
VAT	Output VAT is 6% of product sales and taxable services revenue, according to tax laws.
Urban maintenance and construction tax	7 % of the VAT and business tax paid
Education fee surcharge	5 % of the VAT and business tax paid
Water conservancy construction fund	1% of the VAT and business tax paid

Business taxes and surcharges include urban maintenance and construction tax , education fee surcharge and water conservancy construction fund.

- (b) Income tax

Income tax in the income statement represents:

	<i>2012</i>	<i>2011</i>
Provision for income tax for the year	<u>2,526,144.17</u>	<u>660,388.28</u>

The statutory income tax rate of the Company is 25%. Pursuant to the approval issued by 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%).

- (c) Taxes payable

	<i>2012</i>	<i>2011</i>
VAT payable	297,114.77	269,547.10
Business tax payable	5,961.57	2,089.07
Income tax payable	734,359.77	473,030.87
Others	<u>244,835.59</u>	<u>240,923.41</u>
Total	<u>1,282,271.70</u>	<u>985,590.45</u>



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

5 CASH AT BANK AND ON HAND

	2012	2011
Cash on hand	1,369.35	9,700.14
Demand deposits	5,589,474.27	20,186,829.36
Fixed deposits	-	4,000,000.00
Total	<u>5,590,843.62</u>	<u>24,196,529.50</u>

6 ACCOUNTS RECEIVABLE

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

	2012		Provision for bad and doubtful debts	2011		Provision for bad and doubtful debts
	RMB receivable	Percentage of total accounts		RMB receivable	Percentage of total accounts	
Within 1 year	759,850.41	77%	-	487,220.29	42%	-
After 1 year but within 2 years	791.34	1%	-	613,319.94	54%	-
After 2 years but within 3 years	215,081.65	22%	-	-	-	-
After 3 years	-	-	-	41,208.19	4%	-
Total	<u>975,723.40</u>	<u>100%</u>	<u>-</u>	<u>1,141,748.42</u>	<u>100%</u>	<u>-</u>

The balance of accounts receivable over one year is water charge due from the government. The management are discussing with the government on the settle plan. The management considers no need to provide bad debt provision.

7 OTHER RECEIVABLES

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

	2012		Provision for bad and doubtful debts	2011		Provision for bad and doubtful debts
	RMB receivables	Percentage of total other		RMB receivables	Percentage of total other	
Within 1 year	4,003,080.51	17%	19,498.53	4,356,520.50	21%	128,192.18
After 1 year but within 2 years	4,356,520.50	18%	128,192.18	5,665,123.92	27%	666,059.89
After 2 year but within 3 years	5,630,117.67	24%	666,059.89	4,611,678.34	22%	-
After 3 years	<u>9,677,819.94</u>	<u>41%</u>	<u>-</u>	<u>6,067,696.02</u>	<u>30%</u>	<u>-</u>
Total	<u>23,667,538.62</u>	<u>100%</u>	<u>813,750.60</u>	<u>20,701,018.78</u>	<u>100%</u>	<u>794,252.07</u>

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

Provision for bad and doubtful debts	2012	2011
Opening balance as at 1 January	794,252.07	666,059.89
Add: Charges for the year	<u>19,498.53</u>	<u>128,192.18</u>
Closing balance as at 31 December	<u>813,750.60</u>	<u>794,252.07</u>

The balance of other receivables over one year is salary and welfare paid to retired staff. The management are discussing with the government authority on the settle plan. The management considers no need to provide bad debt provision.

**8 INVENTORIES**

	2012	2011
Raw materials	1,210,124.38	1,105,730.74
Low value consumables	<u>183,621.81</u>	<u>177,721.16</u>
Total	<u>1,393,746.19</u>	<u>1,283,451.90</u>

All the above inventories are purchased from others.

	2012	2011
Cost of inventories charged to costs and expenses in the income statement	<u>1,011,237.90</u>	<u>953,301.60</u>

**9 LONG-TERM INVESTMENTS**

	<i>Opening balance at the beginning of the year</i>	<i>Addition during the year</i>	<i>Disposals during the year</i>	<i>Closing balance at the end of the year</i>
Long-term equity investments				
- Investments in subsidiaries	<u>6,092,415.30</u>	<u>999,160.84</u>	-	<u>7,091,576.14</u>
Including:				
- Linyi Runcheng Water Supply Project Co., Ltd.	2,478,254.77	709,567.42	-	3,187,822.19
- Linyi Salcon Water Supply Equipment Co., Ltd.	3,614,160.53	289,593.42	-	3,903,753.95

As at 31 December 2012, the ratio of the total carrying amount of the Company's long-term investments to its net assets was 8.45% (2011: 9.03%).

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

## 10 FIXED ASSETS

	<i>Land use rights</i>	<i>Plant and buildings</i>	<i>Machinery and equipment</i>	<i>Office and other equipment</i>	<i>Motor vehicles</i>	<i>Pipelines</i>	<i>Total</i>
<b>Cost</b>							
As at 1 January 2012	16,115,868.03	48,691,170.95	17,507,759.42	1,166,917.84	1,911,389.82	64,149,481.62	149,542,587.68
Additions	-	3,450,072.94	8,270,990.22	408,795.97	471,950.00	-	12,601,809.13
Transfer from construction in progress (note 11)	-	194,921.72	-	-	-	8,375,023.00	8,569,944.72
Disposals	-	-	(519,410.61)	-	(5,110.18)	-	(524,520.79)
As at 31 December 2012	<u>16,115,868.03</u>	<u>52,336,165.61</u>	<u>25,259,339.03</u>	<u>1,575,713.81</u>	<u>2,378,229.64</u>	<u>72,524,504.62</u>	<u>170,189,820.74</u>
<b>Accumulated depreciation</b>							
As at 1 January 2012	(3,197,337.71)	(9,235,478.55)	(8,567,653.63)	(581,947.74)	(695,213.89)	(9,432,290.75)	(31,709,922.27)
Charge for the year	(541,905.45)	(1,626,824.60)	(2,199,103.37)	(186,758.07)	(244,846.69)	(2,132,778.09)	(6,932,216.27)
Written back on disposal	-	-	337,183.56	-	4,146.72	-	341,330.28
As at 31 December 2012	<u>(3,739,243.16)</u>	<u>(10,862,303.15)</u>	<u>(10,429,573.44)</u>	<u>(768,705.81)</u>	<u>(935,913.86)</u>	<u>(11,565,068.84)</u>	<u>(38,300,808.26)</u>
<b>Carrying amount</b>							
As at 31 December 2012	<u>12,376,624.87</u>	<u>41,473,862.46</u>	<u>14,829,765.59</u>	<u>807,008.00</u>	<u>1,442,315.78</u>	<u>60,959,435.78</u>	<u>131,889,012.48</u>
As at 31 December 2011	<u>12,918,530.32</u>	<u>39,455,692.40</u>	<u>8,940,105.79</u>	<u>584,970.10</u>	<u>1,216,175.93</u>	<u>54,717,190.87</u>	<u>117,832,665.41</u>

## 11 CONSTRUCTION IN PROGRESS

	<i>Including: Borrowing costs capitalised</i>
<b>Cost</b>	
As at 1 January 2012	4,428,637.61
Additions during the year	10,822,130.53
Transfer to fixed assets during the year	<u>(8,569,944.72)</u>
As at 31 December 2012	<u>6,680,823.42</u>
<b>Provision for impairment</b>	
As at 1 January 2012	-
Charge for the year	<u>(1,376,056.59)</u>
As at 31 December 2012	<u>(1,376,056.59)</u>
<b>Carrying amount</b>	
As at 31 December 2012	<u>5,304,766.83</u>
As at 31 December 2011	<u>4,428,637.61</u>

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

## 12 INTANGIBLE ASSETS

	<i>Software</i>	<i>Others</i>	<i>Total</i>
Cost			
As at 1 January/ 31 December 2012	195,729.80	2,392,554.39	2,588,284.19
Accumulated amortisation			
As at 1 January 2012	(195,729.80)	(99,689.79)	(295,419.59)
Charge for the year	-	(99,689.79)	(99,689.79)
As at 31 December 2012	(195,729.80)	(199,379.58)	(395,109.38)
Carrying amount			
As at 31 December 2012	-	2,193,174.81	2,193,174.81
As at 31 December 2011	-	2,292,864.60	2,292,864.60

## 13 ACCOUNTS PAYABLE

	<i>2012</i>	<i>2011</i>
Payable for materials purchased	<u>1,544,017.54</u>	<u>939,708.91</u>

## 14 LONG-TERM LOANS/LONG-TERM LIABILITIES DUE WITHIN ONE YEAR

	<u>2012</u>			<u>2011</u>		
	<i>Principal</i>	<i>Maturity &amp; interest rate (p.a.)</i>	<i>Secured/ guaranteed</i>	<i>Principal</i>	<i>Maturity &amp; interest rate (p.a.)</i>	<i>Secured/ guaranteed</i>
		According to Finance			According to Finance	
Government loan	3,000,000.00	Bureau's	Not applicalbe	3,000,000.00	Bureau's	Not applicalbe
Government loan	32,742,657.45	notice	Not applicalbe	32,742,657.45	notice	Not applicalbe
Less: Long-term liabilities due within one year	<u>(3,454,546.00)</u>			-		
Total	<u>32,288,111.45</u>			<u>35,742,657.45</u>		

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


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## 15 LONG-TERM PAYABLES

*Payable for assets acquisition*

As at 1 January 2012	54,537,368.99
Decrease during the year	<u>(14,582,799.07)</u>
As at 31 December 2012	<u>39,954,569.92</u>

## 16 PAID-IN CAPITAL

Registered capital

	<u>2012 and 2011</u>	
	<i>Amount in original currency</i>	<i>%</i>
	<i>USD</i>	
Linyi Salcon Water Co., Ltd.	2,960,000.00	40%
Salcon Linyi (HK) Limited	<u>4,440,000.00</u>	<u>60%</u>
	<u>7,400,000.00</u>	<u>100%</u>

Paid-in capital

	<u>2012 and 2011</u>		
	<i>Amount in original currency</i>	<i>Amount in RMB equivalent</i>	<i>%</i>
Linyi Salcon Water Co., Ltd.	RMB 24,000,000.00	24,000,000.00	40%
Salcon Linyi (HK) Limited	USD 4,440,000.00	<u>35,999,964.00</u>	<u>60%</u>
		<u>59,999,964.00</u>	<u>100%</u>

Capital contributions in foreign currency have been translated into Renminbi at the exchange rates specified in the Company's Articles of Association at 1 USD to RMB 8.1081.

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

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

17	CAPITAL RESERVE		
		<i>2012</i>	<i>2011</i>
	Foreign currency capital translation differences	<u>(117,660.00)</u>	<u>(117,660.00)</u>
18	SURPLUS RESERVE		
			<i>Statutory surplus reserve</i>
	As at 1 January 2012		841,881.60
	Profit appropriation (note 19)		<u>1,650,817.32</u>
	As at 31 December 2012		<u>2,492,698.92</u>
19	PROFIT APPROPRIATION		
	In accordance with the Articles of Association, the Company made appropriation to the following funds:		
	Statutory surplus reserve		10%
20	SALES FROM PRINCIPAL ACTIVITIES		
		<i>2012</i>	<i>2011</i>
	Sales of goods	<u>43,171,891.50</u>	<u>38,649,946.19</u>
21	FINANCIAL EXPENSES		
		<i>2012</i>	<i>2011</i>
	Net interest expense	531,273.00	495,727.00
	Less: interest income	(166,778.89)	(259,470.27)
	Other financial expenses	<u>3,493.10</u>	<u>2,644.80</u>
	Total	<u>367,987.21</u>	<u>238,901.53</u>
22	NON-OPERATING INCOME		
	The amount mainly represents urban infrastructure facilities income provided by Linyi Finance Bureau.		

**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 Linyi (HK) Limited	HK	Investment holding	Parent company	Offshore company

Registered capital of related parties with controlling relationships and its changes

	<i>At the beginning of the year</i> <i>HKD</i>	<i>Increase</i> <i>HKD</i>	<i>Decrease</i> <i>HKD</i>	<i>At the end of the year</i> <i>HKD</i>
Salcon Linyi (HK) Limited	40,345,802.00	-	-	40,345,802.00

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

	<i>At the beginning of the year</i>		<i>Increase</i>		<i>Decrease</i>		<i>At the end of the year</i>	
	<i>USD</i>	<i>%</i>	<i>USD</i>	<i>%</i>	<i>USD</i>	<i>%</i>	<i>USD</i>	<i>%</i>
Salcon Linyi (HK) Limited	4,440,000.00	60%	-	-	-	-	4,440,000.00	60%

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

	<i>Relationship with the Company</i>
Linyi Runcheng Water Supply Project Co., Ltd. (Linyi Runcheng)	Subsidiary
Linyi Salcon Water Supply Equipment Co., Ltd. (Linyi Salcon Equipment)	Subsidiary
Salcon Alliance (Shanghai) Company Limited (Salcon Alliance)	Fellow subsidiary
Linyi Water Co., Ltd	Chinese investor

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


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**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>
Receiving services		
- Linyi Runcheng	4,937,873.27	-
Receiving services		
- Salcon Alliance	300,000.00	300,000.00
Purchase of goods		
- Linyi Salcon Equipment	350,000.00	-

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>
Long-term payable		
- Linyi Water Co., Ltd	39,954,569.92	54,537,368.99
Other payables		
- Linyi Runcheng	2,995,767.72	4,108,606.90
- Linyi Salcon Equipment	2,000,000.00	-
Accounts payable		
- Linyi Salcon Equipment	350,000.00	-

**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.



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

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临沂实康水务有限公司

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)  
中国上海  
南京西路1266号  
恒隆广场50楼  
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 1301751 号

临沂实康水务有限公司董事会:

我们审计了后附的第 1 页至第 22 页的临沂实康水务有限公司(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)



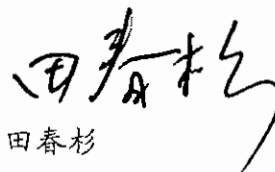
审计报告(续)

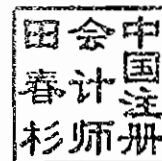
毕马威华振沪审字第 1301751 号

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。

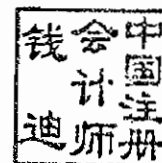
毕马威华振会计师事务所(特殊普通合伙) 中国注册会计师  
上海分所

  
田春杉





钱迪



中国 上海

二〇一三年四月十九日

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

临沂实康水务有限公司

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	5,590,843.62	24,196,529.50
应收账款	6	975,723.40	1,141,748.42
其他应收款	7	22,853,788.02	19,906,766.71
预付账款		2,805,510.00	4,188,740.00
存货	8	<u>1,393,746.19</u>	<u>1,283,451.90</u>
流动资产合计		<u>33,619,611.23</u>	<u>50,717,236.53</u>
长期投资			
长期股权投资	9	<u>7,091,576.14</u>	<u>6,092,415.30</u>
固定资产			
固定资产原价		170,189,820.74	149,542,587.68
减：累计折旧		<u>(38,300,808.26)</u>	<u>(31,709,922.27)</u>
固定资产净额	10	131,889,012.48	117,832,665.41
在建工程	11	<u>5,304,766.83</u>	<u>4,428,637.61</u>
固定资产合计		<u>137,193,779.31</u>	<u>122,261,303.02</u>
无形资产及其他资产			
无形资产	12	<u>2,193,174.81</u>	<u>2,292,864.60</u>
资产总计		<u>180,098,141.49</u>	<u>181,363,819.45</u>

刊载于第8页至第22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)

临沂实康水务有限公司  
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	1,544,017.57	939,708.91
应付工资		196,351.29	56,717.37
应交税金	4(c)	1,282,271.70	985,590.45
其他应付款		17,433,128.36	21,664,804.29
一年内到期的长期负债	14	3,454,546.00	-
流动负债合计		23,910,314.92	23,646,821.02
长期负债			
长期借款	14	32,288,111.45	35,742,657.45
长期应付款	15	39,954,569.92	54,537,368.99
长期负债合计		72,242,681.37	90,280,026.44
负债合计		96,152,996.29	113,926,847.46

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

临沂实康水务有限公司  
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(续)			
所有者权益			
实收资本	16	59,999,964.00	59,999,964.00
资本公积	17	(117,660.00)	(117,660.00)
盈余公积	18	2,492,698.92	841,881.60
未分配利润		<u>21,570,142.28</u>	<u>6,712,786.39</u>
所有者权益合计		<u>83,945,145.20</u>	<u>67,436,971.99</u>
负债和所有者权益总计		<u>180,098,141.49</u>	<u>181,363,819.45</u>

此财务报表已于2013年4月19日获本公司董事会批准。

徐利华 代景清  
 法定代表人授权人 财务总监  
 (签名和盖章) (签名和盖章)

周东鑫  
 财务经理  
 (签名和盖章)



刊载于第8页至第22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)

临沂实康水务有限公司  
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	20	43,171,891.50	38,649,946.19
减：主营业务成本		(33,787,519.06)	(29,453,628.81)
主营业务税金及附加	4(a)	<u>(310,837.60)</u>	<u>(278,374.61)</u>
主营业务利润		9,073,534.84	8,917,942.77
加：其他业务利润		995,412.55	1,585,286.60
减：营业费用		(180,553.90)	(184,365.95)
管理费用		(9,839,043.71)	(8,711,226.06)
财务费用	21	<u>(367,987.21)</u>	<u>(238,901.53)</u>
营业(亏损)/利润		(318,637.43)	1,368,735.83
加：投资收益		999,160.84	996,380.23
营业外收入	22	19,960,788.30	3,653,860.05
减：营业外支出		<u>(1,606,994.33)</u>	<u>(187,088.40)</u>
利润总额		19,034,317.38	5,831,887.71
减：所得税	4(b)	<u>(2,526,144.17)</u>	<u>(660,388.28)</u>
净利润		16,508,173.21	5,171,499.43
加：年初未分配利润		<u>6,712,786.39</u>	<u>2,058,436.90</u>
可供分配的利润		23,220,959.60	7,229,936.33
减：提取法定盈余公积	19	<u>(1,650,817.32)</u>	<u>(517,149.94)</u>
年末未分配利润		<u>21,570,142.28</u>	<u>6,712,786.39</u>

刊载于第 8 页至第 22 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)

临沂实康水务有限公司  
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		43,296,708.33	41,877,859.99
收到的其他与经营活动有关的现金		<u>20,561,545.05</u>	<u>18,949,218.02</u>
现金流入小计		<u>63,858,253.38</u>	<u>60,827,078.01</u>
购买商品支付的现金		(20,662,044.56)	(15,637,732.86)
支付给职工以及为职工支付的现金		(11,572,672.07)	(13,400,251.52)
支付的各项税费		(3,439,852.58)	(4,741,008.78)
支付的其他与经营活动有关的现金		<u>(9,935,121.35)</u>	<u>(2,612,822.57)</u>
现金流出小计		<u>(45,609,690.56)</u>	<u>(36,391,815.73)</u>
经营活动产生的现金流量净额	i	<u>18,248,562.82</u>	<u>24,435,262.28</u>
投资活动产生的现金流量:			
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		21,800.00	2,000.00
收到的其他与投资活动有关的现金		<u>166,778.89</u>	<u>259,470.27</u>
现金流入小计		<u>188,578.89</u>	<u>261,470.27</u>
购建固定资产、无形资产和其他 长期资产所支付的现金		(21,928,755.52)	(13,485,584.13)
投资所支付的现金		<u>(14,582,799.07)</u>	<u>(3,600,000.00)</u>
现金流出小计		<u>(36,511,554.59)</u>	<u>(17,085,584.13)</u>
投资活动支付的现金流量净额		<u>(36,322,975.70)</u>	<u>(16,824,113.86)</u>

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

临沂实康水务有限公司  
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:			
偿还债务所支付的现金		-	(3,454,545.55)
偿付利息所支付的现金		<u>(531,273.00)</u>	<u>(495,727.00)</u>
现金流出小计		<u>(531,273.00)</u>	<u>(3,950,272.55)</u>
筹资活动支付的现金流量净额			
		<u>(531,273.00)</u>	<u>(3,950,272.55)</u>
现金及现金等价物净(减少)/增加额	ii	<u>(18,605,685.88)</u>	<u>3,660,875.87</u>

刊载于第 8 页至第 22 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)

临沂实康水务有限公司  
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 将净利润调节为经营活动的现金流量:		
净利润	16,508,173.21	5,171,499.43
加: 计提的资产减值准备	1,395,555.12	128,192.18
固定资产折旧	6,932,216.27	6,321,281.22
无形资产摊销	99,689.79	99,689.79
处置固定资产、无形资产和 其他长期资产的损失	161,390.51	170,288.40
财务费用	364,494.11	236,256.73
投资收益	(999,160.84)	(996,380.23)
存货的增加	(110,294.29)	(112,927.36)
经营性应收项目的增加	(2,800,494.82)	(44,989.56)
经营性应付项目的(减少)/增加	<u>(3,303,006.24)</u>	<u>13,462,351.68</u>
经营活动产生的现金流量净额	<u>18,248,562.82</u>	<u>24,435,262.28</u>
ii 现金及现金等价物净(减少)/增加情况:		
现金的年末余额	5,590,843.62	24,196,529.50
减: 现金的年初余额	<u>(24,196,529.50)</u>	<u>(20,535,653.63)</u>
现金及现金等价物净(减少)/增加额	<u>(18,605,685.88)</u>	<u>3,660,875.87</u>

刊载于第 8 页至第 22 页的财务报表附注为本财务报表的组成部分。

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

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临沂实康水务有限公司  
财务报表附注  
(金额单位：人民币元)

## 1 公司基本情况

临沂实康水务有限公司(以下简称“本公司”)是由在香港注册的 Salcon Linyi (HK) Limited 及在中华人民共和国山东省临沂市注册的临沂市自来水公司在中华人民共和国山东省临沂市成立的中外合资企业。本公司于 2005 年 11 月 3 日经山东省人民政府批准, 领取了商外资鲁府临字[2005]3349 号批准证书, 并于 2005 年 11 月 7 日领取了临沂市工商行政管理局颁发的企合鲁临总字第 101334 号企业法人营业执照。注册资本为 7,400,000.00 美元。本公司于 2011 年 4 月 6 日领取了更新的 371300400004665 号企业法人营业执照。

本公司营业期限为 30 年, 主要从事自来水生产销售、自来水设施安装与维修业务。

## 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。

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。

## 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。

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

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**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) 现金等价物**

现金等价物指本公司持有期限短、流动性强、易于转换为已知金额现金、价值变动风险很小的投资。

**(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) 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。发出存货的成本按先进先出法核算。除原材料采购成本外，在产品及产成品还包括直接人工和按照适当比例分配的生产制造费用。

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。

领用的低值易耗品和周转使用的包装物、周转材料等采用一次转销法进行核算。

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


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## 3 主要会计政策(续)

## (g) 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。

初始投资成本与享有被投资企业所有者权益份额之差额作为股权投资差额，并按以下方式处理：

- 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。
- 初始投资成本低于享有被投资企业所有者权益份额之差额，如果是在财政部颁布《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)以前发生的，按 10 年平均摊销，年末未摊销余额包括在长期股权投资中；在财政部颁布财会[2003]10 号以后发生的，记入资本公积-股权投资准备。

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。

本公司对长期股权投资计提减值准备(参见附注 3(j))。

## (h) 固定资产及在建工程

固定资产指本公司为生产商品、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 3(j))记入资产负债表内。在建工程以成本减减值准备(参见附注 3(j))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。

**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)

(h) 固定资产及在建工程(续)

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	折旧率
土地使用权	30 年	0%	3.33%
厂房及建筑物	20-30 年	5%	3%-5%
机器设备	5-10 年	5%	9.5%-19%
办公设备及其他设备	5-10 年	5%	9.5%-19%
运输工具	8 年	5%	12%
管道	30 年	5%	3%

(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(j))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 年
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(j) 资产减值准备

本公司对各项资产(包括长期投资、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时，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。

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

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**3 主要会计政策(续)****(k) 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。

**(l) 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。

**(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。

**(ii) 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按已完工作的进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。

**(iii) 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。

**(iv) 补贴收入**

定额补贴收入按销量和国家规定的补助定额计算并确认。除定额补贴收入外的其他补贴收入根据实际收到的补贴款确认。

**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)

(n) 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。

(o) 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。

(p) 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。

(q) 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) 本公司适用的与产品销售和提供服务相关的税金及附加有营业税、增值税、城市维护建设税、教育费附加、地方水利建设基金。

税种	计缴标准
营业税	应税营业收入的 3%或 5%
增值税	按税法规定计算的销售货物和应税劳务收入的 6%计算增值税额
城市维护建设税	实际缴纳的增值税及营业税税额的 7%
教育费附加	实际缴纳的增值税及营业税税额的 5%
地方水利建设基金	实际缴纳的增值税及营业税税额的 1%

主营业务税金及附加，包括城市维护建设税和教育费附加。



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

4 税项及附加(续)

(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	<u>2,526,144.17</u>	<u>660,388.28</u>

本公司的法定税率为 25%。根据山东省临沂市国家税务局关于本公司的《外商投资企业税收优惠资格确认书》，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%)。

(c) 应交税金

	<u>2012 年</u>	<u>2011 年</u>
应交增值税	297,114.77	269,547.10
应交营业税	5,961.57	2,089.07
应交企业所得税	734,359.77	473,030.87
其他	<u>244,835.59</u>	<u>240,923.41</u>
合计	<u>1,282,271.70</u>	<u>985,590.45</u>

5 货币资金

	<u>2012 年</u>	<u>2011 年</u>
现金	1,369.35	9,700.14
活期存款	5,589,474.27	20,186,829.36
定期存款	<u>-</u>	<u>4,000,000.00</u>
合计	<u>5,590,843.62</u>	<u>24,196,529.50</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			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	759,850.41	77%	-	487,220.29	42%	-
一年至二年	791.34	1%	-	613,319.94	54%	-
二年至三年	215,081.65	22%	-	-	-	-
三年以上	-	-	-	41,208.19	4%	-
合计	<u>975,723.40</u>	<u>100%</u>	<u>-</u>	<u>1,141,748.42</u>	<u>100%</u>	<u>-</u>

应收账款余额中一年以上部分主要为应收环卫处的自来水费收入, 本公司正与对方商讨收回应收账款的方案。本公司认为无需对应收账款计提坏账准备。

## 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	坏账准备	金额	占总额比例	坏账准备
一年以内	4,003,080.51	17%	19,498.53	4,356,520.50	21%	128,192.18
一年至二年	4,356,520.50	18%	128,192.18	5,665,123.92	27%	666,059.89
二年至三年	5,630,117.67	24%	666,059.89	4,611,678.34	22%	-
三年以上	9,677,819.94	41%	-	6,067,696.02	30%	-
合计	<u>23,667,538.62</u>	<u>100%</u>	<u>813,750.60</u>	<u>20,701,018.78</u>	<u>100%</u>	<u>794,252.07</u>

坏账准备

	2012 年	2011 年
年初余额	794,252.07	666,059.89
加: 本年计提	<u>19,498.53</u>	<u>128,192.18</u>
年末余额	<u>813,750.60</u>	<u>794,252.07</u>

其他应收款余额中一年以上部分主要为本公司支付的内退人员的工资及社保等。本公司正与临沂市自来水公司的上级组织沟通收回这些款项。本公司认为无需对该部分其他应收款计提坏账准备。

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

## 8 存货

	<u>2012 年</u>	<u>2011 年</u>
原材料	1,210,124.38	1,105,730.74
低值易耗品	<u>183,621.81</u>	<u>177,721.16</u>
合计	<u>1,393,746.19</u>	<u>1,283,451.90</u>

以上存货均为购买形成。

	<u>2012 年</u>	<u>2011 年</u>
于成本和费用中确认的存货成本:	<u>1,011,237.90</u>	<u>953,301.60</u>

## 9 长期投资

	<u>年初余额</u>	<u>本年增加数</u>	<u>本年减少数</u>	<u>年末余额</u>
长期股权投资				
- 对子公司投资	<u>6,092,415.30</u>	<u>999,160.84</u>	-	<u>7,091,576.14</u>
其中:				
- 对临沂润城供水工程公司	2,478,254.77	709,567.42	-	3,187,822.19
- 对临沂实康供水设施有限公司	3,614,160.53	289,593.42	-	3,903,753.95

于 2012 年 12 月 31 日, 本公司长期投资账面价值占净资产的比例为 8.45%(2011 年: 9.03%)。

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	厂房及 建筑物	机器设备	办公设备及 其他设备	运输工具	管道	合计
成本:							
年初余额	16,115,868.03	48,691,170.95	17,507,759.42	1,166,917.84	1,911,389.82	64,149,481.62	149,542,587.68
本年增加	-	3,450,072.94	8,270,990.22	408,795.97	471,950.00	-	12,601,809.13
在建工程转入(注释 11)	-	194,921.72	-	-	-	8,375,023.00	8,569,944.72
本年减少	-	-	(519,410.61)	-	(5,110.18)	-	(524,520.79)
年末余额	16,115,868.03	52,336,165.61	25,259,339.03	1,575,713.81	2,378,229.64	72,524,504.62	170,189,820.74
累计折旧:							
年初余额	(3,197,337.71)	(9,235,478.55)	(8,567,653.63)	(581,947.74)	(695,213.89)	(9,432,290.75)	(31,709,922.27)
本年计提折旧	(541,905.45)	(1,626,824.60)	(2,199,103.37)	(186,758.07)	(244,846.69)	(2,132,778.09)	(6,932,216.27)
折旧冲销	-	-	337,183.56	-	4,346.72	-	341,330.28
年末余额	(3,739,243.16)	(10,862,303.15)	(10,429,573.44)	(768,705.81)	(935,913.86)	(11,565,068.84)	(38,300,808.26)
净额:							
年末余额	<u>12,376,624.87</u>	<u>41,473,862.46</u>	<u>14,829,765.59</u>	<u>807,008.00</u>	<u>1,442,315.78</u>	<u>60,959,435.78</u>	<u>131,889,012.48</u>
年初余额	<u>12,918,530.32</u>	<u>39,455,692.40</u>	<u>8,940,105.79</u>	<u>584,970.10</u>	<u>1,216,175.93</u>	<u>54,717,190.87</u>	<u>117,832,665.41</u>

## 11 在建工程

	金额	其中: 借款费用 资本化金额
成本		
年初余额	4,428,637.61	-
本年增加	10,822,130.53	-
本年转入固定资产	(8,569,944.72)	-
年末余额	6,680,823.42	-
减值准备		
年初余额	-	-
本年增加	(1,376,056.59)	-
年末余额	(1,376,056.59)	-
净额		
年末余额	<u>5,304,766.83</u>	-
年初余额	<u>4,428,637.61</u>	-

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

## 12 无形资产

	软件	其他	合计
成本			
年初/年末余额	195,729.80	2,392,554.39	2,588,284.19
累计摊销			
年初余额	(195,729.80)	(99,689.79)	(295,419.59)
本年增加	-	(99,689.79)	(99,689.79)
年末余额	(195,729.80)	(199,379.58)	(395,109.38)
净值			
年末余额	-	2,193,174.81	2,193,174.81
年初余额	-	2,292,864.60	2,292,864.60

## 13 应付账款

	2012 年	2011 年
材料款	1,544,017.54	939,708.91

## 14 长期借款及一年内到期的长期负债

	2012 年			2011 年		
	金额	期限及 年利率	抵押/担保	金额	期限及 年利率	抵押/担保
国债借款	3,000,000.00	按财政 局通知	不适用	3,000,000.00	按财政 局通知	不适用
国债借款	32,742,657.45	同上	不适用	32,742,657.45	同上	不适用
减：一年内到期的 长期负债	(3,454,546.00)			-		
合计	32,288,111.45			35,742,657.45		

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

## 15 长期应付款

	<u>购买资产款项</u>
年初余额	54,537,368.99
本年偿还	<u>(14,582,799.07)</u>
年末余额	<u>39,954,569.92</u>

## 16 实收资本

	<u>2012 年及 2011 年</u>	
	<u>金额</u>	<u>%</u>
注册资本	美元	
临沂市自来水公司	2,960,000.00	40%
Salcon Linyi (HK) Limited	<u>4,440,000.00</u>	<u>60%</u>
	<u>7,400,000.00</u>	<u>100%</u>

	<u>2012 年及 2011 年</u>		
	原币金额	等值人民币 <u>金额</u>	<u>%</u>
实收资本			
临沂市自来水公司	人民币 24,000,000.00	24,000,000.00	40%
Salcon Linyi (HK) Limited	美元 4,440,000.00	<u>35,999,964.00</u>	<u>60%</u>
		<u>59,999,964.00</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本公司章程规定的汇率，即以 1 美元兑人民币 8.1081 元换算为人民币。

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 资本公积

	<u>2012 年</u>	<u>2011 年</u>
外币资本折算差额	<u>(117,660.00)</u>	<u>(117,660.00)</u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR  
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## 18 盈余公积

	<u>注</u>	<u>法定盈余公积</u>
年初余额		841,881.60
利润分配	19	<u>1,650,817.32</u>
年末余额		<u>2,492,698.92</u>

## 19 利润分配

本公司按公司章程提取以下各项基金：

提取法定盈余公积 10%

## 20 主营业务收入

	<u>2012 年</u>	<u>2011 年</u>
销售商品收入	<u>43,171,891.50</u>	<u>38,649,946.19</u>

## 21 财务费用

	<u>2012 年</u>	<u>2011 年</u>
利息支出	531,273.00	495,727.00
减：利息收入	(166,778.89)	(259,470.27)
其他财务费用	<u>3,493.10</u>	<u>2,644.80</u>
合计	<u>367,987.21</u>	<u>238,901.53</u>

## 22 营业外收入

营业外收入主要为临沂市财政局拨付给本公司的城市基础设施配套费。

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

## (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>
Salcon Linyi (HK) Limited	香港	投资	母公司	境外公司

## 存在控制关系的关联方的注册资本及其变化

	<u>年初数</u>	<u>本年增加</u>	<u>本年减少</u>	<u>年末数</u>
	港币	港币	港币	港币
Salcon Linyi (HK) Limited	40,345,802.00	-	-	40,345,802.00

## 存在控制关系的关联方所持股份或权益及其变化

	<u>年初数</u>		<u>本年增加</u>		<u>本年减少</u>		<u>年末数</u>	
	<u>原币金额</u>	<u>%</u>	<u>原币金额</u>	<u>%</u>	<u>原币金额</u>	<u>%</u>	<u>原币金额</u>	<u>%</u>
	美元		美元		美元		美元	
Salcon Linyi (HK) Limited	4,440,000.00	60%	-	-	-	-	4,440,000.00	60%

## (b) 不存在控制关系的关联方

	<u>与本公司关系</u>
临沂润城供水工程公司(“临沂润城”)	子公司
临沂实康供水设施有限公司(“供水设施”)	子公司
实盟企业管理咨询(上海)有限公司(“实盟”)	同一母系子公司
临沂市自来水公司	中方投资者



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


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## 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:

	<u>2012 年</u>	<u>2011 年</u>
接受劳务-临沂润城	4,937,873.27	-
接受劳务-实盟	300,000.00	300,000.00
购买商品-供水设施	350,000.00	-

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) 于年末本公司与关联方应收、应付款及借款余额列示如下:

	<u>2012 年</u>	<u>2011 年</u>
长期应付款		
-临沂市自来水公司	39,954,569.92	54,537,368.99
其他应付款		
-临沂润城	2,995,767.72	4,108,606.90
-供水设施	2,000,000.00	-
应付账款		
-供水设施	350,000.00	-

## 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。

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

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

LINYI RUNCHENG WATER  
SUPPLY PROJECT 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)**

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

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**AUDITORS' REPORT**

毕马威华振沪审字第 1301752 号

The Board of Directors of Linyi Runcheng Water Supply Project Co., Ltd.:

We have audited the accompanying financial statements of Linyi Runcheng Water Supply Project Co., Ltd. ("the Company") on pages 1 to 15, 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 1301752 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: 19 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 (593798-T)**

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

Linyi Runcheng Water Supply Project 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	4,273,692.95	5,960,568.66
Accounts receivable	6	477,980.21	777,980.21
Other receivables	7	3,003,267.72	4,184,606.90
Inventories	8	<u>3,177,580.29</u>	<u>2,070,352.59</u>
Total current assets		<u>10,932,521.17</u>	<u>12,993,508.36</u>
Fixed assets			
Cost		798,389.20	798,389.20
Less: Accumulated depreciation		<u>(415,353.02)</u>	<u>(346,474.32)</u>
Total fixed assets	9	<u>383,036.18</u>	<u>451,914.88</u>
Total assets		<u>11,315,557.35</u>	<u>13,445,423.24</u>

The notes on pages 6 to 15 form part of these financial statements.

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

Linyi Runcheng Water Supply Project 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	10	6,553,757.85	7,393,883.28
Receipts in advance		1,136,233.88	2,963,591.52
Taxes payable	4(c)	415,711.84	588,028.33
Other payables		<u>22,031.59</u>	<u>21,665.34</u>
Total liabilities		<u>8,127,735.16</u>	<u>10,967,168.47</u>
Owners' equity			
Paid-in capital	11	120,000.00	120,000.00
Surplus reserve	12	216,113.75	197,411.11
Retained earnings		<u>2,851,708.44</u>	<u>2,160,843.66</u>
Total owners' equity		<u>3,187,822.19</u>	<u>2,478,254.77</u>
Total liabilities and owners' equity		<u>11,315,557.35</u>	<u>13,445,423.24</u>

These financial statements have been approved by the Board of Directors of the Company on 19 April 2013.

Xu Lihua	Dai Jingqing	Zhou Dongxin	
Legal Representative	Chief Financial Officer	Financial Manager	(Company stamp)
(Signature and stamp)	(Signature and stamp)	(Signature and stamp)	

The notes on pages 6 to 15 form part of these financial statements.

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

Linyi Runcheng Water Supply Project 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	14	21,251,837.19	28,426,922.63
Less: Cost of sales from principal activities		(16,062,439.38)	(22,869,061.01)
Business taxes and surcharges	4(a)	<u>(758,906.99)</u>	<u>(956,561.31)</u>
Profit from principal activities		4,430,490.82	4,601,300.31
Less: General and administrative expenses		(3,577,040.74)	(3,318,826.27)
Add: Net financial income	15	<u>143,666.55</u>	<u>32,147.24</u>
Operating profit		997,116.63	1,314,621.28
Add: Non-operating income		2,210.56	5.00
Less: Non-operating expenses		<u>(50,600.00)</u>	<u>(5,000.00)</u>
Profit before income tax		948,727.19	1,309,626.28
Less: Income tax	4(b)	<u>(239,159.77)</u>	<u>(327,406.58)</u>
Net profit for the year		709,567.42	982,219.70
Add: Retained earnings at the beginning of the year		<u>2,160,843.66</u>	<u>1,276,845.93</u>
Profits available for distribution		2,870,411.08	2,259,065.63
Less: Statutory surplus reserve	13	<u>(18,702.64)</u>	<u>(98,221.97)</u>
Retained earnings carried forward		<u><u>2,851,708.44</u></u>	<u><u>2,160,843.66</u></u>

The notes on pages 6 to 15 form part of these financial statements.

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

Linyi Runcheng Water Supply Project 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 sale of goods and rendering of services		20,837,318.73	28,844,893.33
Cash received relating to other operating activities		<u>70,710.56</u>	<u>2,257,324.51</u>
Sub-total of cash inflows		<u>20,908,029.29</u>	<u>31,102,217.84</u>
Cash paid for goods and services		(18,009,792.51)	(25,306,664.23)
Cash paid to and for employees		(2,408,025.77)	(2,936,836.45)
Cash paid for all types of taxes		(1,179,566.55)	(1,294,982.67)
Cash paid relating to other operating activities		<u>(1,144,403.12)</u>	<u>(138,212.41)</u>
Sub-total of cash outflows		<u>(22,741,787.95)</u>	<u>(29,676,695.76)</u>
Net cash (outflow)/inflow from operating activities	<i>i</i>	<u>(1,833,758.66)</u>	<u>1,425,522.08</u>
Cash flows from investing activities:			
Cash received relating to other investing activities		<u>146,882.95</u>	<u>34,886.64</u>
Sub-total of cash inflows		<u>146,882.95</u>	<u>34,886.64</u>
Net cash inflow from investing activities		<u>146,882.95</u>	<u>34,886.64</u>
Net (decrease)/increase in cash and cash equivalents	<i>ii</i>	<u>(1,686,875.71)</u>	<u>1,460,408.72</u>

The notes on pages 6 to 15 form part of these financial statements.



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

Linyi Runcheng Water Supply Project 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	709,567.42	982,219.70
Add: Depreciation of fixed assets	68,878.70	75,778.27
Net financial income	(146,882.95)	(34,886.64)
Increase in gross inventories	(1,107,227.70)	(308,735.49)
Decrease in gross operating receivables	1,481,339.18	2,446,222.30
Decrease in operating payables	<u>(2,839,433.31)</u>	<u>(1,735,076.06)</u>
Net cash (outflow)/inflow from operating activities	<u>(1,833,758.66)</u>	<u>1,425,522.08</u>

*ii Net (decrease)/increase in cash and cash equivalents*

	2012	2011
Cash at the end of the year	4,273,692.95	5,960,568.66
Less: Cash at the beginning of the year	<u>(5,960,568.66)</u>	<u>(4,500,159.94)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(1,686,875.71)</u>	<u>1,460,408.72</u>

The notes on pages 6 to 15 form part of these financial statements.

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

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Linyi Runcheng Water Supply Project Co., Ltd.  
Notes to the financial statements  
(Expressed in Renminbi Yuan)

**1 COMPANY STATUS**

Linyi Runcheng Water Supply Project Co., Ltd. (the Company) was established on 3 July 1993 by Linyi Water Co., Ltd.. In 2006, Linyi Water Co., Ltd. and Salcon Linyi (HK) Limited jointly set up Linyi Salcon Water Co., Ltd. (Linyi Salcon) and Linyi Water Co., Ltd. transferred 100% equity interests in the Company to Linyi Salcon. The Company obtained a business license No. 371300018011977 on 15 July 2010 issued by Linyi Administration of Industry and Commerce. The registered capital is RMB 120,000.

The Company's principal activities are providing installation and repairmen service of water pipelines and related equipments. The Company commenced its operation on 3 July 1993.

**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.

**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.

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Functional currency**

The Company's functional currency is the Renminbi.

**(d) Cash equivalents**

Cash equivalents represent short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

**(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) 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 first-in first-out method. In addition to the purchase cost of raw materials, work in progress and finished goods also include direct labour costs and an appropriate allocation of manufacturing overheads.

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, packaging and other materials are amortised in full when received for use.

**(g) Fixed assets and construction in progress**

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(h)). Construction in progress is stated in the balance sheet at cost less impairment losses (see note 3(h)).

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


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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) 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>
Machinery and equipment	5-20 years	5%	5%-19%
Office and other equipment	5-10 years	5%	9.5%-19%
Motor vehicles	8 years	5%	12%

**(h) Provision for impairment**

The carrying amounts of assets (including fixed assets, construction in progress 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.

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) 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.

**(j) 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.

**(k) 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) Contract revenue**

When the outcome of a construction contract can be estimated reliably, contract revenue associated with the construction contract is recognised as revenue at the balance sheet date using the percentage of completion method by reference to the stage of completion of the contract activity based on the proportion of contract costs incurred for work performed to date to the estimated total contract costs. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of the contract costs incurred that are recoverable.

**(ii) Interest income**

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

**(l) Repair and maintenance expenses**

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

**(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.

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


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## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (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.

## 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 water conservancy construction specific fee.

<u>Tax name</u>	<u>Tax basis and applicable rate</u>
Business tax	3% of taxable revenue
Urban maintenance and construction tax	7 % of the business tax paid
Education fee surcharge	5 % of the business tax paid
Water conservancy construction fund	1% of the business tax paid

Business taxes and surcharges include business tax, urban maintenance and construction tax, education fee surcharge and water conservancy construction fund.

## (b) Income tax

Income tax in the income statement represents:

	<i>2012</i>	<i>2011</i>
Provision for income tax for the year	<u>239,159.77</u>	<u>327,406.58</u>

The statutory income tax rate of the Company is 25%. For the current year, the Company paid income tax at 25% (2011: 25%).

## (c) Taxes payable

	<i>2012</i>	<i>2011</i>
Business tax payable	266,248.67	251,598.07
Income tax payable	115,081.75	304,413.83
Others	<u>34,381.42</u>	<u>32,016.43</u>
Total	<u>415,711.84</u>	<u>588,028.33</u>

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

**5 CASH AT BANK AND ON HAND**

	2012	2011
Cash on hand	146.69	233.97
Demand deposits	4,273,546.26	1,960,334.69
Fixed deposits	<u>-</u>	<u>4,000,000.00</u>
Total	<u>4,273,692.95</u>	<u>5,960,568.66</u>

**6 ACCOUNTS RECEIVABLE**

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

	2012			2011	
	<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	-	-	-	289,920.00	37%
After 1 year but within 2 years	289,920.00	61%	-	-	-
Over 3 years	<u>188,060.21</u>	<u>39%</u>	-	<u>488,060.21</u>	<u>63%</u>
Total	<u>477,980.21</u>	<u>100%</u>	-	<u>777,980.21</u>	<u>100%</u>

The balance of accounts receivable aged over one year is construction income due from Nanfang Village, Xinanfang Village and Northern City New Town Development Department for which the Company received RMB 300,000 in 2012. The management are discussing with those parties on the settle plan and considers no need to provide bad debt provision.

**7 OTHER RECEIVABLES**

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

	2012			2011	
	<i>Percentage of total other RMB receivables</i>	<i>Provision for bad and doubtful debts</i>		<i>Percentage of total other RMB receivables</i>	<i>Provision for bad and doubtful debts</i>
Within 1 year	<u>3,003,267.72</u>	<u>100%</u>	-	<u>4,184,606.90</u>	<u>100%</u>

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

	2012	2011
Raw materials	3,123,882.13	2,016,654.43
Low value consumables	<u>53,698.16</u>	<u>53,698.16</u>
Total	<u>3,177,580.29</u>	<u>2,070,352.59</u>
	2012	2011
Cost of inventories charged to costs and expenses in the income statement	<u>8,955,613.57</u>	<u>9,621,648.73</u>

**9 FIXED ASSETS**

	<u>Machinery and equipment</u>	<u>Motor Vehicles</u>	<u>Office and other equipment</u>	<u>Total</u>
Cost				
As at 1 January/ 31 December 2012	327,400.20	300,406.00	170,583.00	798,389.20
Accumulated depreciation				
As at 1 January 2012	(124,406.82)	(122,825.98)	(99,241.52)	(346,474.32)
Charge for the year	<u>(18,720.05)</u>	<u>(14,485.41)</u>	<u>(35,673.24)</u>	<u>(68,878.70)</u>
As at 31 December 2012	<u>(143,126.87)</u>	<u>(137,311.39)</u>	<u>(134,914.76)</u>	<u>(415,353.02)</u>
Carrying amount				
As at 31 December 2012	<u>184,273.33</u>	<u>163,094.61</u>	<u>35,668.24</u>	<u>383,036.18</u>
As at 31 December 2011	<u>202,993.38</u>	<u>177,580.02</u>	<u>71,341.48</u>	<u>451,914.88</u>

**10 ACCOUNTS PAYABLE**

	2012	2011
Material payable to related party	456,426.00	-
Other material payables	3,859,035.33	3,649,815.92
Construction payable	<u>2,238,296.52</u>	<u>3,744,067.36</u>
	<u>6,553,757.85</u>	<u>7,393,883.28</u>



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

Registered capital and paid in capital

	<i>2012</i>		<i>2011</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>RMB</i>		<i>RMB</i>	
Linyi Salcon	<u>120,000.00</u>	<u>100%</u>	<u>120,000.00</u>	<u>100%</u>

**12 SURPLUS RESERVE**

	<i>Statutory surplus reserve</i>
As at 1 January 2012	197,411.11
Profit appropriation (note 13)	<u>18,702.64</u>
As at 31 December 2012	<u>216,113.75</u>

**13 PROFIT APPROPRIATION**

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

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

**14 SALES FROM PRINCIPAL ACTIVITIES**

	<i>2012</i>	<i>2011</i>
Rendering of services	<u>21,251,837.19</u>	<u>28,426,922.63</u>

**15 NET FINANCIAL INCOME**

	<i>2012</i>	<i>2011</i>
Interest income	146,882.95	34,886.64
Other financial expenses	<u>(3,216.40)</u>	<u>(2,739.40)</u>
Total	<u>143,666.55</u>	<u>32,147.24</u>

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


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## 16 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>
Linyi Salcon	Linyi	Sales of water	Parent company	Limited liability company	Zhen Tianfa

## Registered capital of related parties with controlling relationships and its changes

	<i>At the beginning/ end of year RMB</i>
Linyi Salcon	59,999,964.00

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

	<i>At the beginning/ end of the year RMB</i>	<i>%</i>
Linyi Salcon	120,000.00	100%

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

*Relationship with the Company*

Linyi Salcon Water Supply Equipment Co., Ltd. (Linyi Salcon Equipment)	Fellow subsidiary
---	-------------------

## (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>
Rendering of services		
- Linyi Salcon	4,937,873.27	2,791,250.24
Purchase of goods		
- Linyi Salcon Equipment	730,956.00	-

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.

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


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## 16 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:  
(continued)

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

	<i>2012</i>	<i>2011</i>
Other receivables		
- Linyi Salcon	2,995,767.72	4,115,757.02
Accounts payable		
- Linyi Salcon Equipment	456,426.00	-

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

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临沂润城供水工程公司

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  
南京西路1266号  
恒隆广场50楼  
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 1301752 号

临沂润城供水工程公司董事会：

我们审计了后附的第 1 页至第 15 页的临沂润城供水工程公司(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 1301752 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。

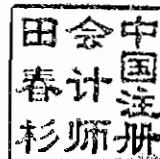
毕马威华振会计师事务所(特殊普通合伙) 中国注册会计师  
上海分所



中国上海

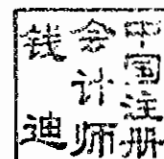
田春杉

田春杉



钱迪

钱迪



二〇一三年四月十九日

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

临沂润城供水工程公司

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	4,273,692.95	5,960,568.66
应收账款	6	477,980.21	777,980.21
其他应收款	7	3,003,267.72	4,184,606.90
存货	8	<u>3,177,580.29</u>	<u>2,070,352.59</u>
流动资产合计		<u>10,932,521.17</u>	<u>12,993,508.36</u>
固定资产			
固定资产原价		798,389.20	798,389.20
减：累计折旧		<u>(415,353.02)</u>	<u>(346,474.32)</u>
固定资产合计	9	<u>383,036.18</u>	<u>451,914.88</u>
资产总计		<u>11,315,557.35</u>	<u>13,445,423.24</u>

刊载于第6页至第15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)**

临沂润城供水工程公司

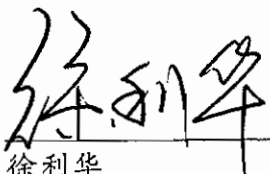
资产负债表(续)

2012年12月31日

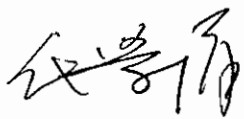
(金额单位: 人民币元)

	附注	2012年	2011年
负债和所有者权益			
流动负债			
应付账款	10	6,553,757.85	7,393,883.28
预收账款		1,136,233.88	2,963,591.52
应交税金	4(c)	415,711.84	588,028.33
其他应付款		<u>22,031.59</u>	<u>21,665.34</u>
负债合计		<u>8,127,735.16</u>	<u>10,967,168.47</u>
所有者权益			
实收资本	11	120,000.00	120,000.00
盈余公积	12	216,113.75	197,411.11
未分配利润		<u>2,851,708.44</u>	<u>2,160,843.66</u>
所有者权益合计		<u>3,187,822.19</u>	<u>2,478,254.77</u>
负债和所有者权益总计		<u>11,315,557.35</u>	<u>13,445,423.24</u>

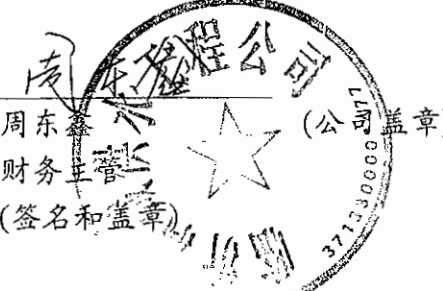
此财务报表已于2013年4月19日获本公司董事会批准。

  
徐利华

法定代表人  
(签名和盖章)



代景清  
财务总监  
(签名和盖章)

  
周东森  
财务主管  
(签名和盖章)

刊载于第6页至第15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)**

临沂润城供水工程公司  
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	14	21,251,837.19	28,426,922.63
减：主营业务成本		(16,062,439.38)	(22,869,061.01)
主营业务税金及附加	4(a)	<u>(758,906.99)</u>	<u>(956,561.31)</u>
主营业务利润		4,430,490.82	4,601,300.31
减：管理费用		(3,577,040.74)	(3,318,826.27)
加：财务净收益	15	<u>143,666.55</u>	<u>32,147.24</u>
营业利润		997,116.63	1,314,621.28
加：营业外收入		2,210.56	5.00
减：营业外支出		<u>(50,600.00)</u>	<u>(5,000.00)</u>
利润总额		948,727.19	1,309,626.28
减：所得税	4(b)	<u>(239,159.77)</u>	<u>(327,406.58)</u>
净利润		709,567.42	982,219.70
加：年初未分配利润		<u>2,160,843.66</u>	<u>1,276,845.93</u>
可供分配利润		2,870,411.08	2,259,065.63
减：提取盈余公积	13	<u>(18,702.64)</u>	<u>(98,221.97)</u>
年末分配利润		<u><u>2,851,708.44</u></u>	<u><u>2,160,843.66</u></u>

刊载于第 6 页至第 15 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)**

临沂润城供水工程公司  
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:			
销售商品和提供劳务收到的现金		20,837,318.73	28,844,893.33
收到的其他与经营活动有关的现金		<u>70,710.56</u>	<u>2,257,324.51</u>
现金流入小计		20,908,029.29	31,102,217.84
-----			
购买商品和接受劳务支付的现金		(18,009,792.51)	(25,306,664.23)
支付给职工以及为职工支付的现金		(2,408,025.77)	(2,936,836.45)
支付的各项税费		(1,179,566.55)	(1,294,982.67)
支付的其他与经营活动有关的现金		<u>(1,144,403.12)</u>	<u>(138,212.41)</u>
现金流出小计		(22,741,787.95)	(29,676,695.76)
-----			
经营活动(使用)/产生的现金流量净额	i	(1,833,758.66)	1,425,522.08
-----			
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		<u>146,882.95</u>	<u>34,886.64</u>
现金流入小计		146,882.95	34,886.64
-----			
投资活动产生的现金流量净额		<u>146,882.95</u>	<u>34,886.64</u>
-----			
现金及现金等价物净(减少)/增加额	ii	<u>(1,686,875.71)</u>	<u>1,460,408.72</u>

刊载于第 6 页至第 15 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)**

临沂润城供水工程公司  
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 将净利润调节为经营活动的现金流量:		
净利润	709,567.42	982,219.70
加: 固定资产折旧	68,878.70	75,778.27
财务净收益	(146,882.95)	(34,886.64)
存货的增加	(1,107,227.70)	(308,735.49)
经营性应收项目的减少	1,481,339.18	2,446,222.30
经营性应付项目的减少	<u>(2,839,433.31)</u>	<u>(1,735,076.06)</u>
经营活动(使用)/产生的现金流量净额	<u>(1,833,758.66)</u>	<u>1,425,522.08</u>
ii 现金及现金等价物净(减少)/增加情况:		
现金的年末余额	4,273,692.95	5,960,568.66
减: 现金的年初余额	<u>(5,960,568.66)</u>	<u>(4,500,159.94)</u>
现金及现金等价物净(减少)/增加额	<u>(1,686,875.71)</u>	<u>1,460,408.72</u>

刊载于第 6 页至第 15 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)**

临沂润城供水工程公司

财务报表附注

(金额单位：人民币元)

**1 公司基本情况**

临沂润城供水工程公司(以下简称“本公司”)成立于1993年7月3日,原股东为临沂市自来水公司,2006年临沂市自来水公司与Salcon Linyi (HK) Limited 合资成立临沂实康水务有限公司时,本公司也随之转让给临沂实康水务有限公司。本公司于2010年7月15日领取了换发的临沂市工商行政管理局颁发的注册号为371300018011977的企业法人营业执照。注册资本为人民币120,000.00元。

本公司主要从事城市供水管道、设备、节水型器具安装、供水设备维修等业务。本公司于1993年7月3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。

**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。

**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)

(d) 现金等价物

现金等价物指本公司持有期限短、流动性强、易于转换为已知金额现金、价值变动风险很小的投资。

(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) 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。发出存货的成本按先进先出法核算。除原材料采购成本外，在产品及产成品还包括直接人工和按照适当比例分配的生产制造费用。

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。

领用的低值易耗品和周转使用的包装物、周转材料等采用一次转销法进行核算。

(g) 固定资产及在建工程

固定资产指本公司为生产商品、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 3(h))记入资产负债表内。在建工程以成本减减值准备(参见附注 3(h))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。

**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) 固定资产及在建工程(续)

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	折旧率
机器设备	5-20 年	5%	5%-19%
办公设备及其他设备	5-10 年	5%	9.5%-19%
运输工具	8 年	5%	12%

(h) 资产减值准备

本公司对各项资产(包括固定资产、在建工程及其他资产)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。

(i) 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。

(j) 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。

**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) 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) 建造工程合同收入

本公司建造工程合同收入在合同结果可以可靠估计时，在资产负债表日采用完工百分比法按累计实际发生的合同成本占合同预计总成本的比例确定的合同完工进度，确认收入。假如合同结果不能可靠估计，则仅根据能够收回的实际合同成本确认收入。

## (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。

## (l) 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。

## (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。

**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、教育费附加和地方水利基金。

税种	计缴标准
营业税	应税营业收入的 3%
城市维护建设税	实际缴纳的营业税税额的 7%。
教育费附加	实际缴纳的营业税税额的 5%
地方水利基金	实际缴纳的营业税税额的 1%

主营业务税金及附加，包括营业税、城市维护建设税、教育费附加和地方水利基金。

- (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	<u>239,159.77</u>	<u>327,406.58</u>

本公司的法定税率为 25%。本年度按法定税率 25% 执行(2011: 25%)。

- (c) 应交税金

	<u>2012 年</u>	<u>2011 年</u>
应交营业税	266,248.67	251,598.07
应交企业所得税	115,081.75	304,413.83
其他	<u>34,381.42</u>	<u>32,016.43</u>
合计	<u>415,711.84</u>	<u>588,028.33</u>



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

5 货币资金

	<u>2012 年</u>	<u>2011 年</u>
现金	146.69	233.97
活期存款	4,273,546.26	1,960,334.69
定期存款	-	4,000,000.00
合计	<u>4,273,692.95</u>	<u>5,960,568.66</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	-	-	-	289,920.00	37%	-
一年至两年	289,920.00	61%	-	-	-	-
三年以上	<u>188,060.21</u>	<u>39%</u>	-	<u>488,060.21</u>	<u>63%</u>	-
合计	<u>477,980.21</u>	<u>100%</u>	-	<u>777,980.21</u>	<u>100%</u>	-

应收账款中一年以上部分主要为南坊西南坊村委和北城新区开发指挥部工程结算款, 本年已收回 30 万元, 管理层已在与对方研讨进一步还款计划。故认为无需计提坏账准备。

7 其他应收款

其他应收款账龄分析如下:

	<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>3,003,267.72</u>	<u>100%</u>	-	<u>4,184,606.90</u>	<u>100%</u>	-

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

## 8 存货

	<u>2012 年</u>	<u>2011 年</u>
原材料	3,123,882.13	2,016,654.43
低值易耗品	<u>53,698.16</u>	<u>53,698.16</u>
合计	<u>3,177,580.29</u>	<u>2,070,352.59</u>
	<u>2012 年</u>	<u>2011 年</u>
于成本和费用中确认的存货成本:	<u>8,955,613.57</u>	<u>9,621,648.73</u>

## 9 固定资产

	<u>机器设备</u>	<u>运输工具</u>	<u>办公设备及 电子设备</u>	<u>合计</u>
成本:				
年初/年末余额	327,400.20	300,406.00	170,583.00	798,389.20
累计折旧:				
年初余额	(124,406.82)	(122,825.98)	(99,241.52)	(346,474.32)
本年计提折旧	<u>(18,720.05)</u>	<u>(14,485.41)</u>	<u>(35,673.24)</u>	<u>(68,878.70)</u>
年末余额	<u>(143,126.87)</u>	<u>(137,311.39)</u>	<u>(134,914.76)</u>	<u>(415,353.02)</u>
净额:				
年末余额	<u>184,273.33</u>	<u>163,094.61</u>	<u>35,668.24</u>	<u>383,036.18</u>
年初余额	<u>202,993.38</u>	<u>177,580.02</u>	<u>71,341.48</u>	<u>451,914.88</u>

## 10 应付账款

	<u>2012 年</u>	<u>2011 年</u>
应付关联方材料款	456,426.00	-
其他材料款	3,859,035.33	3,649,815.92
工程款	<u>2,238,296.52</u>	<u>3,744,067.36</u>
	<u>6,553,757.85</u>	<u>7,393,883.28</u>

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

## 11 实收资本

注册资本及实收资本	2012 年		2011 年	
	金额	%	金额	%
	人民币		人民币	
临沂实康水务有限公司	120,000.00	100%	120,000.00	100%

## 12 盈余公积

	注	法定盈余公积
年初余额		197,411.11
利润分配	13	18,702.64
年末余额		216,113.75

## 13 利润分配

本公司按公司章程提取以下各项基金：

提取法定盈余公积 10%

## 14 主营业务收入

	2012 年	2011 年
提供劳务收入	21,251,837.19	28,426,922.63

## 15 财务净收益

	2012 年	2011 年
利息收入	146,882.95	34,886.64
其他财务费用	(3,216.40)	(2,739.40)
合计	143,666.55	32,147.24

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

16 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>	<u>法定代表人</u>
临沂实康水务有限公司	临沂	自来水销售	母公司	有限责任公司	郑添发

存在控制关系的关联方的注册资本及其变化

	<u>年初及年末数</u> <u>金额</u> 人民币
临沂实康水务有限公司	59,999,964.00

存在控制关系的关联方所持股份或权益及其变化

	<u>年初及年末数</u>	
	<u>金额</u>	%
	人民币	
临沂实康水务有限公司	120,000.00	100%

(b) 不存在控制关系的关联方

	<u>与本公司关系</u>
临沂实康供水设施有限公司	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:

	<u>2012年</u>	<u>2011年</u>
提供劳务		
-临沂实康水务有限公司	4,937,873.27	2,791,250.24
购买商品		
-临沂实康供水设施有限公司	730,956.00	-

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。

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


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## 16 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于年末的往来余额如下(续):

(ii) 于年末本公司与关联方应收、应付款及借款余额列示如下:

	<u>2012 年</u>	<u>2011 年</u>
其他应收款		
-临沂实康水务有限公司	2,995,767.72	4,115,757.02
应付账款		
-临沂实康供水设施有限公司	456,426.00	-

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

Report Anti-fake Numbering: 13-01-02-01049-05 The Query URL: [www.linyicpa.com](http://www.linyicpa.com) (Paste The Label Place)

Linyi Salcom Water Supply Facilities Co., Ltd.

Audit report

Tianyuan Tongtai Jian (2013) No. 2065

Shandong Tianyuan Tongtai Certified Public Accountants

MAY 9, 2013

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



山东天元同泰会计师事务所

TianYuanTongTai  
certified public accountants

中国·临沂市沂蒙路 146 号  
新华大厦

Xinhua Building  
NO.146,Yimeng Road,  
Linyi, 276002, P.R.China

联系电话: +86(539)8200815  
telephone: +86(539)8211915

传真: +86(539)8211915  
facsimile: +86(539)8211915

**Enterprise of industrial and commercial yearly check special  
audit report**

Tianyuan Tongtai Jian (2013) No.2065

**Linyi Salcon Water Supply Facilities Co., Ltd.:**

We accepted the appointment to the Company as of December 31, 2012 financial statements of the paid-in capital (equity) and registered capital in place and its flow conducted an audit.

**I, Management's Responsibility**

i, Enterprise accounting system in accordance with the provisions of preparing the financial statements, and make it fairly; ii, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**II, Auditor's Responsibility**

Our responsibility is to express an audit opinion on the financial statements of the paid-in capital (equity) and in place of the registered capital and the flow direction these financial statements based on our audit. We conducted our audit in accordance with Enterprise annual inspection and the Standards on Auditing for Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements of the paid-in capital (equity) and registered capital in place and its flow are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements of the paid-up capital (equity).

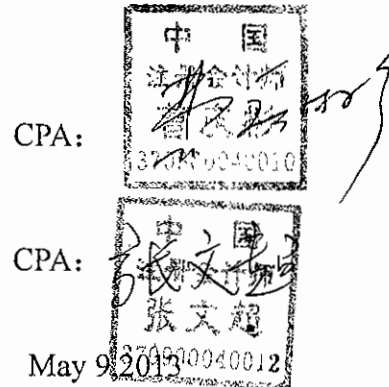
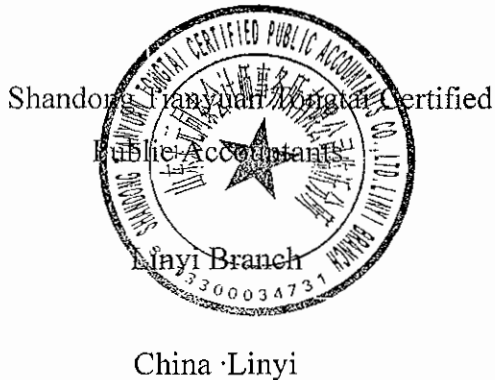
The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements of the paid-in capital (equity), whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements of the paid-in capital (equity) and registered capital 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 overall presentation of the financial statements.

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

provide a basis for our audit opinion of the paid-in capital (equity) and registered capital in place and its flow.

**III, Opinion**

The company was set up on July 11, 2011, with the registered capital of 3,600,000 RMB, paid-in capital of 3,600,000 RMB, including: monetary investment 3,600,000 RMB, accounting for 100% of the registered capital. In the Commercial Bank of Linyi Binhai Branch, the company Opened a RMB basic deposit account whose NO. is 800001202003200001767. As of December 31, 2012, the company's audited registered capital of 3,600,000 RMB, the paid-in capital of 3,600,000 RMB. The paid-in capital flowed to the table as follows: daily management, purchase of fixed assets, borrowing Linyi Shikang Water Service Co., Ltd.





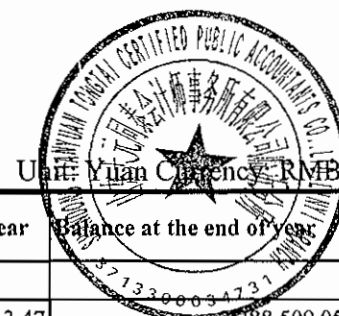
**AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR  
THE FYE 31 DECEMBER 2012 (Cont'd)**

**Linyi Salcon Water Supply Facilities Co., Ltd.  
Financial statements**

**Balance sheet**

Date: Dec. 31, 2012

Company: Linyi Salcon Water Supply Facilities Co., Ltd.



Unit: Yuan Currency: RMB

Item	Notes (VI)	Balance at the beginning of year	Balance at the end of year
<b>Current assets:</b>			
Monetary funds	I	3,591,043.47	2,288,509.05
Short-term investments	II		
Notes receivables	III		
Dividends receivable	IV		
Accounts receivables	V	97,000.00	916,426.00
Other receivables	VI		2,000,000.00
Prepayments	VII		176,000.00
Inventory	VIII	96,700.00	134,663.28
Prepaid expenses	IX		
Long-term investment maturing within one year	X		
Other current assets	XI		
<b>Total current assets</b>	<b>XII</b>	<b>3,784,743.47</b>	<b>5,515,598.33</b>
Long-term investments			
Long-term equity investment	XIII		
Long-term debt investments	XIV		
Total long-term investments	XV		
Fixed assets			
Fixed assets at cost	XVI		90,915.82
Less: accumulated depreciation	XVII		
Fixed assets-net book value	XVIII		90,915.82
Engineering materials	XIX		
Construction in progress	XX		
Fixed assets pending disposal	XXI		
<b>Total fixed assets</b>	<b>XXII</b>		<b>90,915.82</b>
Intangible and other assets:			
Intangible assets	XXIII		
Long-term prepaid expenses	XXIV		4,626.00
Other long-term assets	XXV		
<b>Total intangible and other assets</b>	<b>XXVI</b>		<b>4,626.00</b>
<b>Total assets</b>	<b>XXVII</b>	<b>3,784,743.47</b>	<b>5,611,140.15</b>

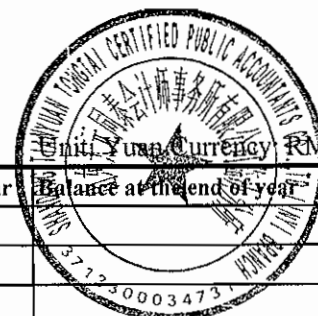
Legal representative: \_\_\_\_\_ Director in charge of accountancy: \_\_\_\_\_ Director of Accountancy organization: \_\_\_\_\_

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

**Balance sheet (continued)**

Date: Dec. 31, 2012

Company: Linyi Salcon Water Supply Facilities Co., Ltd.



Liabilities and owners' equity	Notes (VI)	Balance at the beginning of year	Balance at the end of year
<b>Current liabilities:</b>			
Short-term loan	XXVIII		
Notes payable	XXIX		
Accounts payable	XXX	161,700.00	34,589.10
Receipts in advance	XXXI		566,150.00
Accrued payroll	XXXII		
Welfare payable	XXXIII		
Meet profit	XXXIV		
Taxes	XXXV	8,882.94	67,088.46
Other item should be	XXXVI		
Other payables	XXXVII		1,034,932.64
Accrued expenses	XXXVIII		
Portion of long-term liabilities due within one year	XXXIX		
Other current liabilities	XXXX		
<b>Total current liabilities</b>	<b>XLI</b>	<b>170,582.94</b>	<b>1,702,760.20</b>
<b>Long-term liabilities:</b>			
Long-term loan	XLII		
Long-term payables	XLII		
Other long-term liabilities	XLIV		
<b>Total long-term liabilities</b>	<b>XLV</b>		
<b>Total liabilities</b>	<b>XLVI</b>	<b>170,582.94</b>	<b>1,702,760.20</b>
<b>Shareholders' equity:</b>			
Paid-in capital	XLVII	3,600,000.00	3,600,000.00
Capital surplus	XLVII		
Earnings surplus	XLIX		
Undistributed profits	L	14,160.53	308,379.95
<b>Total shareholders' equity</b>	<b>LI</b>	<b>3,614,160.53</b>	<b>3,908,379.95</b>
<b>Total liabilities and shareholders' equity</b>	<b>LII</b>	<b>3,784,743.47</b>	<b>5,611,140.15</b>

Legal representative: \_\_\_\_\_ Director in charge of accountancy: \_\_\_\_\_ Director of Accountancy organization: \_\_\_\_\_

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

**Linyi Salcon Water Supply Facilities Co., Ltd.**  
**Financial statements**

Income statement

Year: 2012

Company: Linyi Salcon Water Supply Facilities Co., Ltd.



Item	Notes (VI)	Balance at the end of year
<b>I, Operating income</b>	I	2,227,691.84
Less: operating costs	II	1,938,578.61
Operating tax and surcharge	III	5,464.38
<b>II, the main business profit</b>	IV	283,648.85
Add: Profit from other operations	V	
Less: Selling expenses	VI	
Administrative expenses	VII	13,469.36
Financial expenses	VIII	-108,878.40
<b>III, Operating profit</b>	IX	379,057.89
Add: Investment income	X	
non-operating income	XI	2,216.00
Less: non-operating expense	XII	
<b>IV, Total profits</b>	XIII	381,273.89
Less: Income tax	XIV	94,764.47
<b>V, Net profit</b>	XV	286,509.42

Legal representative: \_\_\_\_\_ Director in charge of accountancy: \_\_\_\_\_ Director of Accountancy organization: \_\_\_\_\_

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

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**Linyi Salcon Water Supply Facilities Co., Ltd.****Financial statements and footnotes**

(Unless specified or stated, the currency of below footnotes is Chinese RMB, the unit of the currency is Yuan.)

**I. Basic information**

Linyi Salcon Water Supply Facilities Co., Ltd. (hereinafter referred to as "the company"), a limited liability company with the registered capital of 3,600,000 RMB, was set up on July 11, 2011. The company is located in Linyi City Lanshan District Yimeng Road No. 6-6. Its business license No. is 371300000001947. The company is mainly engaged in Water supply equipment procurement, sales, service, Water supply facilities, Water supply facilities repair, maintenance, cleaning services (operate according to its qualifications.)

**II. Significant Accounting Policy and Accounting Estimate****1. Accounting system**

Implementation of "enterprise accounting system" and its supplementary provisions

**2. Fiscal Year**

The Company's accounting year complies with the Gregorian year, which starts on 1 January and ends on 31 December.

**3. Recording currency**

The recording currency is Renminbi (RMB).

**4. Bookkeeping Basis and Pricing Principle**

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

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The company adopts the accrual system as the base of bookkeeping principle, and uses the real cost as the pricing base when obtaining the various assets. At the end of each fiscal year, regularly check up various assets and allocate the provision for depreciation reserve.

**5. Cash Equivalents**

Cash equivalents represent short-term, highly liquid investments that are readily convertible into known amounts of cash and that are subject to an insignificant risk of change in value.

**6. Accounting Method on Inventory**

The inventories are priced at the actual cost when acquiring, and priced with the weighted average method when sending out. The low-value consumables are price with the one-off amortization method.

**7. Fixed Assets**

Fixed assets represent the house building, machinery and vehicle as well as the equipment and appliance related to the produce and operation with price more than 2,000 RMB and the useful life over 1 year. The main equipment and articles no relation to the produce and operation, but the price over 2,000 RMB and the useful life more than two years, they are still regarded as the fixed assets.

The fixed assets are enter into the book as at the cost when obtaining.

The depreciation of fixed assets is calculated with the straight-line method, and the annual depreciation rate is determined by the estimated useful life of each fixed asset deducting the residual rate.

**8. Method on Bad Account**

The bad account is recognized when the debtor is bankrupt or dead and the tax receivable is not recoverable with the bankrupt property or inheritance, moreover, there are the significant signs indicate the tax receivable cannot be taken back. The direct write-off method is applicable for the bad account.

**9. Pricing of Intangible Assets and Method of Amortization**

The intangible asset is priced at the real cost when obtaining. The intangible asset will be averagely amortized from the month of obtaining as at the very short period among the estimated useful life, contracted beneficial life and the legal valid life, and then will be entered into the current profit and loss.

The intangible asset of the company is the land use right, which will be amortized as at the period of land transfer.

**10. Principle of Revenue Recognition**

The revenue is recognized under the accrual system.

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

**III. Notes to the Major Line Items of Financial Statements**

**1. Cash and cash equivalents**

Subjects	Beginning Balance	Ending Balance
Cash	7,10.00	442.10
Cash in hand	3,590,333.47	2,288,066.95
<b>Total Amount</b>	<b>3,591,043.47</b>	<b>2,288,509.05</b>

**2. Accounts Receivable**

**(1) Aging analysis**

Ageing	Beginning Balance				Ending Balance			
	Amount	Percentage	Provision for bad debts	Net value	Amount	Percentage	Provision for bad debts	Net value
Under 1 year	97,000.00	100.00%	-	97,000.00	916,426.00	100.00%	-	916,426.00
1 - 2 year								
2 - 3 year								
Over 3 years								
<b>Total Amount</b>	<b>97,000.00</b>	<b>100.00%</b>	<b>-</b>	<b>97,000.00</b>	<b>916,426.00</b>	<b>100.00%</b>	<b>-</b>	<b>916,426.00</b>

**(2) The composition of accounts receivable**

Relation to the Company	Ending balance	
	Amount	Proportion of total (%)
Runcheng water supply Engineering Company	456,426.00	49.81%
Salcon Water Company	350,000.00	38.19%
Linyi vocational college	110,000.00	12.00%
<b>Total Amount</b>	<b>916,426.00</b>	<b>100.00%</b>

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

**3. Other accounts receivable**

(1) Aging Analysis

Ageing	Ending balance			
	Amount	Percentage	Provision for bad debts	Net value
Under 1 year	2,000,000.00	100.00%	-	2,000,000.00
1 - 2 year				
2 - 3 year				
Over 3 years				
<b>Total</b>	<b>2,000,000.00</b>	<b>100.00%</b>	<b>-</b>	<b>2,000,000.00</b>

(2) The Composition of Other Accounts Receivable

Relation to the Company	Ending balance			
	Amount	Proportion of total (%)	Bad debts provision as percentage of account receivable	Provision for bad debt
Salcon Water Service Company	2,000,000.00	100.00%	-	-
<b>Total Amount</b>	<b>2,000,000.00</b>	<b>100.00%</b>	<b>-</b>	<b>-</b>

**4. Prepayments**

(1) Aging Analysis

Items	Ending balance
Under 1 year	176,000.00
1 - 2 year	
2 - 3 year	
Over 3 years	
<b>Total</b>	<b>176,000.00</b>

(2) 2 prepayments

Relation to the Company	Ending balance

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

	Amount	Proportion of total (%)	Bad debts provision as percentage of account receivable	Provision for bad debt
Kaili Pumps Co., Ltd. Linyi Branch	138,000.00	78.41%	-	-
Jinan union trade co., LTD	38,000.00	21.59%	-	-
<b>Total Amount</b>	<b>176,000.00</b>	<b>100,00%</b>	-	-

**5.Inventory**

Item	Beginning Balance	Ending Balance
No negative pressure water supply equipment	96,700.00	134,663.28
<b>Total</b>	<b>96,700.00</b>	<b>134,663.28</b>

**6.Fixed assets**

Item	Beginning Balance	Increased in current period	Decrease in current period	Ending Balance
Productive fixed assets	-	86,576.74	-	86,576.74
nonproductive fixed assets	-	4,339.08	-	4,339.08
<b>Total</b>	-	<b>90,915.82</b>	-	<b>90,915.82</b>

**7.Accounts payable,Advances from customers,Other creditors**

(1)Composition

Item	Beginning Balance	Ending Balance
Accounts payable	161,700.00	34,589.10
Advances from customers	-	566,150.00
Other creditors	-	1,034,932.64



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

(2)Accounts payable major creditors

Item	Ending Balance
Southern Pump Co., Ltd.	26,504.10
Linyi XuYang Plumbing Equipment Co., Ltd.	8,085.00

(3)Advances from customers major creditors

Item	Ending Balance
Xiaobudong Community	126,000.00
Hengtai Real estate	110,000.00
Hardware Tools Co., Ltd. Taoyuan	101,200.00

(4)Other creditors major creditors

Item	Ending Balance
Xiamen Haiyuan Pump Co., Ltd.	515,284.00
Southern Pump Co., Ltd.	335,000.00
Kaili Pumps Co., Ltd. Linyi Branch	167,056.00

**8. Taxes Payable**

Tax Items	Beginning Balance	Ending Balance
value-added tax	2,825.24	-19,46.63
City maintenance and construction tax	197.77	269.23
Additional charges of educational fee	84.76	115.38
Local additional charges of educational fee	56.50	76.92
Local water conservancy construction funds	28.25	38.46
Stamp tax	29.10	0.00
Enterprise income tax	5,661.32	85,635.10
<b>Total</b>	<b>8,882.94</b>	<b>67,088.46</b>

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

**9. Paid-in Capital**

Item	Beginning balance	Increase	Decrease	Ending balance	Proportion of total (%)
Linyi Salcon Water Supply Facilities Co., Ltd.	3,600,000.00	-	-	3,600,000.00	100%
<b>Total</b>	<b>3,600,000.00</b>	<b>-</b>	<b>-</b>	<b>3,600,000.00</b>	<b>100%</b>

**10. Undistributed profits**

Item	Current year
Undistributed profits at beginning of year	14,160.53
Add: Current year net profit attributable to the parent	286,509.42
Other transferred in	7,710.00
<b>Profit available for distribution</b>	<b>308,379.95</b>
Less: Appropriation to Reserve Fund	
Dividend of ordinary shares	
Other	
<b>Undistributed profits at end of year</b>	<b>308,379.95</b>

**11. Major operating revenue, Major operating costs**

Items	Major operating revenue	Major operating costs
	Current year	Current year
No negative pressure water supply equipment	2,227,691.84	1,938,578.61
<b>Total</b>	<b>2,227,691.84</b>	<b>1,938,578.61</b>

**12. Tax and surcharge**

Items	Current year
City maintenance and construction tax	2,942.36
Additional charges of educational fee	1,261.01
Local additional charges of educational fee	840.66
Local water conservancy construction funds	420.35
<b>Total</b>	<b>5,464.38</b>

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

**13. Administrative expenses**

Item	Current year
Office expenses	4,424.00
Stamp tax	644.20
Vehicle expenses	5,712.90
Technical maintenance fee	800.00
Depreciation	1,888.26
<b>Total</b>	<b>13,469.36</b>

**14. Finance charges**

Item	Current year
Interests expense	-
less: interest income	108,899.00
Foreign exchange gains or losses	
Bank charges	20.60
<b>Total</b>	<b>-108,878.40</b>

**15. Non-Operating Income**

Items	Non-Operating Income	
	Current year	Previous period year
Special equipment and technology maintenance fees deduction	2,216.00	0.00
<b>Total</b>	<b>2,216.00</b>	<b>0.00</b>

Linyi Salcon Water Supply Facilities Co., Ltd.

May 6, 2013

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

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**Salcon Shandong (HK) Limited**

實康山東(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)**

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

## **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 Shandong (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 22.

### **Transfer to reserves**

Losses attributable to the shareholders of HK\$59,491 (2011: HK\$55,907) 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  
Leong Kok Wah  
Law Woo Hock

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

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

**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, 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 companies, 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**

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


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*Salcon Shandong (HK) Limited*

*Financial statements for the year ended 31 December 2012*

**KPMG**  
8th Floor  
Prince's Building  
10 Chater Road  
Central, Hong Kong  
P O Box 50  
General Post Office  
Hong Kong

毕马威  
会计师事务所  
香港中环遮打道10号  
太子大厦8楼  
  
香港邮政总局  
信箱50号

Telephone 电话 +852 2522 6022  
Fax 传真 +852 2845 2588  
Internet 网址 [www.kpmg.com/cn](http://www.kpmg.com/cn)

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

We have audited the unconsolidated financial statements of Salcon Shandong (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 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.

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


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

**Independent auditor's report to the shareholders of**  
**Salcon Shandong (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 subsidiaries 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 9 to the financial statements, investments in subsidiaries are 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*  
8<sup>th</sup> Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

30 APR 2013



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


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*Salcon Shandong (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>
<b>Turnover</b>	4	-	-
Other revenue	5	15	1
Administrative and operating expenses		<u>(59,506)</u>	<u>(55,908)</u>
<b>Loss before taxation</b>	6	(59,491)	(55,907)
Income tax	7(a)	<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u><u>(59,491)</u></u>	<u><u>(55,907)</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 Shandong (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)*

	<u>Share capital</u> HKD (note 11(b))	<u>Retained earnings</u> HKD	<u>Total</u> HKD
<b>Balance at 31 December 2010 and 1 January 2011</b>	1	157,349	157,350
<b>Changes in equity for 2011</b>			
Debt capitalisation	127,488,970	-	127,488,970
Total comprehensive income for the year	<u>-</u>	<u>(55,907)</u>	<u>(55,907)</u>
<b>Balance at 31 December 2011 and 1 January 2012</b>	127,488,971	101,442	127,590,413
<b>Changes in equity for 2012</b>			
Total comprehensive income for the year	<u>-</u>	<u>(59,491)</u>	<u>(59,491)</u>
<b>Balance at 31 December 2012</b>	<u>127,488,971</u>	<u>41,951</u>	<u>127,530,922</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 Shandong (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> <i>HKD</i>	<u>2011</u> <i>HKD</i>
<b>Operating activities</b>		
Loss before taxation	(59,491)	(55,907)
Adjustments for:		
Interest income	<u>(15)</u>	<u>(1)</u>
<b>Operating loss before changes in working capital</b>	(59,506)	(55,908)
Increase in amount due from a subsidiary	(12,402,720)	-
Increase in amount due to immediate holding company	12,402,720	-
Increase in accrued liabilities	-	13,900
Increase in amounts due to fellow subsidiaries	<u>57,813</u>	<u>41,730</u>
<b>Net cash used in operating activities</b>	<u>(1,693)</u>	<u>(278)</u>
<b>Investing activities</b>		
Interest received	<u>15</u>	<u>1</u>
<b>Net cash generated from investing activities</b>	<u>15</u>	<u>1</u>
<b>Net decrease in cash and cash equivalents</b>	(1,678)	(277)
<b>Cash and cash equivalents at 1 January</b>	<u>21,119</u>	<u>21,396</u>
<b>Cash and cash equivalents at 31 December</b>	<u><u>19,441</u></u>	<u><u>21,119</u></u>

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

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

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*Salcon Shandong (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 subsidiaries 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 subsidiaries 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.

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

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*Salcon Shandong (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\$110,401 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, investments in subsidiaries are stated at cost less impairment losses (see note 2(e)).

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

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*Salcon Shandong (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.

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

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*Salcon Shandong (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.



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

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*Salcon Shandong (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.

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

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*Salcon Shandong (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.

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

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*Salcon Shandong (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).

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


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*Salcon Shandong (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 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>HKD</i>	<i>HKD</i>
Interest income	15	1

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

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

**6. Loss before taxation**

Loss before taxation is arrived at after charging:

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

**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>HKD</i>	<i>HKD</i>
Loss before taxation	<u>(59,491)</u>	<u>(55,907)</u>
Notional tax on loss before taxation, calculated at 16.5% (2011:16.5%)	(9,816)	(9,224)
Tax effect of non-taxable income and non-deductible expenses	<u>9,816</u>	<u>9,224</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.

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

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

**9. Investments in subsidiaries**

	<u>2012</u>	<u>2011</u>
	<i>HKD</i>	<i>HKD</i>
Capital contribution	127,529,037	127,529,037
Cost directly attributable to investment	<u>112,286</u>	<u>112,286</u>
	<u>127,641,323</u>	<u>127,641,323</u>

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>
Changle Salcon Raw Water Company Limited	The People's Republic of China ("PRC")	USD8,680,000	100%	Management and operation of raw water production and distribution of raw water
Shandong Salcon Water Company Limited	PRC	USD7,720,010	100%	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 investments in subsidiaries has been provided as, in the opinion of the directors, the company's share of net assets value of these subsidiaries would exceed the company's cost of investments.

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	<u>15,285,423</u>	<u>33,147,007</u>	<u>48,432,430</u>
Total	<u>15,285,423</u>	<u>33,147,007</u>	<u>48,432,430</u>

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


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

**10. Amounts due from/ (to) ultimate 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) Authorised and issued share capital**

	<i>At 31 December 2012 and 2011</i>	
	<i>No. of shares</i>	<i>Amount</i>
<b>Authorised:</b>		
Ordinary share of HK\$1 each	<u>300,000,000</u>	<u>300,000,000</u>
<b>Issued and fully paid:</b>		
At 1 January	127,488,971	1
Capitalisation	<u>-</u>	<u>127,488,970</u>
At 31 December	<u>127,488,971</u>	<u>127,488,971</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\$127,488,970 was capitalised as ordinary shares of the company of which 127,488,970 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.

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

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

**11. Capital and reserve (continued)****(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.

**12. 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.



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

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

**12. Financial risk management and fair values (continued)**

*(c) 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> <i>HKD</i>	<u>2011</u> <i>HKD</i>
Amount due from ultimate holding company		
Salcon Berhad	<u>1</u>	<u>1</u>
Amount due from a fellow subsidiary		
Shandong Changle Salcon Water Company Limited	<u>12,402,720</u>	<u>-</u>
Amount due to immediate holding company		
Salcon Water (Asia) Limited	<u>12,402,720</u>	<u>-</u>
Amounts due to fellow subsidiaries		
Salcon Services (HK) Limited	56,845	-
Salcon Engineering Berhad	<u>42,698</u>	<u>41,730</u>
Total	<u>99,543</u>	<u>41,730</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.

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


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*Salcon Shandong (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**

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.

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

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

SHANDONG CHANGLE 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)**

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

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**AUDITORS' REPORT**

毕马威华振沪审字第 1301753 号

The Board of Directors of Shandong Changle Salcon Water Co., Ltd.:

We have audited the accompanying financial statements of Shandong Changle Salcon Water Co., Ltd. ("the Company") on pages 1 to 23, 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.

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

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**AUDITORS' REPORT (continued)**

毕马威华振沪审字第 1301753 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 BranchCertified Public Accountants  
Registered in the People's Republic of  
China

Shanghai, The People's Republic of China

Tian Chunshan

Qian Di

Date: 19 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)**

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

	<i>Note</i>	<i>2012</i>	<i>2011</i>
<b>Assets</b>			
<b>Current assets</b>			
Cash at bank and on hand	5	13,978,334.15	21,885,510.75
Accounts receivable	6	9,843,239.74	3,866,760.50
Other receivables	7	7,166,002.19	624,009.44
Payments in advance		486,354.44	468,319.34
Inventories	8	1,367,048.11	1,570,798.04
Deferred expenses		<u>90,233.30</u>	<u>144,554.15</u>
Total current assets		<u>32,931,211.93</u>	<u>28,559,952.22</u>
<b>Fixed assets</b>			
Cost		159,675,147.43	157,468,294.99
Less: Accumulated depreciation		<u>(34,500,300.28)</u>	<u>(26,972,321.27)</u>
Carrying amount	9	125,174,847.15	130,495,973.72
Construction in progress	10	<u>1,964,495.33</u>	<u>824,686.56</u>
Total fixed assets		<u>127,139,342.48</u>	<u>131,320,660.28</u>
Intangible assets	11	<u>12,283.67</u>	<u>13,582.00</u>
Total assets		<u>160,082,838.08</u>	<u>159,894,194.50</u>

The notes on pages 8 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)

Shandong Changle 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>
Liabilities and owners' equity			
Current liabilities			
Short-term loans	<i>12</i>	-	7,080,000.00
Accounts payable	<i>13</i>	8,057,200.14	11,685,569.32
Receipts in advance		3,040,500.00	1,918,270.00
Accrued payroll		695,500.00	462,500.00
Staff welfare payable		112,896.18	94,669.82
Dividends payable		7,178,598.90	7,178,598.90
Taxes payable	<i>4(c)</i>	1,770,037.54	339,385.03
Other creditors		9,693.93	10,827.95
Other payables		1,957,196.82	616,644.11
Accrued expenses		85,000.00	344,816.91
Special payables	<i>14</i>	2,164,302.59	1,127,565.50
Long-term liabilities due within one year	<i>15</i>	<u>12,750,030.76</u>	<u>13,227,200.00</u>
Total current liabilities		<u>37,820,956.86</u>	<u>44,086,047.54</u>
Long-term liabilities			
Long-term loans	<i>15</i>	28,465,846.21	32,692,800.00
Long-term payables	<i>16</i>	<u>1,492,455.62</u>	<u>1,988,489.87</u>
Total long-term liabilities		<u>29,958,301.83</u>	<u>34,681,289.87</u>
Total liabilities		<u>67,779,258.69</u>	<u>78,767,337.41</u>

The notes on pages 8 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)**

Shandong Changle 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>
Liabilities and owners' equity (continued)			
Owners' equity			
Paid-in capital	<i>17</i>	50,707,982.48	50,707,982.48
Capital reserve	<i>18</i>	820,829.14	820,829.14
Surplus reserve	<i>19</i>	4,843,774.42	3,714,812.57
Retained earnings		<u>35,930,993.35</u>	<u>25,883,232.90</u>
Total owners' equity		<u>92,303,579.39</u>	<u>81,126,857.09</u>
Total liabilities and owners' equity		<u>160,082,838.08</u>	<u>159,894,194.50</u>

These financial statements have been approved by the Board of Directors of the Company on 19 April 2013.

Feng Lisheng	Yu Xianxiang	Yang Qiuju	
Legal Representative	The person in-charge of the accounting affairs	The head of the accounting department	(Company stamp)
<i>(Signature and stamp)</i>	<i>(Signature and stamp)</i>	<i>(Signature and stamp)</i>	

The notes on pages 8 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)**

Shandong Changle 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>	43,865,890.31	29,145,443.12
Less: Cost of sales from principal activities		(27,382,250.12)	(17,936,371.31)
Business taxes and surcharges	<i>4(a)</i>	<u>(222,129.14)</u>	<u>(176,520.34)</u>
Profit from principal activities		16,261,511.05	11,032,551.47
Add: Profit from other operations		6,710,058.72	7,063,829.02
Less: General and administrative expenses		(6,795,683.36)	(5,688,337.99)
Financial expenses	<i>22</i>	<u>(3,393,674.34)</u>	<u>(2,072,468.02)</u>
Operating profit		12,782,212.07	10,335,574.48
Add: Subsidy income	<i>23</i>	2,000,000.00	2,000,000.00
Non-operating income		506,918.74	432,556.79
Less: Non-operating expenses		<u>(56,951.43)</u>	<u>(36,599.44)</u>
Profit before income tax		15,232,179.38	12,731,531.83
Less: Income tax	<i>4(b)</i>	<u>(3,942,560.90)</u>	<u>(3,264,549.71)</u>
Net profit for the year		11,289,618.48	9,466,982.12
Add: Retained earnings at the beginning of the year		<u>25,883,232.90</u>	<u>17,457,618.81</u>
Profits available for distribution		37,172,851.38	26,924,600.93
Less: General reserve fund	<i>20</i>	(1,128,961.85)	(946,698.21)
Staff and workers' bonus and welfare fund	<i>20</i>	<u>(112,896.18)</u>	<u>(94,669.82)</u>
Retained earnings carried forward		<u>35,930,993.35</u>	<u>25,883,232.90</u>

The notes on pages 8 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)**

Shandong Changle 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 sale of goods		35,842,455.70	31,199,123.76
Refund of taxes		2,045,939.73	1,463,682.44
Cash received relating to other operating activities		<u>11,003,759.72</u>	<u>10,605,238.36</u>
Sub-total of cash inflows		48,892,155.15	43,268,044.56
Cash paid for goods		(17,204,679.50)	(11,636,598.97)
Cash paid to and for employees		(5,905,864.52)	(6,514,613.49)
Cash paid for all types of taxes		(3,415,709.84)	(5,512,990.87)
Cash paid relating to other operating activities		<u>(2,818,856.08)</u>	<u>(1,545,875.25)</u>
Sub-total of cash outflows		(29,345,109.94)	(25,210,078.58)
Net cash inflow from operating activities	<i>i</i>	<u>19,547,045.21</u>	<u>18,057,965.98</u>
Cash flows from investing activities:			
Net cash received from disposal of fixed assets		4,288.60	-
Cash received relating to other investing activities		<u>195,719.52</u>	<u>130,641.76</u>
Sub-total of cash inflows		200,008.12	130,641.76
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(7,008,046.39)	(21,548,850.80)
Cash paid for acquisition of investments		<u>(5,000,000.00)</u>	<u>-</u>
Sub-total of cash outflows		(12,008,046.39)	(21,548,850.80)
Net cash outflow from investing activities		<u>(11,808,038.27)</u>	<u>(21,418,209.04)</u>

The notes on pages 8 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)**

Shandong Changle 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>	<i>2012</i>	<i>2011</i>
Cash flows from financing activities:			
Cash received from borrowings		<u>11,080,000.00</u>	<u>14,799,775.92</u>
Sub-total of cash inflows		<u>11,080,000.00</u>	<u>14,799,775.92</u>
Cash repayments of borrowings		(22,864,123.03)	(7,148,166.00)
Cash paid for interest expenses		(3,768,358.81)	(3,453,766.06)
Cash paid relating to other financing activities		<u>(93,701.70)</u>	<u>-</u>
Sub-total of cash outflows		<u>(26,726,183.54)</u>	<u>(10,601,932.06)</u>
Net cash (outflow)/inflow from financing activities		<u>(15,646,183.54)</u>	<u>4,197,843.86</u>
Net (decrease)/increase in cash and cash equivalents	<i>ii</i>	<u>(7,907,176.60)</u>	<u>837,600.80</u>

The notes on pages 8 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)**

Shandong Changle 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	11,289,618.48	9,466,982.12
Add: Provision for/(reversal of) impairment of accounts receivable	1,015.64	(46,883.77)
Depreciation of fixed assets	7,548,975.81	5,868,557.18
Amortisation of intangible assets	4,798.33	4,392.00
Decrease/(increase) in deferred expenses	54,320.85	(11,784.13)
(Decrease)/increase in accrued expenses	(259,816.91)	21,462.41
Losses on disposal of fixed assets	4,230.60	4,379.17
Financial expenses	3,393,674.34	1,964,157.30
Decrease/(increase) in gross inventories	203,749.93	(258,775.81)
(Increase)/decrease in gross operating receivables	(7,264,856.08)	4,582,240.89
Increase/(decrease) in operating payables	<u>4,571,334.22</u>	<u>(3,536,761.38)</u>
Net cash inflow from operating activities	<u>19,547,045.21</u>	<u>18,057,965.98</u>

*ii Net (decrease)/increase in cash and cash equivalents*

	2012	2011
Cash at the end of the year	13,978,334.15	21,885,510.75
Less: Cash at the beginning of the year	<u>(21,885,510.75)</u>	<u>(21,047,909.95)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(7,907,176.60)</u>	<u>837,600.80</u>

The notes on pages 8 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)**

Shandong Changle Salcon Water Co., Ltd.

Notes to the financial statements

(Expressed in Renminbi Yuan)

**1 COMPANY STATUS**

Shandong Changle Salcon Water Co., Ltd. (the Company) is an equity joint venture established in Weifang, Shandong Province in the People's Republic of China (PRC) by Changle Water Supply Co., Ltd registered in China (Changle Water Supply) and Salcon Water (HK) Limited registered in Hong Kong (Salcon Water (HK)). The Company is 25% owned by Changle Water Supply and 75% owned by Salcon Water (HK). The Company obtained an approval certificate Shang Wai Zi Lu Fu Wei Zi [2003] No. 2472 on 20 October 2003, and a business license Qi He Wei Zong Zi No. 003431 on 14 November 2003 issued by Shandong Administration of Industry and Commerce. The original registered capital is USD 1,920,000.

Approved by Weifang Administration of Foreign Trade and Economic Co-operation, Changle Water Supply transferred all its interests in the Company to Salcon Water (HK) in 2008. Salcon Water (HK) transferred all its interests in the Company to Salcon Shandong (HK) Limited on 6 July 2008. The Company's Board of Directors resolved to increase the Company's registered capital by USD 5,080,000. The registered capital was increased from USD 1,920,000 to USD 7,000,000. The Company obtained a revised approval certificate Shang Wai Zi Lu Fu Wei Zi [2003] No. 2472 on 20 August 2008 and a revised business licence No. 370700400006698 on 2 July 2009.

The Company's period of operation is 50 years, and its principal activities are producing water and providing sewage treatment operation and services in Changle, Shandong Province. The Company commenced its operation on 14 November 2003.

**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.

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

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**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) Cash equivalents**

Cash equivalents represent short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

**(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 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 first-in first-out method. In addition to the purchase cost of raw materials, work in progress and finished goods also include direct labour costs and an appropriate allocation of manufacturing overheads.

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.

**(g) Fixed assets and construction in progress**

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.

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


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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) Fixed assets and construction in progress (continued)**

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)).

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>
Land use rights	50 years	0%	2%
	20 years or		2.09% or
Plant and buildings	43 years	10%	4.5%
Machinery and equipment	10 years	10%	9%
Office and other equipment	5 years	10%	18%
Motor vehicles	8 years	10%	11.25%
Pipelines and other equipment	10-43 years	10%	2.09%-9%

**(h) 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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**(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.

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Provision for impairment (continued)**

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.

**(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) 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.



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

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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(l) Revenue recognition (continued)****(ii) 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.

**(iii) Interest income**

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

**(iv) Subsidy income**

Fixed subsidy is calculated and recognised in the income statement according to the sales volume and the amount of the fixed subsidy as prescribed by the State. Subsidy income other than fixed subsidy is recognised in the income statement upon receipt of the subsidy.

**(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) Repair and maintenance expenses**

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

**(o) 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.

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


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## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (p) 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 sale of goods and rendering of services include business tax, value added tax (VAT), urban maintenance and construction tax and education fee surcharge.

<u>Tax name</u>	<u>Tax basis and applicable rate</u>
Business tax	3% or 5% of taxable revenue
VAT	Output VAT is 6% of product sales and taxable services revenue, according to tax laws.
Urban maintenance and construction tax	7 % of the business tax and VAT paid
Education fee surcharge	4 % of the business tax and VAT paid

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

## (b) Income tax

Income tax in the income statement represents:

	<i>2012</i>	<i>2011</i>
Provision for income tax for the year	<u>3,942,560.90</u>	<u>3,264,549.71</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
VAT payable	213,234.25	136,895.43
Business tax payable	(10,381.86)	(9,030.49)
Income tax payable	1,439,169.17	108,402.38
Others	<u>128,015.98</u>	<u>103,117.71</u>
Total	<u>1,770,037.54</u>	<u>339,385.03</u>

5 CASH AT BANK AND ON HAND

	2012	2011
Cash on hand	44,315.58	3,070.39
Demand deposits	13,034,018.57	11,873,291.20
Fixed deposits	<u>900,000.00</u>	<u>10,009,149.16</u>
Total	<u>13,978,334.15</u>	<u>21,885,510.75</u>

6 ACCOUNTS RECEIVABLE

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

	2012		Provision for bad and doubtful debts	2011		Provision for bad and doubtful debts
	RMB receivable	Percentage of total accounts		RMB receivable	Percentage of total accounts	
Within 1 year	9,831,455.92	99.86%	-	3,862,992.03	99.89%	-
After 1 year but within 2 years	9,030.99	0.09%	451.55	160.20	0.01%	8.01
After 2 years but within 3 years	160.20	0.01%	16.02	3,010.43	0.07%	301.04
After 3 years	<u>4,144.04</u>	<u>0.04%</u>	<u>1,083.84</u>	<u>1,133.61</u>	<u>0.03%</u>	<u>226.72</u>
Total	<u>9,844,791.15</u>	<u>100%</u>	<u>1,551.41</u>	<u>3,867,296.27</u>	<u>100%</u>	<u>535.77</u>

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

**6 ACCOUNTS RECEIVABLE (CONTINUED)**

Provision for bad and doubtful debts	2012	2011
Opening balance as at 1 January	535.77	47,419.54
Add: Charges for the year	1,015.64	223.61
Less: Reversal during the year	<u>-</u>	<u>(47,107.38)</u>
Closing balance as at 31 December	<u>1,551.41</u>	<u>535.77</u>

**7 OTHER RECEIVABLES**

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

	<u>2012</u>			<u>2011</u>		
	<i>Percentage of total other RMB receivables</i>		<i>Provision for bad and doubtful debts</i>	<i>Percentage of total other RMB receivables</i>		<i>Provision for bad and doubtful debts</i>
Within 1 year	6,597,079.87	92.06%	-	591,809.44	94.84%	-
After 1 year but within 2 years	559,422.32	7.81%	-	32,200.00	5.16%	-
After 2 year but within 3 years	<u>9,500.00</u>	<u>0.13%</u>	<u>-</u>	<u>-</u>	<u>0%</u>	<u>-</u>
Total	<u>7,166,002.19</u>	<u>100%</u>	<u>-</u>	<u>624,009.44</u>	<u>100%</u>	<u>-</u>

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

**8 INVENTORIES**

	2012	2011
Raw materials	<u>1,367,048.11</u>	<u>1,570,798.04</u>

All the above inventories are purchased from others or self-manufactured.

	2012	2011
Cost of inventories charged to costs and expenses in the income statement	<u>1,183,557.67</u>	<u>568,518.90</u>

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

	<i>Land use rights</i>	<i>Plant and buildings</i>	<i>Machinery and equipment</i>	<i>Office and other equipment</i>	<i>Motor vehicles</i>	<i>Pipelines and other equipment</i>	<i>Total</i>
<b>Cost</b>							
As at 1 January 2012	13,288,433.71	56,387,225.17	28,805,222.75	527,666.27	1,589,871.00	56,869,876.09	157,468,294.99
Additions	-	1,585,927.61	190,948.00	78,450.00	14,410.00	-	1,869,735.61
Transfer from construction in progress	-	-	235,018.05	-	-	1,538,970.70	1,773,988.75
Disposals	(130,863.77)	-	(1,276,492.15)	(15,376.00)	(14,140.00)	-	(1,436,871.92)
As at 31 December 2012	13,157,569.94	57,973,152.78	27,954,696.65	590,740.27	1,590,141.00	58,408,846.79	159,675,147.43
<b>Accumulated depreciation</b>							
As at 1 January 2012	(483,877.93)	(5,972,961.05)	(6,580,564.46)	(245,359.07)	(758,828.33)	(12,930,730.43)	(26,972,321.27)
Charge for the year	(297,160.74)	(1,839,796.90)	(2,435,942.15)	(67,044.25)	(170,244.41)	(2,738,787.36)	(7,548,975.81)
Written back on disposal	-	-	-	13,838.40	7,158.40	-	20,996.80
As at 31 December 2012	(781,038.67)	(7,812,757.95)	(9,016,506.61)	(298,564.92)	(921,914.34)	(15,669,517.79)	(34,500,300.28)
<b>Carrying amount</b>							
As at 31 December 2012	<u>12,376,531.27</u>	<u>50,160,394.83</u>	<u>18,938,190.04</u>	<u>292,175.35</u>	<u>668,226.66</u>	<u>42,739,329.00</u>	<u>125,174,847.15</u>
As at 31 December 2011	<u>12,804,555.78</u>	<u>50,414,264.12</u>	<u>22,224,658.29</u>	<u>282,307.20</u>	<u>831,042.67</u>	<u>43,939,145.66</u>	<u>130,495,973.72</u>

As at 31 December 2012, the original cost of the fixed assets that have been fully depreciated but are still in use was RMB 230,170.66 (2011: RMB 116,396.66).

As at 31 December 2012, the carrying amount of the fixed assets that have been pledged for bank loans was RMB 79,836,402.50 (2011: RMB 85,008,997.02).

**10 CONSTRUCTION IN PROGRESS**

		<i>Including: Borrowing costs capitalised</i>
<b>Cost</b>		
As at 1 January 2012	824,686.56	-
Additions during the year	2,913,797.52	-
Transfer to fixed assets during the year (note 9)	(1,773,988.75)	-
As at 31 December 2012	<u>1,964,495.33</u>	-
<b>Carrying amount</b>		
As at 31 December 2012	<u>1,964,495.33</u>	-
As at 31 December 2011	<u>824,686.56</u>	-

**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	22,000.00
Additions	<u>3,500.00</u>
As at 31 December 2012	25,500.00
Accumulated amortisation	
As at 1 January 2012	(8,418.00)
Charge for the year	<u>(4,798.33)</u>
As at 31 December 2012	(13,216.33)
Carrying amount	
As at 31 December 2012	<u>12,283.67</u>
As at 31 December 2011	<u>13,582.00</u>

## 12 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>
Within 1 year	<u>-</u>	-	-	<u>7,080,000.00</u>	7.00%	-

## 13 ACCOUNTS PAYABLE

	<i>2012</i>	<i>2011</i>
Construction payable	6,389,247.80	9,856,886.52
Equipment payable	1,337,652.34	1,675,383.11
Others	<u>330,300.00</u>	<u>153,299.69</u>
Total	<u>8,057,200.14</u>	<u>11,685,569.32</u>

## 14 SPECIAL PAYABLES

	<i>2012</i>	<i>2011</i>
Water resource fee collected on behalf of Changle Water Bureau	<u>2,164,302.59</u>	<u>1,127,565.50</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**

	<u>2012</u>			
	<i>Principal</i>	<i>Interest rate (p.a.)</i>	<i>Maturity</i>	<i>Secured</i>
Bank loans				
- United Overseas Bank (UOB) Shenzhen Branch	32,692,800.00	(i)	2010/04/28-2015/04/28	(v)
	<u>8,523,076.97</u>	(ii)	2012/03/23-2015/04/28	(v)
	41,215,876.97			
	-----			
Less: Long-term liabilities due within one year	<u>(12,750,030.76)</u>			
	<u>28,465,846.21</u>			
		<u>2011</u>		
	<i>Principal</i>	<i>Interest rate (p.a.)</i>	<i>Maturity</i>	<i>Secured</i>
Bank loans				
- Oversea-Chinese Banking Corporation (OCBC)	4,000,000.00	(iii)	2010/04/10-2012/12/18	(vi)
- UOB Shenzhen Branch	3,000,000.00	(iv)	2007/05/10-2012/05/10	(v)
	<u>38,920,000.00</u>	(i)	2010/04/28-2015/04/28	(v)
	45,920,000.00			
	-----			
Less: Long-term liabilities due within one year	<u>(13,227,200.00)</u>			
	<u>32,692,800.00</u>			

- (i) The interest rate is 3-5 years of People's Bank of China (PBOC) rate +15%.
- (ii) The interest rate is 3-5 years of PBOC rate +25%.
- (iii) The interest rate is 1-3 years of PBOC rate +10%.
- (iv) The interest rate is 3-5 years of PBOC rate +5%.
- (v) These bank loans are pledged by some fixed assets (note 9), and guaranteed by Salcon Berhad, Salcon Shandong (HK) Limited and Changle Salcon Raw Water Company Limited.
- (vi) This bank loan is guaranteed by Salcon Berhad.

**16 LONG-TERM PAYABLES**

	<i>Personnel placement cost</i>
As at 1 January 2012	1,988,489.87
Decrease during the year	<u>(496,034.25)</u>
As at 31 December 2012	<u>1,492,455.62</u>

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

## 17 PAID-IN CAPITAL

Registered capital

	<u>2012 and 2011</u>	
	<i>Amount in original currency USD</i>	<i>%</i>
Salcon Shandong (HK) Limited	<u>7,000,000.00</u>	<u>100%</u>

Paid-in capital

	<u>2012 and 2011</u>		
	<i>Amount in original currency USD</i>	<i>Amount in RMB equivalent</i>	<i>%</i>
Salcon Shandong (HK) Limited	<u>7,000,000.00</u>	<u>50,707,982.48</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

	<u>2012 and 2011</u>
Donated non-cash assets received	919,789.82
Foreign currency capital translation differences	<u>(98,960.68)</u>
Total	<u>820,829.14</u>

## 19 SURPLUS RESERVE

	<i>General Reserve fund</i>
As at 1 January 2012	3,714,812.57
Profit appropriation (note 20)	<u>1,128,961.85</u>
As at 31 December 2012	<u>4,843,774.42</u>



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

20 PROFIT APPROPRIATION

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%
Staff and workers' bonus and welfare fund	1%

21 SALES FROM PRINCIPAL ACTIVITIES

	<i>2012</i>	<i>2011</i>
Sales of goods	<u>43,865,890.31</u>	<u>29,145,443.12</u>

22 FINANCIAL EXPENSES

	<i>2012</i>	<i>2011</i>
Net interest expense	3,768,358.81	2,094,799.06
Less: interest income	(476,147.82)	(130,641.76)
Net exchange gains	-	(76,386.00)
Other financial expenses	<u>101,463.35</u>	<u>184,696.72</u>
Total	<u>3,393,674.34</u>	<u>2,072,468.02</u>

23 SUBSIDY INCOME

Subsidy income is derived from collecting water resource fee on behalf of the government.

24 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 Shandong (HK) Limited	HK	Investment holding	Parent company	Limited liability company

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

24 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(a) Related parties with controlling relationships (continued)

Registered capital of related parties with controlling relationships and its changes

	<i>At the beginning of the year HKD</i>	<i>Increase HKD</i>	<i>Decrease HKD</i>	<i>At the end of the year HKD</i>
Salcon Shandong (HK) Limited	127,488,971.00	-	-	127,488,971.00

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

	<i>At the beginning of the year</i>		<i>Increase</i>		<i>Decrease</i>		<i>At the end of the year</i>	
	<i>USD</i>	<i>%</i>	<i>USD</i>	<i>%</i>	<i>USD</i>	<i>%</i>	<i>USD</i>	<i>%</i>
Salcon Shandong (HK) Limited	7,000,000.00	100%	-	-	-	-	7,000,000.00	100%

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

*Relationship with the Company*

Changle Salcon Raw Water Company Limited (Changle Salcon Raw Water)	Fellow subsidiary
Salcon Water (HK)	Fellow subsidiary
Salcon Engineering Berhad	Fellow subsidiary
Salcon Alliance (Shanghai) Company Limited (Salcon Alliance)	Fellow subsidiary

(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:

	2012	2011
Payment by related party		
- Changle Salcon Raw Water	40,056.16	-
Payment for related parties		
- Salcon Engineering Berhad	522,224.64	664,551.73
- Salcon Alliance	-	369,659.69
- Changle Salcon Raw Water	1,165,986.94	71,511.92
Borrowings provided to related party		
- Changle Salcon Raw Water	5,000,000.00	-

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


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## 24 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:  
(continued)

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

	<i>2012</i>	<i>2011</i>
Interest income charged		
- Changle Salcon Raw Water	272,666.65	-
Purchase of raw water		
- Changle Salcon Raw Water	11,226,728.20	-

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		
- Principal of the borrowing		
- Changle Salcon Raw Water	5,000,000.00	-
- Interest receivable		
- Changle Salcon Raw Water	272,666.65	-
- Others		
- Changle Salcon Raw Water	1,165,986.94	-
- Salcon Engineering Berhad	522,224.64	474,880.68
Accounts payable		
- Changle Salcon Raw Water	330,300.00	-
Others payables		
- Changle Salcon Raw Water	40,056.16	-
Dividends payable		
- Salcon Water (HK)	7,178,598.90	7,178,598.90

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

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## 25 COMMITMENTS

## Capital commitments

As at 31 December 2012, capital commitments of the Company are summarised as follows:

	<i>2012</i>	<i>2011</i>
Contracted for	<u>                    -</u>	<u>4,401,016.92</u>

## 26 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)

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山东昌乐实康水业有限公司

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  
南京西路1266号  
恒隆广场50楼  
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 1301753 号

山东昌乐实康水业有限公司董事会:

我们审计了后附的第 1 页至第 22 页的山东昌乐实康水业有限公司(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 1301753 号

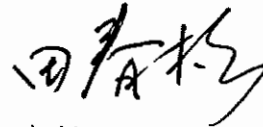
## 三、 审计意见

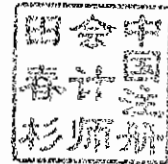
我们认为，贵公司财务报表在所有重大方面按照中华人民共和国财政部颁布的企业会计准则和《企业会计制度》的规定编制，公允反映了贵公司 2012 年 12 月 31 日的财务状况以及 2012 年度的经营成果和现金流量。

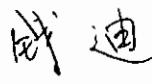
毕马威华振会计师事务所(特殊普通合伙) 中国注册会计师  
上海分所

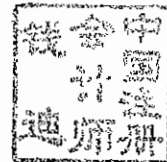


中国上海

  
田春杉



  
钱迪



二〇一三年四月十九日

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

山东昌乐实康水业有限公司

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	13,978,334.15	21,885,510.75
应收账款	6	9,843,239.74	3,866,760.50
其他应收款	7	7,166,002.19	624,009.44
预付账款		486,354.44	468,319.34
存货	8	1,367,048.11	1,570,798.04
待摊费用		90,233.30	144,554.15
流动资产合计		32,931,211.93	28,559,952.22
固定资产			
固定资产原价		159,675,147.43	157,468,294.99
减：累计折旧		(34,500,300.28)	(26,972,321.27)
固定资产净额	9	125,174,847.15	130,495,973.72
在建工程	10	1,964,495.33	824,686.56
固定资产合计		127,139,342.48	131,320,660.28
无形资产	11	12,283.67	13,582.00
资产总计		160,082,838.08	159,894,194.50

刊载于第8页至第22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)

山东昌乐实康水业有限公司

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			
短期借款	12	-	7,080,000.00
应付账款	13	8,057,200.14	11,685,569.32
预收账款		3,040,500.00	1,918,270.00
应付工资		695,500.00	462,500.00
应付福利费		112,896.18	94,669.82
应付股利		7,178,598.90	7,178,598.90
应交税金	4(c)	1,770,037.54	339,385.03
其他应交款		9,693.93	10,827.95
其他应付款		1,957,196.82	616,644.11
预提费用		85,000.00	344,816.91
专项应付款	14	2,164,302.59	1,127,565.50
一年内到期的长期负债	15	<u>12,750,030.76</u>	<u>13,227,200.00</u>
流动负债合计		<u>37,820,956.86</u>	<u>44,086,047.54</u>
长期负债			
长期借款	15	28,465,846.21	32,692,800.00
长期应付款	16	<u>1,492,455.62</u>	<u>1,988,489.87</u>
长期负债合计		<u>29,958,301.83</u>	<u>34,681,289.87</u>
负债合计		<u>67,779,258.69</u>	<u>78,767,337.41</u>

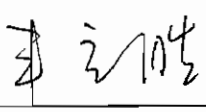
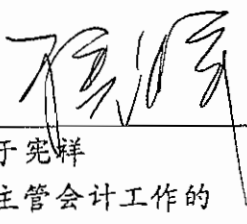
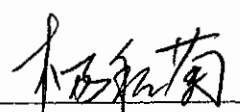

刊载于第8页至第22页的财务报表附注为本财务报表的组成部分。

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

山东昌乐实康水业有限公司  
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(续)			
所有者权益			
实收资本	17	50,707,982.48	50,707,982.48
资本公积	18	820,829.14	820,829.14
盈余公积	19	4,843,774.42	3,714,812.57
未分配利润		<u>35,930,993.35</u>	<u>25,883,232.90</u>
所有者权益合计		<u>92,303,579.39</u>	<u>81,126,857.09</u>
负债和所有者权益总计		<u>160,082,838.08</u>	<u>159,894,194.50</u>

此财务报表已于2013年4月19日获本公司董事会批准。

			
丰立胜 法定代表人授权人 (签名和盖章)	于宪祥 主管会计工作的 公司负责人 (签名和盖章)	杨秋菊 会计机构负责人 (签名和盖章)	

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

山东昌乐实康水业有限公司  
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	43,865,890.31	29,145,443.12
减: 主营业务成本		(27,382,250.12)	(17,936,371.31)
主营业务税金及附加	4(a)	<u>(222,129.14)</u>	<u>(176,520.34)</u>
主营业务利润		16,261,511.05	11,032,551.47
加: 其他业务利润		6,710,058.72	7,063,829.02
减: 管理费用		(6,795,683.36)	(5,688,337.99)
财务费用	22	<u>(3,393,674.34)</u>	<u>(2,072,468.02)</u>
营业利润		12,782,212.07	10,335,574.48
加: 补贴收入	23	2,000,000.00	2,000,000.00
营业外收入		506,918.74	432,556.79
减: 营业外支出		<u>(56,951.43)</u>	<u>(36,599.44)</u>
利润总额		15,232,179.38	12,731,531.83
减: 所得税	4(b)	<u>(3,942,560.90)</u>	<u>(3,264,549.71)</u>
净利润		11,289,618.48	9,466,982.12
加: 年初未分配利润		<u>25,883,232.90</u>	<u>17,457,618.81</u>
可供分配的利润		37,172,851.38	26,924,600.93
减: 提取储备基金	20	(1,128,961.85)	(946,698.21)
提取职工奖励及福利基金	20	<u>(112,896.18)</u>	<u>(94,669.82)</u>
年末未分配利润		<u>35,930,993.35</u>	<u>25,883,232.90</u>

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

山东昌乐实康水业有限公司

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		35,842,455.70	31,199,123.76
收到的税费返还		2,045,939.73	1,463,682.44
收到的其他与经营活动有关的现金		11,003,759.72	10,605,238.36
现金流入小计		48,892,155.15	43,268,044.56
购买商品支付的现金		(17,204,679.50)	(11,636,598.97)
支付给职工以及为职工支付的现金		(5,905,864.52)	(6,514,613.49)
支付的各项税费		(3,415,709.84)	(5,512,990.87)
支付的其他与经营活动有关的现金		(2,818,856.08)	(1,545,875.25)
现金流出小计		(29,345,109.94)	(25,210,078.58)
经营活动产生的现金流量净额	i	19,547,045.21	18,057,965.98
投资活动产生的现金流量:			
处置固定资产所收回的现金净额		4,288.60	-
收到的其他与投资活动有关的现金		195,719.52	130,641.76
现金流入小计		200,008.12	130,641.76
购建固定资产、无形资产和 其他长期资产所支付的现金		(7,008,046.39)	(21,548,850.80)
投资所支付的现金		(5,000,000.00)	-
现金流出小计		(12,008,046.39)	(21,548,850.80)
投资活动使用的现金流量净额		(11,808,038.27)	(21,418,209.04)

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

山东昌乐实康水业有限公司  
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		11,080,000.00	14,799,775.92
现金流入小计		11,080,000.00	14,799,775.92
偿还债务所支付的现金		(22,864,123.03)	(7,148,166.00)
偿付利息所支付的现金		(3,768,358.81)	(3,453,766.06)
支付的其他与筹资活动有关的现金		(93,701.70)	-
现金流出小计		(26,726,183.54)	(10,601,932.06)
筹资活动(使用)/产生的现金流量净额		(15,646,183.54)	4,197,843.86
现金及现金等价物净(减少)/增加额	ii	(7,907,176.60)	837,600.80

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

山东昌乐实康水业有限公司  
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 将净利润调节为经营活动的现金流量:		
净利润	11,289,618.48	9,466,982.12
加: 计提/(转回)的坏账准备	1,015.64	(46,883.77)
固定资产折旧	7,548,975.81	5,868,557.18
无形资产摊销	4,798.33	4,392.00
待摊费用减少/(增加)	54,320.85	(11,784.13)
预提费用(减少)/增加	(259,816.91)	21,462.41
处置固定资产的损失	4,230.60	4,379.17
财务费用	3,393,674.34	1,964,157.30
存货的减少/(增加)	203,749.93	(258,775.81)
经营性应收项目的(增加)/减少	(7,264,856.08)	4,582,240.89
经营性应付项目的增加/(减少)	<u>4,571,334.22</u>	<u>(3,536,761.38)</u>
经营活动产生的现金流量净额	<u>19,547,045.21</u>	<u>18,057,965.98</u>
ii 现金及现金等价物净(减少)/增加情况:		
现金的年末余额	13,978,334.15	21,885,510.75
减: 现金的年初余额	<u>(21,885,510.75)</u>	<u>(21,047,909.95)</u>
现金及现金等价物(减少)/增加额	<u>(7,907,176.60)</u>	<u>837,600.80</u>

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

山东昌乐实康水业有限公司

财务报表附注

(金额单位：人民币元)

**1 公司基本情况**

山东昌乐实康水业有限公司(以下简称“本公司”),是由山东省潍坊市昌乐县供水总公司和在香港注册的实康水业(香港)有限公司在中华人民共和国山东省潍坊市成立的中外合资经营企业,并分别持有本公司25%及75%的股份。本公司于2003年10月20日经山东省人民政府批准,领取了商外资鲁府潍字[2003]2472号批准证书,并于2003年11月14日领取了中华人民共和国国家山东省工商行政管理局颁发的企合潍总字第003431号企业法人营业执照。原注册资本为1,920,000美元。

经潍坊市对外贸易经济合作局批准,山东省潍坊市昌乐县供水总公司于2008年将其持有的本公司25%的股份转让于实康水业(香港)有限公司。于2008年7月6日实康水业(香港)有限公司将其持有的本公司100%的股权转让给实康山东(香港)有限公司,并决定将本公司的注册资本增加5,080,000美元,即由1,920,000美元增至7,000,000美元,增资部分以现汇出资。本公司于2008年8月20日获得山东省人民政府换发的商外资鲁府潍字[2003]2472号批准证书,并于2009年7月2日领取了更新的370700400006698号企业法人营业执照。

本公司营业期限为50年,主要从事改造、建设、经营和管理昌乐县自来水的生产、输送和配水系统,生产销售符合国家标准的生活饮用水,纯净水项目,污水处理项目的建设与管理。本公司于2003年11月14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。

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

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**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) 现金等价物**

现金等价物指本公司持有期限短、流动性强、易于转换为已知金额现金、价值变动风险很小的投资。

**(e) 坏账准备**

坏账准备是由本公司根据对应收账款进行账龄分析估计计提。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。发出存货的成本按先进先出法核算。除原材料采购成本外，在产品及产成品还包括直接人工和按照适当比例分配的生产制造费用。

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。

**(g) 固定资产及在建工程**

固定资产指本公司为生产商品、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。



**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) 固定资产及在建工程(续)

固定资产以成本减累计折旧及减值准备(参见附注 3(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 3(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
土地使用权	50 年	0%	2%
厂房及建筑物	20 及 43 年	10%	2.09%及 4.5%
机器设备	10 年	10%	9%
办公设备及其他设备	5 年	10%	18%
运输工具	8 年	10%	11.25%
管道及沟槽	10-43 年	10%	2.09%-9%

(h) 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(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内摊销。各项无形资产的摊销期限分别为:

收费软件	5 年
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(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。

**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) 资产减值准备(续)

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。

## (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) 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)

## (l) 收入确认(续)

## (ii) 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按已完工作的进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。

## (iii) 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。

## (iv) 补贴收入

定额补贴收入按销量和国家规定的补助定额计算并确认。除定额补贴收入外的其他补贴收入根据实际收到的补贴款确认。

## (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。

## (n) 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。

## (o) 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。

**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)

(p) 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) 本公司适用的与产品销售和提供服务相关的税金及附加有营业税、增值税、城市维护建设税、教育费附加。

税种	计缴标准
营业税	应税营业收入的 3%或 5%
增值税	按税法规定计算的销售货物和应税劳务收入的 6%计算销项税额
城市维护建设税	实缴营业税额及增值税额的 7%
教育费附加	实缴营业税额及增值税额的 4%

主营业务税金及附加，包括城市维护建设税、教育费附加。

(b) 所得税

在利润表中的所得税包括：

	2012 年	2011 年
本年度企业所得税	<u>3,942,560.90</u>	<u>3,264,549.71</u>

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>
应交增值税	213,234.25	136,895.43
应交营业税	(10,381.86)	(9,030.49)
应交企业所得税	1,439,169.17	108,402.38
其他	<u>128,015.98</u>	<u>103,117.71</u>
合计	<u><u>1,770,037.54</u></u>	<u><u>339,385.03</u></u>

5 货币资金

	<u>2012 年</u>	<u>2011 年</u>
现金	44,315.58	3,070.39
活期存款	13,034,018.57	11,873,291.20
定期存款	<u>900,000.00</u>	<u>10,009,149.16</u>
合计	<u><u>13,978,334.15</u></u>	<u><u>21,885,510.75</u></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	9,831,455.92	99.86%	-	3,862,992.03	99.89%	-
一年至二年	9,030.99	0.09%	451.55	160.20	0.01%	8.01
二年至三年	160.20	0.01%	16.02	3,010.43	0.07%	301.04
三年以上	<u>4,144.04</u>	<u>0.04%</u>	<u>1,083.84</u>	<u>1,133.61</u>	<u>0.03%</u>	<u>226.72</u>
合计	<u><u>9,844,791.15</u></u>	<u><u>100%</u></u>	<u><u>1,551.41</u></u>	<u><u>3,867,296.27</u></u>	<u><u>100%</u></u>	<u><u>535.77</u></u>

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

## 6 应收账款(续)

坏账准备

	<u>2012 年</u>	<u>2011 年</u>
年初余额	535.77	47,419.54
加: 本年计提	1,015.64	223.61
减: 本年转回	<u>-</u>	<u>(47,107.38)</u>
年末余额	<u>1,551.41</u>	<u>535.77</u>

## 7 其他应收款

其他应收款账龄分析如下:

	<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	6,597,079.87	92.06%	-	591,809.44	94.84%	-
一年至二年	559,422.32	7.81%	-	32,200.00	5.16%	-
二年至三年	9,500.00	0.13%	-	-	-	-
合计	<u>7,166,002.19</u>	<u>100%</u>	<u>-</u>	<u>624,009.44</u>	<u>100%</u>	<u>-</u>

一年以上的其他应收款主要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 存货

	<u>2012 年</u>	<u>2011 年</u>
原材料	<u>1,367,048.11</u>	<u>1,570,798.04</u>

以上存货均为购买或自行生产形成。

	<u>2012 年</u>	<u>2011 年</u>
于成本和费用中确认的存货成本:	<u>1,183,557.67</u>	<u>568,518.90</u>

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

9 固定资产

	土地使用权	厂房及 建筑物	机器设备	办公设备及 其他设备	运输工具	管道和沟槽	合计
成本:							
年初余额	13,288,433.71	56,387,225.17	28,805,222.75	527,666.27	1,589,871.00	56,869,876.09	157,468,294.99
本年增加	-	1,585,927.61	190,948.00	78,450.00	14,410.00	-	1,869,735.61
在建工程转入	-	-	235,018.05	-	-	1,538,970.70	1,773,988.75
本年减少	(130,863.77)	-	(1,276,492.15)	(15,376.00)	(14,140.00)	-	(1,436,871.92)
年末余额	13,157,569.94	57,973,152.78	27,954,696.65	590,740.27	1,590,141.00	58,408,846.79	159,675,147.43
累计折旧:							
年初余额	(483,877.93)	(5,972,961.05)	(6,580,564.46)	(245,359.07)	(758,828.33)	(12,930,730.43)	(26,972,321.27)
本年计提折旧	(297,160.74)	(1,839,796.90)	(2,435,942.15)	(67,044.25)	(170,244.41)	(2,738,787.36)	(7,548,975.81)
折旧冲销	-	-	-	13,838.40	7,158.40	-	20,996.80
年末余额	(781,038.67)	(7,812,757.95)	(9,016,506.61)	(298,564.92)	(921,914.34)	(15,669,517.79)	(34,500,300.28)
净额:							
年末余额	<u>12,376,531.27</u>	<u>50,160,394.83</u>	<u>18,938,190.04</u>	<u>292,175.35</u>	<u>668,226.66</u>	<u>42,739,329.00</u>	<u>125,174,847.15</u>
年初余额	<u>12,804,555.78</u>	<u>50,414,264.12</u>	<u>22,224,658.29</u>	<u>282,307.20</u>	<u>831,042.67</u>	<u>43,939,145.66</u>	<u>130,495,973.72</u>

于2012年12月31日,本公司已提足折旧但仍继续使用的固定资产账面原值为人民币230,170.66元(2011年:人民币116,396.66元)。

于2012年12月31日,本公司持有以上固定资产中已作抵押的部分固定资产之账面价值为人民币79,836,402.50元(2011年:人民币85,008,997.02元)。

10 在建工程

其中: 借款费用  
资本化金额

成本		
年初余额	824,686.56	-
本年增加	2,913,797.52	-
转入固定资产(注释9)	<u>(1,773,988.75)</u>	-
年末余额	1,964,495.33	-
净额		
年末余额	<u>1,964,495.33</u>	-
年初余额	<u>824,686.56</u>	-

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

## 11 无形资产

	<u>收费软件</u>
成本	
年初余额	22,000.00
本年增加	3,500.00
本年减少	<u>-</u>
年末余额	----- 25,500.00
累计摊销	
年初余额	(8,418.00)
本年增加	<u>(4,798.33)</u>
年末余额	----- (13,216.33)
净额	
年末余额	<u>12,283.67</u>
年初余额	<u>13,582.00</u>

## 12 短期借款

	<u>2012 年</u>			<u>2011 年</u>		
	本金	年利率	抵押/担保	本金	年利率	抵押/担保
银行借款	<u>-</u>	-	-	<u>7,080,000.00</u>	7.00%	无

## 13 应付账款

	<u>2012 年</u>	<u>2011 年</u>
工程款	6,389,247.80	9,856,886.52
设备款	1,337,652.34	1,675,383.11
其他	<u>330,300.00</u>	<u>153,299.69</u>
合计	<u>8,057,200.14</u>	<u>11,685,569.32</u>

## 14 专项应付款

	<u>2012 年</u>	<u>2011 年</u>
代昌乐县水利局向 用户收取的水资源费	<u>2,164,302.59</u>	<u>1,127,565.50</u>



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

## 15 长期借款/一年内到期的长期负债

	2012 年			
	人民币金额	年利息率	期限	抵押
银行借款				
- 大华银行(中国)有限公司 深圳分行	32,692,800.00	(i)	2010/04/28-2015/04/28	(v)
	<u>8,523,076.97</u>	(ii)	2012/03/23-2015/04/28	(v)
合计	41,215,876.97			
减去: 一年以内到期 的长期负债	<u>(12,750,030.76)</u>			
	<u>28,465,846.21</u>			
	2011 年			
	人民币金额	年利息率	期限	抵押
银行借款				
- 华侨银行(中国)有限公司	4,000,000.00	(iii)	2010/04/10-2012/12/18	(vi)
- 大华银行(中国)有限公司 深圳分行	3,000,000.00	(iv)	2007/05/10-2012/05/10	(v)
	<u>38,920,000.00</u>	(i)	2010/04/28-2015/04/28	(v)
合计	45,920,000.00			
减去: 一年以内到期 的长期负债	<u>(13,227,200.00)</u>			
	<u>32,692,800.00</u>			

(i) 该借款利率为中国人民银行公布的 3 至 5 年贷款基准利率上浮 15%。

(ii) 该借款利率为中国人民银行公布的 3 至 5 年贷款基准利率上浮 25%。

(iii) 该借款利率为中国人民银行公布的 1 至 3 年贷款基准利率上浮 10%。

(iv) 该借款利率为中国人民银行公布的 3 至 5 年贷款基准利率上浮 5%。

(v) 本公司以部分固定资产作为长期借款抵押物(参见附注 9),并由 Salcon Berhad 和 Salcon Shandong (HK) Limited 和昌乐实康原水有限公司提供连带保证。

(vi) 该借款由 Salcon Berhad 提供信用保证。

## 16 长期应付款

	职工安置费
年初余额	1,988,489.87
本年减少	<u>(496,034.25)</u>
年末余额	<u>1,492,455.62</u>

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

## 17 实收资本

注册资本	2012 年及 2011 年	
	金额 美元	%
实康水业(香港)有限公司	<u>7,000,000.00</u>	<u>100%</u>

实收资本	2012 年及 2011 年		
	原币金额 美元	金额 等值人民币	%
实康水业(香港)有限公司	<u>7,000,000.00</u>	<u>50,707,982.48</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。

## 18 资本公积

	2012 年及 2011 年
接受非现金资产捐赠准备	919,789.82
外币资本折算差额	<u>(98,960.68)</u>
	<u>820,829.14</u>

## 19 盈余公积

	注	储备基金
年初余额		3,714,812.57
利润分配	20	<u>1,128,961.85</u>
年末余额		<u>4,843,774.42</u>

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

## 20 利润分配

提取各项基金

本公司按公司章程按本年净利润提取以下各项基金：

提取储备基金	10%
提取职工奖励及福利基金	1%

## 21 主营业务收入

	<u>2012 年</u>	<u>2011 年</u>
销售商品收入	<u>43,865,890.31</u>	<u>29,145,443.12</u>

## 22 财务费用

	<u>2012 年</u>	<u>2011 年</u>
净利息支出	3,768,358.81	2,094,799.06
减：利息收入	(476,147.82)	(130,641.76)
净汇兑收益	-	(76,386.00)
其他财务费用	<u>101,463.35</u>	<u>184,696.72</u>
合计	<u>3,393,674.34</u>	<u>2,072,468.02</u>

## 23 补贴收入

补贴收入为本公司代收水资源费的留成补贴。

## 24 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>
实康山东(香港) 有限公司	香港	投资控股	母公司	有限公司

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

## 24 关联方及其交易(续)

## (a) 存在控制关系的关联方(续)

存在控制关系的关联方的注册资本及其变化

	<u>年初数</u>	<u>本年增加</u>	<u>本年减少</u>	<u>年末数</u>
	港币	港币	港币	港币
实康山东(香港) 有限公司	127,488,971.00	-	-	127,488,871.00

存在控制关系的关联方所持股份或权益及其变化

	<u>年初数</u>		<u>本年增加</u>		<u>本年减少</u>		<u>年末数</u>	
	金额	%	金额	%	金额	%	金额	%
	(美元)		(美元)		(美元)		(美元)	
实康山东(香港) 有限公司	7,000,000.00	100%	-	-	-	-	7,000,000.00	100%

## (b) 不存在控制关系的关联方

	<u>与本公司关系</u>
昌乐实康原水有限公司(“实康原水”)	同一母系子公司
实康水务(香港)有限公司	同一母系子公司
Salcon Engineering Berhad	同一母系子公司
实盟企业管理咨询(上海)有限公司(“实盟”)	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:

	<u>2012 年</u>	<u>2011 年</u>
关联方为本公司垫付费用-实康原水	40,056.16	-
垫付费用- Salcon Engineering Berhad	522,224.64	664,551.73
- 实盟	-	369,659.69
- 实康原水	1,165,986.94	71,511.92
提供贷款-实康原水	5,000,000.00	-
利息收入-实康原水	272,666.65	-
购买原水-实康原水	11,226,728.20	-

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

24 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于年末的往来余额如下(续):

(ii) 于年末本公司与关联方应收、应付款及借款余额列示如下:

	<u>2012 年</u>	<u>2011 年</u>
其他应收款		
- 关联方贷款本金余额-实康原水	5,000,000.00	-
- 关联方贷款应收利息-实康原水	272,666.65	-
- 其他		
- 实康原水	1,165,986.94	-
- Salcon Engineering Berhad	522,224.64	474,880.68
应付账款		
- 实康原水	330,300.00	-
其他应付款		
- 实康原水	40,056.16	-
应付股利		
- 实康水务(香港)有限公司	7,178,598.90	7,178,598.90

25 承担

资本承担

本公司于 12 月 31 日的资本承担如下:

	<u>2012 年</u>	<u>2011 年</u>
已订合同	-	<u>4,401,016.92</u>

26 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重分类调整。

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

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

CHANGLE SALCON RAW  
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

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

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**AUDITORS' REPORT**

毕马威华振沪审字第 1301754 号

The Board of Directors of Changle Salcon Raw Water Co., Ltd.:

We have audited the accompanying financial statements of Changle Salcon Raw Water Co., Ltd. ("the Company") on pages 1 to 18, 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.

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

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**AUDITORS' REPORT (continued)**

毕马威华振沪审字第 1301753 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: 19 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)**

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

	<i>Note</i>	<i>2012</i>	<i>2011</i>
<b>Assets</b>			
<b>Current assets</b>			
Cash at bank and on hand	5	3,317,984.76	4,923,468.24
Accounts receivable	6	5,292,153.24	-
Other receivables	7	974,067.45	1,288,245.00
Payments in advance		67,754.62	369,000.00
Deferred expenses		<u>7,454.26</u>	<u>-</u>
Total current assets		<u>9,659,414.33</u>	<u>6,580,713.24</u>
<b>Fixed assets</b>			
Cost		146,619,455.31	3,136,142.19
Less: Accumulated depreciation		<u>(5,026,900.22)</u>	<u>(290,471.74)</u>
Carring amount	8	141,592,555.09	2,845,670.45
Construction in progress	9	<u>-</u>	<u>136,115,313.51</u>
Total fixed assets		<u>141,592,555.09</u>	<u>138,960,983.96</u>
<b>Intangible assets and other assets</b>			
Intangible assets	10	1,750.00	4,750.00
Long-term deferred expenses	11	<u>-</u>	<u>(284,840.08)</u>
Total intangible assets and other assets		<u>1,750.00</u>	<u>(280,090.08)</u>
Total assets		<u>151,253,719.42</u>	<u>145,261,607.12</u>

The notes on pages 7 to 18 form part of these financial statements.

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

Changle Salcon Raw 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		13,721,820.72	13,049,317.28
Accrued payroll		89,000.00	-
Taxes payable	4(a)	8,089.20	7,565.00
Other payables	12	6,888,625.63	924,551.49
Long-term liabilities due within one year	13	<u>9,474,070.40</u>	<u>5,526,026.53</u>
Total current liabilities		<u>30,181,605.95</u>	<u>19,507,460.30</u>
Long-term liabilities			
Long-term loans	13	<u>60,792,466.25</u>	<u>66,617,733.31</u>
Total long-term liabilities		<u>60,792,466.25</u>	<u>66,617,733.31</u>
Total liabilities		<u>90,974,072.20</u>	<u>86,125,193.61</u>
Owners' equity			
Paid-in capital	14	59,136,346.50	59,136,346.50
Capital reserve	15	67.01	67.01
Surplus reserve	16	114,323.37	-
Retained earnings		<u>1,028,910.34</u>	<u>-</u>
Total owners' equity		<u>60,279,647.22</u>	<u>59,136,413.51</u>
Total liabilities and owners' equity		<u>151,253,719.42</u>	<u>145,261,607.12</u>

These financial statements have been approved by the Board of Directors of the Company on 19 April 2013.

Feng Lisheng	Yu Xianxiang	Yang Qiuju	
Legal Representative	The person in-charge of the accounting affairs	The head of the accounting department	(Company stamp)
(Signature and stamp)	(Signature and stamp)	(Signature and stamp)	

The notes on pages 7 to 18 form part of these financial statements.

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

Changle Salcon Raw Water 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	18	15,064,269.00	-
Less: Cost of sales from principal activities		<u>(7,364,969.94)</u>	-
Profit from principal activities		7,699,299.06	-
Less: General and administrative expenses		(643,298.67)	-
Financial expenses	19	<u>(5,919,708.43)</u>	-
Operating profit		1,136,291.96	-
Add: Non-operating income		<u>6,941.75</u>	-
Profit before income tax		1,143,233.71	-
Less: Income tax	4(b)	<u>-</u>	-
Net profit for the year		1,143,233.71	-
Add: Retained earnings at the beginning of the year		<u>-</u>	-
Profits available for distribution		1,143,233.71	-
Less: Statutory surplus reserve	17	<u>(114,323.37)</u>	-
Retained earnings carried forward		<u>1,028,910.34</u>	-

The notes on pages 7 to 18 form part of these financial statements.

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

Changle Salcon Raw 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 sale of goods		9,772,115.76	-
Cash received relating to other operating activities		<u>1,162,526.79</u>	-
Sub-total of cash inflows		<u>10,934,642.55</u>	-
Cash flows from investing activities:			
Cash paid for goods		(1,983,917.78)	-
Cash paid to and for employees		(709,088.58)	-
Cash paid for all types of taxes		(24,031.90)	-
Cash paid relating to other operating activities		<u>(453,326.63)</u>	-
Sub-total of cash outflows		<u>(3,170,364.89)</u>	-
Net cash inflow from operating activities	<i>i</i>	<u>7,764,277.66</u>	-
Cash flows from investing activities:			
Cash received relating to other investing activities		<u>44,440.25</u>	-
Sub-total of cash inflows		<u>44,440.25</u>	-
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(6,695,496.17)	(37,652,164.58)
Cash paid relating to other investing activities		<u>-</u>	<u>(1,251,936.24)</u>
Sub-total of cash outflows		<u>(6,695,496.17)</u>	<u>(38,904,100.82)</u>
Net cash outflow from investing activities		<u>(6,651,055.92)</u>	<u>(38,904,100.82)</u>

The notes on pages 7 to 18 form part of these financial statements.

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

Changle Salcon Raw 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>	<i>2012</i>	<i>2011</i>
Cash flows from financing activities:			
Cash received from borrowings		<u>8,648,803.34</u>	<u>24,527,491.97</u>
Sub-total of cash inflows		<u>8,648,803.34</u>	<u>24,527,491.97</u>
Cash repayments of borrowings		(5,526,026.53)	-
Cash paid for interest expenses		(5,831,692.03)	-
Cash paid relating to other financing activities		<u>(9,790.00)</u>	<u>-</u>
Sub-total of cash outflows		<u>(11,367,508.56)</u>	<u>-</u>
Net cash (outflow)/inflow from financing activities		<u>(2,718,705.22)</u>	<u>24,527,491.97</u>
Net decrease in cash and cash equivalents	<i>ii</i>	<u>(1,605,483.48)</u>	<u>(14,376,608.85)</u>

The notes on pages 7 to 18 form part of these financial statements.

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

Changle Salcon Raw 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	1,143,233.71	-
Add: Depreciation of fixed assets	4,736,428.48	-
Amortisation of intangible assets	3,000.00	-
Increase in deferred expenses	(7,454.26)	-
Increase in long-term deferred expenses	(284,840.08)	-
Financial expenses	5,919,708.43	-
Increase in gross operating receivables	(4,676,730.31)	-
Increase in operating payables	930,931.69	-
Net cash inflow from operating activities	<u>7,764,277.66</u>	<u>-</u>

*ii Net decrease in cash and cash equivalents*

	2012	2011
Cash at the end of the year	3,317,984.76	4,923,468.24
Less: Cash at the beginning of the year	<u>4,923,468.24</u>	<u>19,300,077.09</u>
Net decrease in cash and cash equivalents	<u>(1,605,483.48)</u>	<u>(14,376,608.85)</u>

The notes on pages 7 to 18 form part of these financial statements.

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

Changle Salcon Raw Water Co., Ltd.

Notes to the financial statements

(Expressed in Renminbi Yuan)

## 1 COMPANY STATUS

Changle Salcon Raw Water Co., Ltd. (the Company) is a wholly foreign-owned enterprise established in Weifang, Shandong Province in the People's Republic of China (PRC) by Salcon Shandong (HK) Limited registered in Hong Kong. The Company obtained an approval certificate Shang Wai Zi Lu Fu Wei Zi [2008] No. 0783 on 23 May 2008, and a business license No. 370700400012292 on 15 August 2008 issued by Weifang Administration of Industry and Commerce. The original registered capital is USD 6,320,000.

The Company's Board of Directors resolved to increase the Company's registered capital by USD 2,360,000. The registered capital was increased from USD 6,320,000 to USD 8,680,000. The article of association was revised on 3 June 2009. The Company obtained a revised approval certificate Shang Wai Zi Lu Fu Wei Zi [2003] No. 0783 on 19 October 2010 and a revised business licence No. 370700400012292 on 20 October 2010.

The Company's period of operation is 30 years, and its principal activities are producing and selling raw water and other related business. The Company commenced its operation in March 2012.

## 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.

## 3 SIGNIFICANT ACCOUNTING POLICIES

### (a) Accounting year

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

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(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)) and the transactions referred to below, are dealt with in the income statement.

Exchange differences which arise during the start-up period are aggregated in the long-term deferred expenses and are then fully charged to the income statement in the month of commencement of operations.

**(e) Cash equivalents**

Cash equivalents represent short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

**(f) 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.

**(g) Fixed assets and construction in progress**

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, for rental purposes 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)). Construction in progress is stated in the balance sheet at cost less impairment losses (see note 3(j)).



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


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## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (g) 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>
Plant and buildings	20 years	0%	5%
Office and other equipment	5 years	0~10%	18~20%
Motor vehicles	8 years	10%	11.25%
Pipelines and other equipment	30 years	0%	3.33%

## (h) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 3(j)). 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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## (i) Pre-operating expenses

Except for the acquisition and construction of fixed assets, all expenses incurred during the start-up period are aggregated in long-term deferred expenses and then fully charged to the income statement in the month operations commence.

## (j) 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.

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Provision for impairment (continued)**

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) 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.

**(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) 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.

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


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**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(n) 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.

**(o) 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.

**(p) 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) Taxes payable**

	<i>2012</i>	<i>2011</i>
Individual income tax payable	1,995.45	1,477.75
Property tax payable	<u>6,093.75</u>	<u>6,087.25</u>
Total	<u>8,089.20</u>	<u>7,565.00</u>

**(b) Income tax**

Pursuant to the approval issued by the in charge tax authorities, according to the taxation law, starting from the year when a taxable income was obtained from operation, the Company is entitled to a tax-free period of three years, and a 50% reduction in the income tax rate for the following three years. The Company obtained its first taxable income in 2012, and hence, the Company was exempted from corporate income tax for the year 2012.

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

**5 CASH AT BANK AND ON HAND**

	2012	2011
Cash on hand	792.86	1,307.86
Fixed deposits	1,400,000.00	1,400,000.00
Demand deposits	<u>1,917,191.90</u>	<u>3,522,160.38</u>
Total	<u>3,317,984.76</u>	<u>4,923,468.24</u>

**6 ACCOUNTS RECEIVABLE**

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

	2012		2011	
	Percentage of total accounts receivable	Provision for bad and doubtful debts	Percentage of total accounts receivable	Provision for bad and doubtful debts
	RMB		RMB	
Within 1 year	<u>5,292,153.24</u>	<u>100%</u>	-	-

**7 OTHER RECEIVABLES**

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

	2012		2011	
	Percentage of total other receivables	Provision for bad and doubtful debts	Percentage of total other receivables	Provision for bad and doubtful debts
	RMB		RMB	
Within 1 year	55,794.67	6%	598,245.00	46%
After 1 year but within 2 years	798,245.00	82%	690,000.00	54%
After 2 years but within 3 years	<u>120,027.78</u>	<u>12%</u>	-	-
Total	<u>974,067.45</u>	<u>100%</u>	<u>1,288,245.00</u>	<u>100%</u>

The balance of other receivables over one year is mainly construction payment and the management considers no need to provide bad debt provision.

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

	<i>Plant and buildings</i>	<i>Office and other equipment</i>	<i>Motor Vehicles</i>	<i>Pipelines and other equipment</i>	<i>Total</i>
<b>Cost</b>					
As at 1 January 2012	2,899,264.19	21,630.00	215,248.00	-	3,136,142.19
Additions	2,521.53	14,716.00	-	-	17,237.53
Transfer from construction in progress (note 9)	-	4,852,104.18	-	138,613,971.41	143,466,075.59
As at 31 December 2012	2,901,785.72	4,888,450.18	215,248.00	138,613,971.41	146,619,455.31
<b>Accumulated depreciation</b>					
As at 1 January 2012	(197,911.40)	(11,627.14)	(80,933.20)	-	(290,471.74)
Charge for the year	(103,572.36)	(451,340.65)	(22,256.63)	(4,159,258.84)	(4,736,428.48)
As at 31 December 2012	(301,483.76)	(462,967.79)	(103,189.83)	(4,159,258.84)	(5,026,900.22)
<b>Carrying amount</b>					
As at 31 December 2012	2,600,301.96	4,425,482.39	112,058.17	134,454,712.57	141,592,555.09
As at 31 December 2011	2,701,352.79	10,002.86	134,314.80	-	2,845,670.45

As at 31 December 2012, the carrying amount of pipelines and other equipment that have been pledged for long-term loans borrowed from United Overseas Bank (UOB) Shenzhen Branch was RMB 134,454,712.57 (2011: nil) (note 13(i)).

**9 CONSTRUCTION IN PROGRESS**

		<i>Including: Borrowing costs capitalised</i>
<b>Cost</b>		
As at 1 January 2012	136,115,313.51	6,233,257.96
Additions during the year	7,350,762.08	-
Transfer to fixed assets during the year (note 8)	(143,466,075.59)	(6,233,257.96)
As at 31 December 2012	-	-
<b>Carrying amount</b>		
As at 31 December 2012	-	-
As at 31 December 2011	136,115,313.51	-

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


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## 10 INTANGIBLE ASSETS

	<i>Software</i>
Cost	
As at 1 January/31 December 2012	15,000.00
	-----
Accumulated amortisation	
As at 1 January 2012	(10,250.00)
Charge for the year	<u>(3,000.00)</u>
As at 31 December 2012	(13,250.00)
	-----
Carrying amount	
As at 31 December 2012	<u>1,750.00</u>
As at 31 December 2011	<u>4,750.00</u>

## 11 LONG-TERM DEFERRED EXPENSES

	<i>Pre-operating expenses</i>
As at 1 January 2012	(284,840.08)
Additions during the year	148,030.07
Amortisation	<u>136,810.01</u>
As at 31 December 2012	<u>-</u>

## 12 OTHER PAYABLES

	<i>2012</i>	<i>2011</i>
Shandong Changle Salcon Water Co., Ltd.	6,438,653.59	-
Construction deposits	290,000.00	588,917.79
Others	<u>159,972.04</u>	<u>335,633.70</u>
Total	<u>6,888,625.63</u>	<u>924,551.49</u>

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

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

	2012			2011		
	Principal	Interest rate (p.a.)	Secured/ guaranteed	Principal	Interest rate (p.a.)	Secured/ guaranteed
Bank loan	70,266,536.65	(i)	(i)	72,143,759.84	(i)	(i)
Less: Long-term liabilities due within one year	(9,474,070.40)			(5,526,026.53)		
	<u>60,792,466.25</u>			<u>66,617,733.31</u>		

- (i) As at 20 October 2009, UOB Shenzhen Branch provided 5-year borrowings to the Company with the total facility of RMB 80,000,000 and the interest rate was 115% of People's Bank of China rate for 3-5 years loans. The bank loan should be repaid by instalments and was pledged by the Company's pipelines and other equipment. The bank loan was also guaranteed by Salcon Berhad, Salcon Shandong (HK) Limited and Shandong Changle Salcon Water Co., Ltd..

14 PAID-IN CAPITAL

Registered capital

	2012 and 2011	
	Amount in original currency USD	%
Salcon Shandong (HK) Limited	<u>8,680,000.00</u>	<u>100%</u>

Paid-in capital

	2012 and 2011		
	Amount in original currency USD	Amount in RMB equivalent	%
Salcon Shandong (HK) Limited	<u>8,680,000.00</u>	<u>59,136,346.50</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.

15 CAPITAL RESERVE

	2012 and 2011
Foreign currency capital translation differences	<u>67.01</u>

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


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## 16 SURPLUS RESERVE

	<i>Statutory Surplus reserve</i>
As at 1 January 2012	-
Profit appropriation (note 17)	<u>114,323.37</u>
As at 31 December 2012	<u>114,323.37</u>

## 17 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%
---------------------------	-----

## 18 SALES FROM PRINCIPAL ACTIVITIES

	<i>2012</i>	<i>2011</i>
Sales of goods	<u>15,064,269.00</u>	<u>-</u>

## 19 FINANCIAL EXPENSES

	<i>2012</i>	<i>2011</i>
Net interest expense	5,962,358.68	-
Less: interest income	(44,440.25)	-
Other financial expenses	<u>1,790.00</u>	<u>-</u>
Total	<u>5,919,708.43</u>	<u>-</u>



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

20 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 Shandong (HK) Limited	HK	Investment holding	Parent company	Limited liability company

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

	<i>At the beginning of the year HKD</i>	<i>Increase HKD</i>	<i>Decrease HKD</i>	<i>At the end of the year HKD</i>
Salcon Shandong (HK) Limited	127,488,971.00	-	-	127,488,971.00

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

	<u>2012 and 2011</u>	
	<i>RMB</i>	<i>%</i>
Salcon Shandong (HK) Limited	59,136,346.50	100%

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

	<i>Relationship with the Company</i>
Shandong Changle Salcon Water Co., Ltd. (Shandong Changle Salcon)	Fellow subsidiary
Salcon Engineering Berhad	Fellow subsidiary

(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>
Payment for related parties		
- Salcon Engineering Berhad	-	85,481.77
- Shandong Changle Salcon	40,056.16	-
Receipt of borrowings		
- Shandong Changle Salcon	5,000,000.00	-
Sale of raw water		
- Shandong Changle Salcon	11,226,728.20	-
Interest expense		
- Shandong Changle Salcon	272,666.65	-
Receipt on behalf		
- Shandong Changle Salcon	1,125,930.78	-

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


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## 20 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:  
(continued)

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

	<i>2012</i>	<i>2011</i>
Other receivables		
- Shandong Changle Salcon	40,056.16	-
Other payables		
- Shandong Changle Salcon	6,438,653.59	-
- Salcon Engineering Berhad	40,571.85	40,571.85
Accounts receivable		
- Shandong Changle Salcon	330,300.00	-

## 21 COMMITMENTS

## Capital commitments

As at 31 December 2012, capital commitments of the Company are summarised as follows:

	<i>2012</i>	<i>2011</i>
Contracted for	<u>                    -</u>	<u>3,852,678.86</u>

## 22 COMPARATIVE FIGURES

Certain items in these comparative figures of 2011 have been reclassified to conform with the current year's presentation to facilitate comparison.

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

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昌乐实康原水有限公司

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  
南京西路1266号  
恒隆广场50楼  
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 1301754 号

昌乐实康原水有限公司董事会:

我们审计了后附的第 1 页至第 18 页的昌乐实康原水有限公司(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”)和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 1301754 号

## 三、 审计意见

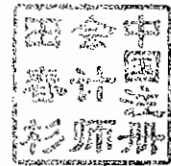
我们认为，贵公司财务报表在所有重大方面按照中华人民共和国财政部颁布的企业会计准则和《企业会计制度》的规定编制，公允反映了贵公司 2012 年 12 月 31 日的财务状况以及 2012 年度的现金流量。

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



钱迪



二〇一三年四月十九日

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

昌乐实康原水有限公司

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	3,317,984.76	4,923,468.24
应收账款	6	5,292,153.24	-
其他应收款	7	974,067.45	1,288,245.00
预付账款		67,754.62	369,000.00
待摊费用		7,454.26	-
流动资产合计		9,659,414.33	6,580,713.24
固定资产			
固定资产原价		146,619,455.31	3,136,142.19
减：累计折旧		(5,026,900.22)	(290,471.74)
固定资产净额	8	141,592,555.09	2,845,670.45
在建工程	9	-	136,115,313.51
固定资产合计		141,592,555.09	138,960,983.96
无形资产及其他资产			
无形资产	10	1,750.00	4,750.00
长期待摊费用	11	-	(284,840.08)
无形资产及其他资产合计		1,750.00	(280,090.08)
资产总计		151,253,719.42	145,261,607.12

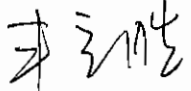
刊载于第7页至第18页的财务报表附注为本财务报表的组成部分。


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


昌乐实康原水有限公司  
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		13,721,820.72	13,049,317.28
应付工资		89,000.00	-
应交税金	4(a)	8,089.20	7,565.00
其他应付款	12	6,888,625.63	924,551.49
一年内到期的长期负债	13	9,474,070.40	5,526,026.53
流动负债合计		30,181,605.95	19,507,460.30
长期负债			
长期借款	13	60,792,466.25	66,617,733.31
长期负债合计		60,792,466.25	66,617,733.31
负债合计		90,974,072.20	86,125,193.61
所有者权益			
实收资本	14	59,136,346.50	59,136,346.50
资本公积	15	67.01	67.01
盈余公积	16	114,323.37	-
未分配利润		1,028,910.34	-
所有者权益合计		60,279,647.22	59,136,413.51
负债和所有者权益总计		151,253,719.42	145,261,607.12

此财务报表已于2013年4月19日获本公司董事会批准。

  
丰立胜  
法定代表人授权人  
(签名和盖章)

  
于宪祥  
主管会计工作的  
公司负责人  
(签名和盖章)

  
杨秋菊  
会计机构负责人  
(签名和盖章)



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

昌乐实康原水有限公司  
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	18	15,064,269.00	-
减：主营业务成本		<u>(7,364,969.94)</u>	<u>-</u>
主营业务利润		7,699,299.06	-
减：管理费用		(643,298.67)	-
财务费用	19	<u>(5,919,708.43)</u>	<u>-</u>
营业利润		1,136,291.96	-
加：营业外收入		<u>6,941.75</u>	<u>-</u>
利润总额		1,143,233.71	-
减：所得税	4(b)	<u>-</u>	<u>-</u>
净利润		1,143,233.71	-
加：年初未分配利润		<u>-</u>	<u>-</u>
可供分配的利润		1,143,233.71	-
减：提取法定盈余公积	17	<u>(114,323.37)</u>	<u>-</u>
年末未分配利润		<u>1,028,910.34</u>	<u>-</u>

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

昌乐实康原水有限公司  
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		9,772,115.76	-
收到的其他与经营活动有关的现金		<u>1,162,526.79</u>	-
现金流入小计		10,934,642.55	-
购买商品支付的现金		(1,983,917.78)	-
支付给职工以及为职工支付的现金		(709,088.58)	-
支付的各项税费		(24,031.90)	-
支付的其他与经营活动有关的现金		<u>(453,326.63)</u>	-
现金流出小计		(3,170,364.89)	-
经营活动产生的现金流量净额	i	<u>7,764,277.66</u>	-
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		<u>44,440.25</u>	-
现金流入小计		44,440.25	-
购建固定资产、无形资产和 其他长期资产所支付的现金		(6,695,496.17)	(37,652,164.58)
支付的其他与投资活动有关的现金		-	<u>(1,251,936.24)</u>
现金流出小计		(6,695,496.17)	(38,904,100.82)
投资活动使用的现金流量净额		<u>(6,651,055.92)</u>	(38,904,100.82)

刊载于第 7 页至第 18 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)

昌乐实康原水有限公司  
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		<u>8,648,803.34</u>	<u>24,527,491.97</u>
现金流入小计		<u>8,648,803.34</u>	<u>24,527,491.97</u>
偿还债务所支付的现金		(5,526,026.53)	-
偿付利息所支付的现金		(5,831,692.03)	-
支付的其他与筹资活动有关的现金		<u>(9,790.00)</u>	<u>-</u>
现金流出小计		<u>(11,367,508.56)</u>	<u>-</u>
筹资活动(使用)/产生的现金流量净额		<u>(2,718,705.22)</u>	<u>24,527,491.97</u>
现金及现金等价物净减少额	ii	<u>(1,605,483.48)</u>	<u>(14,376,608.85)</u>

刊载于第 7 页至第 18 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)

昌乐实康原水有限公司

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 将净利润调节为经营活动的现金流量:		
净利润	1,143,233.71	-
加: 固定资产折旧	4,736,428.48	-
无形资产摊销	3,000.00	-
待摊费用增加	(7,454.26)	-
长期待摊费用的增加	(284,840.08)	-
财务费用	5,919,708.43	-
经营性应收项目的增加	(4,676,730.31)	-
经营性应付项目的增加	<u>930,931.69</u>	-
经营活动产生的现金流量净额	<u>7,764,277.66</u>	-
ii 现金及现金等价物净减少情况:		
现金的年末余额	3,317,984.76	4,923,468.24
减: 现金的年初余额	<u>4,923,468.24</u>	<u>19,300,077.09</u>
现金及现金等价物净减少额	<u>(1,605,483.48)</u>	<u>(14,376,608.85)</u>

刊载于第 7 页至第 18 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)**

昌乐实康原水有限公司

财务报表附注

(金额单位：人民币元)

**1 公司基本情况**

昌乐实康原水有限公司(以下简称“本公司”)是由实康山东(香港)有限公司在中华人民共和国山东省成立的外资经营企业。本公司于2008年5月23日经批准,领取了商外资鲁府潍字[2008]0783号批准证书,并于2008年8月15日领取了潍坊市工商行政管理局颁发的370700400012292号企业法人营业执照。注册资本为632万美元。

本公司董事会决定将本公司的注册资本增加236万美元,即由632万美元增至868万美元,并于2009年9月3日取得潍坊市对外贸易经济合作局批准。本公司于2009年6月3日修订了章程,于2010年10月19日领取了更新的商外资鲁府潍字[2008]0783号批准证书,并于2010年10月20日领取了更新的370700400012292号企业法人营业执照。

本公司营业期限为30年,主要从事原水的生产销售及其他与供水相关的业务。本公司于2012年3月起正式开始生产运营。

**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。

**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。除与购建固定资产直接有关的汇兑损益(参见附注 4(g))和下文所述情况外,外币折算差异作为汇兑损益计入当期损益账户。

筹建期间的汇兑损益记入长期待摊费用,并自开始生产经营当月起一次性计入损益。

## (e) 现金等价物

现金等价物指本公司持有期限短、流动性强、易于转换为已知金额现金、价值变动风险很小的投资。

## (f) 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。

## (g) 固定资产及在建工程

固定资产指本公司为生产商品、提供劳务、出租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。在建工程以成本减减值准备(参见附注 3(j))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。

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) 固定资产及在建工程(续)

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	折旧率
厂房及建筑物	20 年	0%	5%
办公设备及其他设备	5 年	0~10%	18~20%
运输工具	8 年	10%	11.25%
管道隧洞构筑物	30 年	0%	3.33%

(h) 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(j))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 年
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(i) 开办费

除购建固定资产以外，筹建期间所发生的费用，先在长期待摊费用中归集，于企业开始生产经营当月一次计入当月的损益。

(j) 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。

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

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**3 主要会计政策(续)****(k) 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。

**(l) 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。

**(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) 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按已完工作的进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。

**(n) 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)

(o) 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, 本公司不再有其他的支持义务。

(p) 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) 应交税金

	<u>2012 年</u>	<u>2011 年</u>
代扣代缴个人所得税	1,995.45	1,477.75
房产税	<u>6,093.75</u>	<u>6,087.25</u>
合计	<u><u>8,089.20</u></u>	<u><u>7,565.00</u></u>

(b) 所得税

本公司经有关税务主管机关同意, 根据《中华人民共和国企业所得税法》及《中华人民共和国企业所得税法实施条例》的规定, 本公司的经营业务符合“国家重点扶持的公共基础设施项目投资经营的所得”的免征减征条件。本公司自项目取得第一笔生产经营收入所属纳税年度起, 第一年至第三年免征企业所得税, 第四年至第六年减半征收企业所得税。2012 年为本公司取得第一笔生产经营收入的第一个纳税年度, 因此本公司本年度免征企业所得税。



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

5 货币资金

	<u>2012 年</u>	<u>2011 年</u>
现金	792.86	1,307.86
定期存款	1,400,000.00	1,400,000.00
活期存款	<u>1,917,191.90</u>	<u>3,522,160.38</u>
合计	<u><u>3,317,984.76</u></u>	<u><u>4,923,468.24</u></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>5,292,153.24</u>	<u>100%</u>	-	-	-	-

7 其他应收款

其他应收款账龄分析如下:

	<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	55,794.67	6%	-	598,245.00	46%	-
一年至二年	798,245.00	82%	-	690,000.00	54%	-
二年至三年	<u>120,027.78</u>	<u>12%</u>	-	-	-	-
合计	<u><u>974,067.45</u></u>	<u><u>100%</u></u>	-	<u><u>1,288,245.00</u></u>	<u><u>100%</u></u>	-

于 2012 年 12 月 31 日, 一年以上的其他应收款主要为代垫工程款, 本公司认为无须计提坏账准备。

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

## 8 固定资产

	厂房及建筑物	办公设备及 其他设备	运输工具	管道隧洞 构筑物	合计
成本:					
年初余额	2,899,264.19	21,630.00	215,248.00	-	3,136,142.19
本年增加	2,521.53	14,716.00	-	-	17,237.53
在建工程转入 (注释 9)	-	4,852,104.18	-	138,613,971.41	143,466,075.59
年末余额	2,901,785.72	4,888,450.18	215,248.00	138,613,971.41	146,619,455.31
累计折旧:					
年初余额	(197,911.40)	(11,627.14)	(80,933.20)	-	(290,471.74)
本年计提折旧	(103,572.36)	(451,340.65)	(22,256.63)	(4,159,258.84)	(4,736,428.48)
年末余额	(301,483.76)	(462,967.79)	(103,189.83)	(4,159,258.84)	(5,026,900.22)
净额:					
年末余额	2,600,301.96	4,425,482.39	112,058.17	134,454,712.57	141,592,555.09
年初余额	2,701,352.79	10,002.86	134,314.80	-	2,845,670.45

于 2012 年 12 月 31 日, 本公司以上固定资产中的管道隧洞构筑物已作为本公司由大华银行(中国)有限公司深圳分行(“大华银行深圳分行”)借入的长期银行借款的抵押物(参见附注 13(i)), 其账面净值为人民币 134,454,712.57 元(2011: 无)。

## 9 在建工程

		其中: 借款费用 资本化金额
成本		
年初余额	136,115,313.51	6,233,257.96
本年增加	7,350,762.08	-
转入固定资产(注释 8)	(143,466,075.59)	(6,233,257.96)
年末余额	-	-
净额		
年末余额	-	-
年初余额	136,115,313.51	-

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

## 10 无形资产

	<u>软件</u>
成本	
年初及年末余额	15,000.00
	-----
累计摊销	
年初余额	(10,250.00)
本年增加	(3,000.00)
	-----
年末余额	(13,250.00)
	-----
净额	
年末余额	<u>1,750.00</u>
年初余额	<u>4,750.00</u>

## 11 长期待摊费用

	<u>开办费</u>
年初余额	(284,840.08)
本年增加	148,030.07
转入当期损益	<u>136,810.01</u>
年末余额	<u>-</u>

## 12 其他应付款

	<u>2012 年</u>	<u>2011 年</u>
山东昌乐实康水业有限公司	6,438,653.59	-
工程保证金	290,000.00	588,917.79
其他	<u>159,972.04</u>	<u>335,633.70</u>
合计	<u>6,888,625.63</u>	<u>924,551.49</u>

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

## 13 长期借款/一年内到期的长期负债

	2012 年			2011 年		
	金额	期限及 年利率	抵押/担保	金额	期限及 年利率	抵押/担保
银行借款	70,266,536.65	(i)	(i)	72,143,759.84	(i)	(i)
减: 一年内到期 的长期负债	<u>(9,474,070.40)</u>			<u>(5,526,026.53)</u>		
	<u>60,792,466.25</u>			<u>66,617,733.31</u>		

(i) 于 2009 年 10 月 20 日, 大华银行深圳分行向本公司提供总额度为人民币 80,000,000 元的贷款, 期限为 5 年, 分期偿还, 适用的年利率为中国人民银行同档期人民币贷款基准利率的 115%。本公司固定资产中的管道隧洞构筑物作为该贷款的抵押物。Salcon Berhad、实康山东(香港)有限公司以及山东昌乐实康水业有限公司为该贷款提供担保。

## 14 实收资本

注册资本	2012 年及 2011 年	
	金额 美元	%
实康山东(香港)有限公司	<u>8,680,000.00</u>	<u>100%</u>
实收资本	2012 年及 2011 年	
	原币金额 美元	金额 等值人民币
实康山东(香港)有限公司	<u>8,680,000.00</u>	<u>59,136,346.50</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。

## 15 资本公积

	2012 年及 2011 年
资本溢价	<u>67.01</u>

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

16	盈余公积		
		注	<u>法定盈余公积</u>
	年初余额		-
	利润分配	17	<u>114,323.37</u>
	年末余额		<u><u>114,323.37</u></u>
17	利润分配		
	提取各项基金		
	本公司按公司章程于提取以下各项基金：		
	提取法定盈余公积		10%
18	主营业务收入		
		<u>2012 年</u>	<u>2011 年</u>
	销售商品收入	<u>15,064,269.00</u>	<u>-</u>
19	财务费用		
		<u>2012 年</u>	<u>2011 年</u>
	净利息支出	5,962,358.68	-
	减：利息收入	(44,440.25)	-
	其他财务费用	<u>1,790.00</u>	<u>-</u>
	合计	<u><u>5,919,708.43</u></u>	<u><u>-</u></u>

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

20 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>
实康山东(香港)有限公司	香港	投资控股	母公司	有限公司

存在控制关系的关联方的注册资本及其变化

	<u>年初数</u> 港币	<u>本年增加</u> 港币	<u>本年减少</u> 港币	<u>年末数</u> 港币
实康山东(香港)有限公司	127,488,971.00	-	-	127,488,971.00

存在控制关系的关联方所持股份或权益及其变化

	<u>年初及年末数</u>	
	金额	%
实康山东(香港)有限公司	59,136,346.50	100%

(b) 不存在控制关系的关联方

	<u>与本公司关系</u>
山东昌乐实康水业有限公司(“昌乐实康水业”)	同一母系子公司
Salcon Engineering Berhad	同一母系子公司

(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:

	<u>2012年</u>	<u>2011年</u>
垫付费用		
- Salcon Engineering Berhad	-	85,481.77
- 昌乐实康水业	40,056.16	-
取得借款		
- 昌乐实康水业	5,000,000.00	-
销售原水		
- 昌乐实康水业	11,226,728.20	-
利息费用		
- 昌乐实康水业	272,666.65	-
其他代收款项		
- 昌乐实康水业	1,125,930.78	-

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

20 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收及应付款余额列示如下:

	<u>2012 年</u>	<u>2011 年</u>
其他应收款		
- 昌乐实康水业	40,056.16	-
其他应付款		
- 昌乐实康水业	6,438,653.59	-
- Salcon Engineering Berhad	40,571.85	40,571.85
应收账款		
- 昌乐实康水业	330,300.00	-

21 承担

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>
已订合同	-	3,852,678.86

22 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。

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**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SALCON AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON**


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**KPMG (Firm No. AF 0758)**  
Chartered Accountants  
Level 10, KPMG Tower  
8, First Avenue, Bandar Utama  
47800 Petaling Jaya  
Selangor Darul Ehsan, Malaysia

Telephone +60 (3) 7721 3388  
Fax +60 (3) 7721 3399  
Internet www.kpmg.com.my

The Board of Directors  
Salcon Berhad  
15<sup>th</sup> Floor, Menara Summit  
Persiaran Kewajipan USJ 1  
47600 UEP Subang Jaya  
Selangor Darul Ehsan

31 October 2013

Dear Sirs

**Salcon Berhad**  
**Report on the Compilation of Pro Forma Consolidated Financial Information Included in the Circular in Conjunction with the Proposed Disposals of Target Companies**

We have completed our assurance engagement to report on the compilation of pro forma consolidated financial information of Salcon Berhad (“Salcon” or “the Company”) and its subsidiaries, (hereinafter referred to as “the Group”) taking into account the subsidiaries to be disposed of, namely Salcon Darco Environmental Pte Ltd (“Salcon Darco”), Salcon Jiangsu (HK) Limited (“Salcon Jiangsu”), Salcon Fujian (HK) Limited (“Salcon Fujian”), Salcon Zhejiang (HK) Limited (“Salcon Zhejiang”), Salcon Linyi (HK) Limited (“Salcon Linyi”), and Salcon Shandong (HK) Limited (“Salcon Shangdong”) (collectively referred to as “Target Companies”), by the Board of Directors of the Company. The pro forma consolidated financial information is to be included in the Circular in conjunction with the proposed disposals of Target Companies. The pro forma consolidated financial information consists of the pro forma consolidated statement of financial position as at 31 December 2012 together with the accompanying notes, as set out in the accompanying statements, for which we have stamped for the purpose of identification.

The pro forma consolidated financial information has been compiled by the Board of Directors to illustrate the impact of the pro forma transactions (hereinafter defined) on the Group’s financial position as at 31 December 2012. As part of this process, information about the Group’s financial position has been extracted by the Board of Directors from the Target Companies’ financial statements for the year ended 31 December 2012 on which audit reports have been issued.



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**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SALCON AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON**  
**(Cont'd)**

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**Report on the Compilation of Pro Forma Consolidated Financial Information Included in the Circular in Conjunction with the Proposed Disposals of Target Companies (continued)**

The pro forma consolidated financial information has incorporated certain material transactions which have occurred subsequent to 31 December 2012 as well as the Proposed Disposals defined as follows:

- (i) Material transactions subsequent to 31 December 2012
  - a. Private placement of Salcon shares, grant and exercise of employee share options scheme ("Options"); and
  - b. Acquisition of remaining equity interests in Salcon Darco from non-controlling interests ("NCI").
- (ii) Proposed Disposal of Target Companies

**Directors' Responsibility for the Pro Forma Consolidated Financial Information**

The Board of Directors is responsible for the compilation of the pro forma consolidated financial information. The basis and pro forma transactions used in the compilation are described in Note 1 of Appendix I.

**Reporting Accountants' Responsibilities**

Our responsibility is to express an opinion, about whether the pro forma consolidated financial information has been compiled, in all material respects, by the Board of Directors on the basis described in Note 1 of Appendix I.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Board of Directors has compiled, in all material respects, the pro forma consolidated financial information on the basis described in Note 1 of Appendix I.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma consolidated financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma consolidated financial information.

The purpose of pro forma consolidated financial information is solely to illustrate the impact of the pro forma transactions as described in Note 1 of Appendix I on the financial information of the Group as if the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transactions at 31 December 2012 would have been as presented.

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SALCON AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (Cont'd)**

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**Report on the Compilation of Pro Forma Consolidated Financial Information Included in the Circular in Conjunction with the Proposed Disposals of Target Companies (continued)**

**Reporting Accountants' Responsibilities (continued)**

A reasonable assurance engagement to report on whether the pro forma consolidated financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Board of Directors in the compilation of the pro forma consolidated financial information provide a reasonable basis for presenting the significant effects directly attributable to the transactions, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma consolidated financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the transactions in respect of which the pro forma consolidated financial information have been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma consolidated financial information.

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

**Opinion**

In our opinion, the pro forma consolidated financial information has been properly compiled, in all material respects, on the basis stated in the notes to the pro-forma consolidated financial information.

**Other Matters**

This letter has been prepared for inclusion in the Circular in conjunction with the proposed disposals of Target Companies and should not be relied upon for any other purposes.

A handwritten signature in black ink, appearing to be 'KPM' followed by a long, sweeping flourish.

**KPMG**  
Firm No. AF 0758  
Chartered Accountants

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SALCON AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON  
(Cont'd)

*Appendix I*

**SALCON BERHAD  
("SALCON" OR "THE COMPANY")  
AND ITS SUBSIDIARIES ("THE GROUP")**

**NOTES TO THE PRO FORMA  
CONSOLIDATED FINANCIAL INFORMATION**

**1. Basis of preparation**

Salcon is a public listed company with an authorised share capital of RM500,000,000 comprising 1,000,000,000 ordinary shares of RM0.50 each and issued and fully paid-up share capital of RM260,869,292 comprising 521,738,584 ordinary shares of RM0.50 each.

On 12 September 2013, the Company entered into the following agreements with Beijing Enterprises Water Group Limited ("BEWG") for the proposed disposals of the Target Companies:

- (i) conditional sale and purchase agreement between Salcon and BEWG for the proposed disposals by Salcon of the entire equity interests held in Salcon Darco and Salcon Jiangsu; and
- (ii) conditional sale and purchase agreement between Salcon, Salcon Water (Asia) Limited ("Salcon Water"), a subsidiary of Salcon and BEWG for the proposed disposals by Salcon and Salcon Water of the entire equity interests held in Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong to BEWG,

for a total cash consideration of RMB955.00 million (equivalent to approximately RM494.88 million based on the exchange rate of RMB1: RM0.5182. This exchange rate may differ at the date of completion.); of which RMB22.00 million is contingent consideration receivable upon fulfilling certain condition precedents as set out in the aforementioned conditional sale and purchase agreements.

The pro forma consolidated financial information consists of the pro forma consolidated statement of financial position of the Group after taking into account the effect of the aforementioned proposed disposals as at 31 December 2012.

The pro forma consolidated financial information has been prepared using the audited financial statements of the Group for the financial year ended 31 December 2012 prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards and in a manner consistent with the format of the statement of financial position, and the accounting policies adopted by the Group.

The pro forma consolidated statement of financial position as at 31 December 2012 is prepared for illustrative purposes only to show the effects of the pro forma transactions, as described below, with the assumption that these transactions were completed on the same date.

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SALCON AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON  
(Cont'd)

*Appendix I*

**SALCON BERHAD  
("SALCON" OR "THE COMPANY")  
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**NOTES TO THE PRO FORMA  
CONSOLIDATED FINANCIAL INFORMATION**

**1. Basis of preparation (continued)**

**Pro forma I - Private Placement, Grant, and Exercise of ESOS options ("Options")**

Pro forma I is prepared after incorporating the private placement of 54,025,268 Salcon Shares at an issue price of RM0.585 per share which was completed on 20 August 2013, 30,135,250 Options granted on 14 May 2013, and 24,712,400 Options which were exercised during 2 May 2013 to 4 September 2013 at an exercise price ranging from RM0.50 to RM0.57.

**Pro forma II – Acquisition of Remaining Equity Interests in a Subsidiary from non-controlling interests ("NCI")**

Pro forma II is prepared after incorporating transactions as described in Pro forma I and the acquisition of remaining 40% equity interests in Salcon Darco for a total cash consideration of RMB63.00 million (equivalent to approximately RM32.69 million). The said acquisition was completed on 26 July 2013.

**Pro forma III - Disposal of Target Companies**

Pro forma III is prepared after incorporating transactions as described in Pro forma I and Pro forma II and the proposed disposal of the Target Companies as follows:

- (i) proposed disposals by Salcon of the entire equity interests held in Salcon Darco and Salcon Jiangsu ; and
- (ii) proposed disposals by Salcon and Salcon Water (Asia) Limited of the entire equity interests held in Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong to BEWG.

The effect of the aforementioned transaction on the cash and cash equivalents are as follows:

	<b>RMB'000</b>	<b>RM'000</b>
Total cash consideration	955,000	494,881
Adjusted for contingent consideration	(22,000)	(11,400)
Net of cash and cash equivalents disposed of	(92,090)	(47,721)
Net cash flow	<u>840,910</u>	<u>435,760</u>

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SALCON AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (Cont'd)**

*Appendix I*

**SALCON BERHAD  
("SALCON" OR "THE COMPANY")  
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**PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

**Pro forma consolidated statement of financial position**

The pro forma consolidated statement of financial position of the Group as set out below are prepared solely for illustrative purposes only to show the effects had the transactions been effected on 31 December 2012.

			Pro forma I	Pro forma II After Pro forma I and acquisition of remaining equity interests in a subsidiary from NCI	Pro forma III After Pro forma I, II and disposal of Target Companies
	Note	Audited as at 31 December 2012 RM'000	Private placement, grant and exercise of Options RM'000	RM'000	RM'000
<b>Assets</b>					
Property, plant and equipment	a	81,219	81,219	81,219	78,222
Intangible assets	b	138,704	138,704	138,704	3,528
Trade and other receivables	c	515,236	515,236	515,236	-
Investment properties		8,446	8,446	8,446	8,446
Investment in associate		28,329	28,329	28,329	28,329
Other investments		86	86	86	86
Deferred tax assets		2,420	2,420	2,420	2,420
<b>Total non-current assets</b>		<b>774,440</b>	<b>774,440</b>	<b>774,440</b>	<b>121,031</b>
Trade and other receivables, including derivatives	d	309,674	309,674	309,674	203,195
Inventories	e	26,404	26,404	26,404	22,472
Current tax assets		1,366	1,366	1,366	1,366
Cash and cash equivalents	f	115,392	159,695	127,008	560,511
<b>Total current assets</b>		<b>452,836</b>	<b>497,139</b>	<b>464,452</b>	<b>787,544</b>
<b>Total assets</b>		<b>1,227,276</b>	<b>1,271,579</b>	<b>1,238,892</b>	<b>908,575</b>
<b>Equity</b>					
Share capital	g	260,869	300,238	300,238	300,238
Share premium	h	36,627	45,363	45,363	45,363
Warrant reserve		22,150	22,150	22,150	22,150
Translation reserve	i	13,309	13,309	13,309	5,599
Share option reserve	j	3,909	4,538	4,538	4,538
Retained earnings	k	79,691	75,260	82,162	153,274
<b>Total equity attributable to owners of the Company</b>		<b>416,555</b>	<b>460,858</b>	<b>467,760</b>	<b>531,162</b>
<b>Non-controlling interests</b>	l	<b>225,490</b>	<b>225,490</b>	<b>185,901</b>	<b>141,589</b>
<b>Total equity</b>		<b>642,045</b>	<b>686,348</b>	<b>653,661</b>	<b>672,751</b>

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SALCON AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON  
(Cont'd)

## Appendix I

SALCON BERHAD  
("SALCON" OR "THE COMPANY")  
AND ITS SUBSIDIARIES ("THE GROUP")

## PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

## Pro forma consolidated statement of financial position (continued)

	Note	Audited as at 31 December 2012 RM'000	Pro forma I  Private placement, grant and exercise of Options RM'000	Pro forma II  After Pro forma I and acquisition of remaining equity interests in a subsidiary from NCI RM'000	Pro forma III  After Pro forma I, II and disposal of Target Companies RM'000
<b>Liabilities</b>					
Loans and borrowings	m	71,506	71,506	71,506	83,729
Deferred tax liabilities	n	6,495	6,495	6,495	4,128
<b>Total non-current liabilities</b>		<b>78,001</b>	<b>78,001</b>	<b>78,001</b>	<b>87,857</b>
Trade and other payables, including derivatives	o	230,429	230,429	230,429	103,361
Loans and borrowings	m	272,154	272,154	272,154	42,837
Current tax liabilities	p	4,647	4,647	4,647	1,769
<b>Total current liabilities</b>		<b>507,230</b>	<b>507,230</b>	<b>507,230</b>	<b>147,967</b>
<b>Total liabilities</b>		<b>585,231</b>	<b>585,231</b>	<b>585,231</b>	<b>235,824</b>
<b>Total equity and liabilities</b>		<b>1,227,276</b>	<b>1,271,579</b>	<b>1,238,892</b>	<b>908,575</b>
Number of shares outstanding ('000)		521,738	600,476	600,476	600,476
Net assets attributable to owners of the Company (RM'000)		416,555	460,858	467,760	531,162
Net assets per share attributable to owners of the Company (RM)		0.80	0.77	0.78	0.88

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SALCON AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON  
(Cont'd)

*Appendix I*

SALCON BERHAD  
("SALCON" OR "THE COMPANY")  
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PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

Effect on the pro forma consolidated statement of financial position

<b>a. Movement in property, plant and equipment</b>	<b>RM'000</b>
Balance at 31 December 2012/after Pro forma I and II	81,219
Effect of Pro forma III:-	
Disposal of Target Companies	(2,997)
	<u>78,222</u>
Balance after Pro forma I, II and III	<u>78,222</u>
<b>b. Movement in intangible assets</b>	<b>RM'000</b>
Balance at 31 December 2012/after Pro forma I and II	138,704
Effect of Pro forma III:-	
Disposal of Target Companies	(135,176)
	<u>3,528</u>
Balance after Pro forma I, II and III	<u>3,528</u>
<b>c. Movement in trade and other receivables (non-current)</b>	<b>RM'000</b>
Balance at 31 December 2012/after Pro forma I and II	515,236
Effect of Pro forma III:-	
Disposal of Target Companies	(515,236)
	<u>-</u>
Balance after Pro forma I, II and III	<u>-</u>
<b>d. Movement in trade and other receivables, including derivatives (current)</b>	<b>RM'000</b>
Balance at 31 December 2012/after Pro forma I and II	309,674
Effect of Pro forma III:-	
Disposal of Target Companies	(106,479)
	<u>203,195</u>
Balance after Pro forma I, II and III	<u>203,195</u>

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SALCON AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON  
(Cont'd)

*Appendix I*

SALCON BERHAD  
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PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

Effect on the pro forma consolidated statement of financial position (continued)

e. Movement in inventories

	RM'000
Balance at 31 December 2012/after Pro forma I and II	26,404
Effect of Pro forma III:-	
Disposal of Target Companies	(3,932)
	<u>          </u>
Balance after Pro forma I, II and III	<u>22,472</u>

f. Movement in cash and cash equivalents

	RM'000
Balance at 31 December 2012	115,392
Effects of Pro forma I:-	
Private placement	31,604
Options exercised	12,699
	<u>          </u>
Balance after Pro forma I	159,695
Effect of Pro forma II:-	
Acquisition of remaining equity interests in a subsidiary from NCI	(32,687)
	<u>          </u>
Balance after Pro forma I and II	127,008
Effects of Pro forma III:-	
Disposal of Target Companies	433,503
	<u>          </u>
Balance after Pro forma I, II and III	<u>560,511</u>

g. Movement in share capital

	RM'000
Balance at 31 December 2012	260,869
Effect of Pro forma I:-	
Private placement	27,013
Options exercised	12,356
	<u>          </u>
Balance after Pro forma I, II and III	<u>300,238</u>



**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SALCON AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (Cont'd)**

*Appendix I*

**SALCON BERHAD  
("SALCON" OR "THE COMPANY")  
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**PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

**Effect on the pro forma consolidated statement of financial position (continued)**

**h. Movement in share premium**

	<b>RM'000</b>
Balance at 31 December 2012	36,627
Effect of Pro forma I:-	
Private placement	4,592
Options exercised	4,144
	<hr/>
Balance after Pro forma I, II and III	45,363
	<hr/> <hr/>

**i. Movement in translation reserve**

	<b>RM'000</b>
Balance at 31 December 2012/after Pro forma I and II	13,309
Effect of Pro forma III:-	
Disposal of Target Companies	(7,710)
	<hr/>
Balance after Pro forma I, II and III	5,599
	<hr/> <hr/>

**j. Movement in share option reserve**

	<b>RM'000</b>
Balance at 31 December 2012	3,909
Effect of Pro forma I:-	
Options granted	4,431
Options exercised	(3,802)
	<hr/>
Balance after Pro forma I, II and III	4,538
	<hr/> <hr/>

**k. Movement in retained earnings**

	<b>RM'000</b>
Balance at 31 December 2012	79,691
Effects of Pro forma I:-	
Options granted	(4,431)
	<hr/>
Balance after Pro forma I	75,260
Effect of Pro forma II:-	
Acquisition of remaining equity interests in a subsidiary from NCI	6,902
	<hr/>
Balance after Pro forma I and II	82,162
Effects of Pro forma III:-	
Gain on disposal of Target Companies	71,112
	<hr/>
Balance after Pro forma I, II and III	153,274
	<hr/> <hr/>

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SALCON AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (Cont'd)**

*Appendix I*

**SALCON BERHAD  
("SALCON" OR "THE COMPANY")  
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**PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

**Effect on the pro forma consolidated statement of financial position (continued)**

<b>i. Movement in non-controlling interests</b>	<b>RM'000</b>
Balance at 31 December 2012/after Pro forma I	225,490
Effect of Pro forma II:-	
Acquisition of remaining equity interests in a subsidiary from NCI	(39,589)
	<hr/>
Balance after Pro forma I and II	185,901
Effect of Pro forma III:-	
Disposal of Target Companies	(44,312)
	<hr/>
Balance after Pro forma I, II and III	<u>141,589</u>
<b>m. Movement in loans and borrowings</b>	<b>RM'000</b>
Balance at 31 December 2012/after Pro forma I and II	343,660
Effect of Pro forma III:-	
Disposal of Target Companies	(217,094)
	<hr/>
Balance after Pro forma I, II and III	<u>126,566</u>
<b>n. Movement in deferred tax liabilities</b>	<b>RM'000</b>
Balance at 31 December 2012/after Pro forma I and II	6,495
Effect of Pro forma III:-	
Disposal of Target Companies	(2,367)
	<hr/>
Balance after Pro forma I, II and III	<u>4,128</u>
<b>o. Movement in trade and other payables, including derivatives</b>	<b>RM'000</b>
Balance at 31 December 2012/after Pro forma I and II	230,429
Effect of Pro forma III:-	
Disposal of Target Companies	(127,068)
	<hr/>
Balance after Pro forma I, II and III	<u>103,361</u>

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SALCON AS AT 31 DECEMBER 2012 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON  
(Cont'd)

*Appendix I*

SALCON BERHAD  
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PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

Effect on the pro forma consolidated statement of financial position (continued)

p. Movement in current tax liabilities

	RM'000
Balance at 31 December 2012/after Pro forma I and II	4,647
Effect of Pro forma III:-	
Disposal of Target Companies	(2,878)
	<hr/>
Balance after Pro forma I, II and III	1,769
	<hr/> <hr/>

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**FURTHER INFORMATION**


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**1. DIRECTORS' RESPONSIBILITY STATEMENT**

This Circular has been seen and approved by the Directors and they collectively and individually accept full responsibility for the accuracy of the information given herein and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement in this Circular misleading.

**2. CONSENT AND CONFLICT OF INTEREST****2.1 HLIB**

HLIB has given and has not subsequently withdrawn its written consent to the inclusion of its name and all references thereto in the form and context in which they so appear in this Circular. HLIB has given its written confirmation that it is not aware of any conflict of interest, which exists or is likely to exist in its capacity as the Adviser for the Proposed Disposals.

**2.2 KPMG**

KPMG has given and has not subsequently withdrawn its written consent to the inclusion of its name, Reporting Accountants' letter on the proforma consolidated statement of financial position of Salcon as at 31 December 2012, and all references thereto in the form and context in which they so appear in this Circular. KPMG has given its written confirmation that it is not aware of any conflict of interest, which exists or is likely to exist in its capacity as the Reporting Accountants for the Proposed Disposals.

**3. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES**

Save as disclosed below, as at 30 June 2013 (being the date of the latest available unaudited consolidated financial statements of our Company for the 6 months FPE 30 June 2013), our Board is not aware of any material commitments or any contingent liabilities incurred by the Group that is likely to have a material impact on the Group's financial position:

<b><u>Contingent Liabilities:</u></b>	<b><u>RM'000</u></b>
Bank guarantees given to third parties relating to performance, tenders and advance payment bonds in relation to subsidiaries of Salcon	97,967
Guarantees given in favour of third parties in relation to subsidiaries of Salcon	10,918
<b>Total</b>	<b><u>108,885</u></b>

**4. DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents are available for inspection at the registered office of Salcon at 15<sup>th</sup> Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan during normal business hours (except public holidays) from the date of this Circular up to and including the date of the EGM:

- (a) Memorandum and Articles of Association of Salcon, the Target Companies and their subsidiaries;
- (b) the letters of consent referred to in Section 2 above;

**FURTHER INFORMATION (Cont'd)**

- (c) the audited consolidated financial statements of Salcon for the past two (2) FYE 31 December 2011 and 2012 and the latest unaudited consolidated financial statements of Salcon for the six (6)-month FPE 30 June 2013;
- (d) the audited financial statements of the respective Target Companies and their subsidiaries for the past two (2) FYE 31 December 2011 and 2012 and the unaudited financial statements of the respective Target Companies and their subsidiaries for the six (6)-month FPE 30 June 2013;
- (e) the proforma consolidated statement of financial position of Salcon as at 31 December 2012 and the Reporting Accountants' letter referred to in Appendix IX of this Circular;
- (f) the SPAs relating to the Proposed Disposals;
- (g) the material contracts as disclosed in Section 7 of Appendix II; and
- (h) the relevant cause papers in respect of the material litigation as disclosed in Section 8 of Appendix I.

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**SALCON BERHAD**  
(Company No.: 593796-T)  
(Incorporated in Malaysia under the Companies Act, 1965)

### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** an Extraordinary General Meeting (“**EGM**”) of Salcon Berhad (“**Salcon**” or the “**Company**”) will be held at Victorian Ballroom, Level 1, Holiday Villa Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Wednesday, 27 November 2013 at 9.30 a.m., for the purpose of considering and if thought fit, passing the following resolution, with or without any modifications:

#### **ORDINARY RESOLUTION**

##### **PROPOSED DISPOSALS OF THE ENTIRE EQUITY INTERESTS HELD IN THE FOLLOWING:**

- (I) SALCON DARCO ENVIRONMENTAL PTE LTD (“SALCON DARCO”);**
- (II) SALCON JIANGSU (HK) LIMITED (“SALCON JIANGSU”);**
- (III) SALCON FUJIAN (HK) LIMITED (“SALCON FUJIAN”);**
- (IV) SALCON ZHEJIANG (HK) LIMITED (“SALCON ZHEJIANG”);**
- (V) SALCON LINYI (HK) LIMITED (“SALCON LINYI”); AND**
- (VI) SALCON SHANDONG (HK) LIMITED (“SALCON SHANDONG”),**

for a total cash consideration of RMB955.0 million (“**Proposed Disposals**”).

“**THAT**, subject to the approvals being obtained from the relevant authorities, approval be and is hereby given to the Company to:

- (i) dispose of 25,768,459 shares in Salcon Darco, representing the entire issued and paid-up share capital of Salcon Darco to Beijing Enterprises Water Group Limited (“**BEWG**”) for a cash consideration of RMB212.0 million;
- (ii) dispose of 1,000 shares of USD1.00 each in Salcon Jiangsu, representing the entire issued and paid-up share capital of Salcon Jiangsu to BEWG for a cash consideration of RMB95.0 million;
- (iii) dispose of 1 share of HKD1.00 each in Salcon Fujian, representing 0.01% of the issued and paid-up share capital of Salcon Fujian and dispose of 84,617,949 shares of HKD1.00 each in Salcon Fujian via Salcon Water (Asia) Limited (“**Salcon Water Asia**”), a 60%-owned subsidiary of Salcon, representing 99.99% of the issued and paid-up share capital of Salcon Fujian, to BEWG for a total cash consideration of RMB88.0 million;
- (iv) dispose of 1 share of HKD1.00 each in Salcon Zhejiang, representing 0.01% of the issued and paid-up share capital of Salcon Zhejiang and dispose of 61,829,944 shares of HKD1.00 each in Salcon Zhejiang via Salcon Water Asia, representing 99.99% of the issued and paid-up share capital of Salcon Zhejiang, to BEWG for a total cash consideration of RMB150.0 million;
- (v) dispose of 1 share of HKD1.00 each in Salcon Linyi, representing 0.01% of the issued and paid-up share capital of Salcon Linyi and dispose of 40,345,801 shares of HKD1.00 each in Salcon Linyi via Salcon Water Asia, representing 99.99% of the issued and paid-up share capital of Salcon Linyi, to BEWG for a total cash consideration of RMB130.0 million; and

- (vi) dispose of 1 share of HKD1.00 each in Salcon Shandong, representing 0.01% of the issued and paid-up share capital of Salcon Shandong and dispose of 127,488,970 shares of HKD1.00 each in Salcon Shandong via Salcon Water Asia, representing 99.99% of the issued and paid-up share capital of Salcon Shandong, to BEWG for a total cash consideration of RMB280.0 million.

in accordance with the terms and conditions of the conditional sale and purchase agreement dated 12 September 2013 entered into between Salcon and BEWG and conditional sale and purchase agreement dated 12 September 2013 entered into between Salcon, Salcon Water Asia and BEWG;

**AND THAT** the Directors of the Company be and are hereby authorised to do all such acts, deeds and things as they may consider necessary or expedient to give full effect to the aforesaid Proposed Disposals with full power to assent to any conditions, modifications, variations and/or amendments to the terms of the aforesaid Proposed Disposals as may be required and to execute, deliver and/or cause to be delivered such documents and agreements in connection therewith."

#### **BY ORDER OF THE BOARD**

**Ng Yen Hoong (LS 008016)**  
**Lim Poh Yen (MAICSA 7009475)**  
Company Secretaries

Kuala Lumpur  
12 November 2013

#### *Notes:*

- 1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote at the meeting except where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, in which event it may appoint not more than two (2) proxies in respect of each Securities Account it holds in ordinary shares of the Company standing to the credit of the said Securities Account.*
- 2. For an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
- 3. Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the appointments shall be invalid unless the proportion of shareholdings to be represented by each proxy is specified in the instrument appointing the proxies. A proxy may but need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply.*
- 4. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.*
- 5. The instrument appointing a proxy must be deposited at the Registered Office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.*
- 6. Only members whose names appear in the Record of Depositors as at 20 November 2013 will be entitled to attend, speak and vote at the meeting or appoint proxy(ies) to attend, speak and vote on their behalf.*



**Proxy Form**

I/We .....  
(PLEASE USE BLOCK/CAPITAL)

of .....  
(FULL ADDRESS)

being a member/members of **SALCON BERHAD** (Company No.: 593796-T) hereby appoint  
..... of .....  
..... or failing whom, .....  
of .....

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf, at the Extraordinary General Meeting of the Company to be held at Victorian Ballroom, Level 1, Holiday Villa Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Wednesday, 27 November 2013 at 9.30 a.m., or at any adjournment thereof.

	*For	*Against
Ordinary Resolution : Proposed Disposals		

(\*Please indicate with 'X' in the space provided above how you wish your vote to be cast. If no instruction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.)

Dated this ..... day of ..... 2013

**Number of shares held:**

If more than 1 proxy, please specify number of shares represented by each proxy  
**Name of Proxy 1:**  
**Name of Proxy 2:**

.....  
**Signature of Shareholder(s) or Common Seal**

**Notes:**

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6. Only members whose names appear in the Record of Depositors as at 20 November 2013 will be entitled to attend, speak and vote at the meeting or appoint proxy(ies) to attend, speak and vote on their behalf.





Fold this flap for sealing

Then fold here

AFFIX  
STAMP

SALCON BERHAD (593796-T)  
15th Floor, Menara Summit  
Persiaran Kewajipan, USJ 1  
47600 UEP Subang Jaya  
Selangor Darul Ehsan  
Malaysia

1st fold here