

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

Shareholders of Salcon Berhad ("**Salcon**" or the "**Company**") should rely on their own evaluation to assess the merits and risks of the Proposed Disposals (as defined herein). If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or any other professional adviser immediately.

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SALCON BERHAD
(Company No.: 593796-T)
(Incorporated in Malaysia under the Companies Act, 1965)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE

PROPOSED DISPOSALS OF THE ENTIRE EQUITY INTERESTS HELD IN THE FOLLOWING:

- (I) **SALCON DARCO ENVIRONMENTAL PTE LTD**
- (II) **SALCON JIANGSU (HK) LIMITED**
- (III) **SALCON FUJIAN (HK) LIMITED**
- (IV) **SALCON ZHEJIANG (HK) LIMITED**
- (V) **SALCON LINYI (HK) LIMITED**
- (VI) **SALCON SHANDONG (HK) LIMITED**

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Adviser



Hong Leong Investment Bank Berhad (10209-W)

(A Participating Organisation of Bursa Malaysia Securities Berhad)
(A Trading Participant of Bursa Malaysia Derivatives Berhad)

The notice of Extraordinary General Meeting ("**EGM**") 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 any adjournment thereof, together with the Proxy Form are enclosed in this Circular.

As a shareholder, you can appoint a proxy or proxies to attend and vote on your behalf. You must complete and deposit the Proxy Form at the Registered Office of the Company at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya not later than 48 hours before the time set for the EGM or any adjournment thereof. You are not precluded from attending and voting in person at the EGM should you wish to do so subsequent to the lodging of the Proxy Form.

Last date and time for lodging the Proxy Form : Monday, 25 November 2013, at 9.30 a.m.

Date and time of the EGM : Wednesday, 27 November 2013, at 9.30 a.m.

This Circular is dated 12 November 2013

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:

“Act”	: The Companies Act, 1965
“BEWG” or “Purchaser”	: Beijing Enterprises Water Group Limited
“Board”	: Board of Directors of Salcon
“Bursa Securities”	: Bursa Malaysia Securities Berhad
“Changle Raw Water”	: Changle Salcon Raw Water Company Limited
“Circular”	: This circular dated 12 November 2013 to the shareholders of Salcon
“Completion Date-A”	: 3 rd business day after the date of fulfilment or waiver of the Conditions-A as defined in Section 2.3.2 of this Circular (other than the completion of the SPA-B) or such other date the parties may agree in writing
“Completion Date-B”	: 3 rd business day after the date of fulfilment or waiver of the Conditions-B as defined in Section 2.4.2 of this Circular or such other date the parties may agree in writing
“Completion Date”	: Completion Date-A and Completion Date-B, collectively
“Completion Management Accounts”	: Management accounts of all the Target Companies-A and Target Companies-B as the last date of the month immediately preceding the Completion Date
“Concession(s)”	: Concession(s) held by Salcon in the PRC via certain of its subsidiaries relating to the provision of services for water treatment, sewage treatment, raw water supply/transfer and treated water supply/transfer
“Deqing Darco”	: Deqing Darco Producing Water Company Limited
“Deqing Huanzhong”	: Deqing Huanzhong Producing Water Company Limited
“Disposal Consideration”	: A cash consideration of RMB955.0 million (equivalent to approximately RM494.88 million) for the disposal of the Target Companies pursuant to the SPAs, subject to adjustments in accordance with the terms of the SPA-A and SPA-B
“EGM”	: Extraordinary General Meeting
“EMIF”	: Challenger Emerging Market Infrastructure Fund Pte. Ltd
“EPS”	: Earnings per Share
“FPE”	: Financial period ended
“FYE”	: Financial year ended/ending, as the case may be
“GDV”	: Gross development value
“Globe Industrial”	Globe Industrial Technology Company Limited

DEFINITIONS (Cont'd)

"Haining Water"	:	Haining Salcon Water Company Limited
"HLIB"	:	Hong Leong Investment Bank Berhad
"Jiangsu Water"	:	Jiangsu Salcon Water & Environmental Development Company Limited
"LAT"	:	Loss after taxation
"LATMI"	:	Loss after taxation and minority interest
"LBT"	:	Loss before taxation
"Linyi Runcheng Water"	:	Linyi Runcheng Water Supply Project Company Limited
"Linyi Water"	:	Linyi Salcon Water Company Limited
"Linyi Water Supply Facilities"	:	Linyi Salcon Water Supply Facilities Company Limited
"LPD"	:	31 October 2013, being the latest practicable date before the printing of this Circular
"LPS"	:	Loss per share
"Main Market Listing Requirements"	:	Main Market Listing Requirements of Bursa Securities
"MLD"	:	Million litre per day
"NA"	:	Net assets
"Nan An Water"	:	Nan An Salcon Water Company Limited
"PAT"	:	Profit after taxation
"PATMI"	:	Profit after taxation and minority interest
"PBT"	:	Profit before taxation
"PRC"	:	People's Republic of China
"Proposed Disposals"	:	Proposed disposals of the entire equity interests held in Salcon Darco, Salcon Jiangsu, Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong at the Disposal Consideration
"Salcon" or the "Company"	:	Salcon Berhad
"Salcon Share(s)" or "Share(s)"	:	Ordinary share(s) of RM0.50 each in Salcon
"Salcon Darco"	:	Salcon Darco Environmental Pte Ltd
"Salcon Fujian"	:	Salcon Fujian (HK) Limited
"Salcon Group" or "Group"	:	Salcon and its subsidiary companies
"Salcon Jiangsu"	:	Salcon Jiangsu (HK) Limited
"Salcon Linyi"	:	Salcon Linyi (HK) Limited

DEFINITIONS (Cont'd)

“Salcon Shandong”	: Salcon Shandong (HK) Limited
“Salcon Water”	: Salcon Water (Asia) Limited
“Salcon Zhejiang”	: Salcon Zhejiang (HK) Limited
“Shandong Changle Water”	: Shandong Changle Salcon Water Company Limited
“SPA-A”	: Conditional sale and purchase agreement dated 12 September 2013 between Salcon and BEWG for the proposed disposals by Salcon of the entire equity interests held in Salcon Darco and Salcon Jiangsu to BEWG
“SPA-B”	: Conditional sale and purchase agreement dated 12 September 2013 between Salcon, Salcon Water, a 60%-owned 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
“SPAs”	: The SPA-A and SPA-B, collectively
“Target Companies”	: Comprising collectively Salcon Darco, Salcon Jiangsu, Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong
“Target Companies-A”	: Comprising collectively Salcon Darco and Salcon Jiangsu and its respective subsidiaries
“Target Companies-B”	: Comprising collectively Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong and its respective subsidiaries
“US”	: United States of America
“WWTP”	: Wastewater treatment plant
“Yizheng Wastewater”	: Yizheng Salcon Wastewater Treatment Company Limited

Currency

“HKD”	: Hong Kong Dollar
“RM” and “sen”	: Ringgit Malaysia and sen, respectively
“RMB”	: Chinese Renminbi
“SGD”	: Singapore Dollar
“USD”	: US Dollar

In this Circular, translation of RMB amount to RM amount have been made according to the middle rate as published/made available by Bank Negara Malaysia at 12:00 pm on LPD, unless otherwise indicated. Translation of RMB amount to RM amount was made at RMB1.00:RM0.5182.

All references to “our Company” and “the Company” in this Circular are to Salcon. References to “our Group” and “the Group” are to our Company and our subsidiaries, collectively. References to “we”, “us”, “our” and “ourselves” are to our Company and save where the context otherwise requires, shall include our subsidiaries.

All references to “you” in this Circular are addressing the shareholders of Salcon who are entitled to attend and vote at our forthcoming EGM.

DEFINITIONS (Cont'd)

Words denoting the singular shall, where applicable, include the plural and vice versa. Words denoting the masculine gender shall, where applicable, include the feminine and/or neuter genders, and vice versa. Any reference to persons shall include a corporation, unless otherwise specified.

Any reference in this Circular to any legislation is a reference to that legislation as for the time being amended or re-enacted. Any reference to a time of a day in this Circular shall be a reference to Malaysian time, unless otherwise specified.

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PROXY FORM..... **Enclosed**



SALCON BERHAD
(Company No.: 593796-T)
(Incorporated in Malaysia under the Companies Act, 1965)

Registered Office:

15th Floor, Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Malaysia

12 November 2013

BOARD OF DIRECTORS

Dato' Seri (Dr.) Goh Eng Toon (*Chairman, Non-Independent Non-Executive Director*)
Tan Sri Dato' Tee Tiam Lee (*Executive Deputy Chairman*)
Dato' Leong Kok Wah (*Executive Director*)
Dato' Dr. Freezailah bin Che Yeom (*Independent Non-Executive Director*)
Ho Tet Shin (*Independent Non-Executive Director*)
Dato' Choong Moh Kheng (*Independent Non-Executive Director*)

To: The Shareholders of Salcon

Dear Sir/Madam,

PROPOSED DISPOSALS OF THE ENTIRE EQUITY INTERESTS HELD IN THE FOLLOWING:

- (I) SALCON DARCO
- (II) SALCON JIANGSU
- (III) SALCON FUJIAN
- (IV) SALCON ZHEJIANG
- (V) SALCON LINYI
- (VI) SALCON SHANDONG

1. INTRODUCTION

On 12 September 2013, HLIB had, on behalf of the Board, announced that the Company had on the same date entered into the following agreements in relation to the Proposed Disposals:

- (i) a 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) a conditional sale and purchase agreement between Salcon, Salcon Water, a 60%-owned 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 RMB955.0 million (equivalent to approximately RM494.88 million), subject to adjustments in accordance with the terms of the SPA-A and SPA-B, respectively.

On 11 November 2013, on behalf of the Board, HLIB announced that the Company proposed to vary the utilisation of proceeds to be received from the Proposed Disposals, to include a proposed distribution of part of the proceeds from the Proposed Disposals to shareholders of Salcon.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE THE SHAREHOLDERS OF SALCON WITH INFORMATION ON THE PROPOSED DISPOSALS, TO SET OUT THE BOARD'S RECOMMENDATION AND TO SEEK SHAREHOLDERS' APPROVAL FOR THE RESOLUTION PERTAINING TO THE PROPOSED DISPOSALS, TO BE TABLED AT THE FORTHCOMING EGM. THE NOTICE OF EGM TOGETHER WITH THE PROXY FORM ARE ENCLOSED WITH THIS CIRCULAR.

SHAREHOLDERS OF SALCON ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED DISPOSALS TO BE TABLED AT THE FORTHCOMING EGM.

2. DETAILS

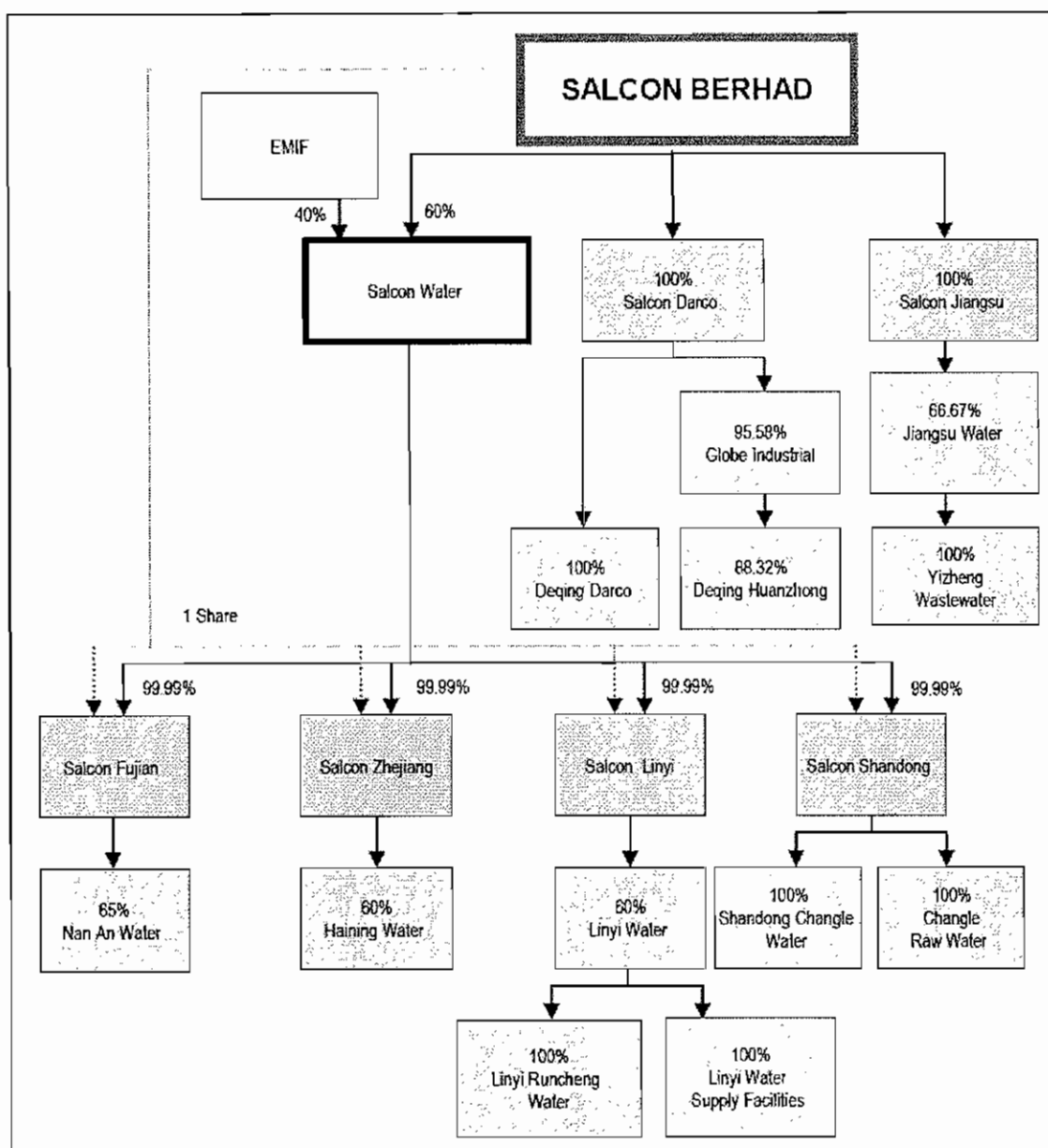
2.1 Proposed Disposals

The Proposed Disposals involve the following:

- (i) proposed disposal by Salcon of 25,768,459 shares in Salcon Darco, representing the entire issued and paid-up share capital of Salcon Darco to BEWG for a cash consideration of RMB212.0 million (equivalent to approximately RM109.86 million);
- (ii) proposed disposal by Salcon 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 (equivalent to approximately RM49.23 million);
- (iii) proposed disposal by Salcon Water of 84,617,949 shares of HKD1.00 each in Salcon Fujian, representing 99.99% of the issued and paid-up share capital of Salcon Fujian and proposed disposal by Salcon of 1 share of HKD1.00 each in Salcon Fujian, representing 0.01% of the issued and paid-up share capital of Salcon Fujian, to BEWG for a total cash consideration of RMB88.0 million (equivalent to approximately RM45.60 million);
- (iv) proposed disposal by Salcon Water of 61,829,944 shares of HKD1.00 each in Salcon Zhejiang, representing 99.99% of the issued and paid-up share capital of Salcon Zhejiang and proposed disposal by Salcon of 1 share of HKD1.00 each in Salcon Zhejiang, representing 0.01% of the issued and paid-up share capital of Salcon Zhejiang, to BEWG for a total cash consideration of RMB150.0 million (equivalent to approximately RM77.73 million);
- (v) proposed disposal by Salcon Water of 40,345,801 shares of HKD1.00 each in Salcon Linyi, representing 99.99% of the issued and paid-up share capital of Salcon Linyi and proposed disposal by Salcon of 1 share of HKD1.00 each in Salcon Linyi, representing 0.01% of the issued and paid-up share capital of Salcon Linyi, to BEWG for a total cash consideration of RMB130.0 million (equivalent to approximately RM67.37 million); and
- (vi) proposed disposal by Salcon Water of 127,488,970 shares of HKD1.00 each in Salcon Shandong, representing 99.99% of the issued and paid-up share capital of Salcon Shandong and proposed disposal by Salcon of 1 share of HKD1.00 each in Salcon Shandong, representing 0.01% of the issued and paid-up share capital of Salcon Shandong, to BEWG for a total cash consideration of RMB280.0 million (equivalent to approximately RM145.09 million).

The Disposal Consideration is subject to adjustments in accordance with the terms of the SPA-A and SPA-B.

The corporate structure of the Target Companies prior to the Proposed Disposals are as follows:



2.2 Basis and justification of arriving at the Disposal Consideration

The Disposal Consideration of RMB955.0 million (equivalent to approximately RM494.88 million) was arrived at on a willing-buyer willing-seller basis after taking into consideration the following:

- (i) respective valuations of the Concessions undertaken by the Company via certain of its subsidiaries based on a discounted cash flow method of valuation which essentially discounts the projected net cash flows of the Concessions over the respective concession periods at a discount rate of approximately 10%. The cash flows were prepared by the Company; and
- (ii) the valuation of the subsidiary that does not hold any concessions is based on the unaudited net assets as at 31 May 2013 after deducting the investment in subsidiary which holds the concession.

The discount rate of approximately 10% was arrived at by applying the Capital Asset Pricing Model, to estimate the cost of equity based on the average beta for comparable companies with water concession assets in the PRC, the risk free rate and equity risk premium (as extracted from Bloomberg). The key assumptions for the cash flows take into consideration, amongst others, the expected sales volume, tariff rate, non-revenue water (i.e. loss of water during the transfer due to leakage), inflation rate, provision of repair and maintenance, financing costs and other operating costs.

Based on the valuation prepared by the Company, the values assigned to the respective Target Companies are as follows:

Target Companies	Valuation			Disposal Consideration
	Concession companies	Non-concession company	Total	
	RMB'million	RMB'million	RMB'million	RMB'million
Salcon Darco group ⁽¹⁾	216.3	-	216.3	212.0
Salcon Jiangsu group ⁽²⁾	39.1	45.2	84.3	95.0
Salcon Fujian group ⁽³⁾	98.0	-	98.0	88.0
Salcon Zhejiang group ⁽⁴⁾	116.0	-	116.0	150.0
Salcon Linyi group ⁽⁵⁾	123.0	-	123.0	130.0
Salcon Shandong group ⁽⁶⁾	317.0	-	317.0	280.0
Total	909.4	45.2	954.6	955.0

Notes:

(1) Including water concessions in Deqing County, Zhejiang Province, PRC.

(2) Including wastewater concession in Yizheng City, Jiangsu Province, PRC.

(3) Including raw water concession in Nan An City, Fujian Province, PRC.

(4) Including water concession in Haining City, Zhejiang Province, PRC.

(5) Including water concession in Linyi City, Shandong Province, PRC.

(6) Including water concession, wastewater concession and raw water concession in Changle County, Shandong Province, PRC.

The Disposal Consideration represents a premium of approximately 0.04% to the overall valuation of the Target Companies.

The Board is of the opinion that the basis in deriving the Disposal Consideration is justified as it takes into consideration the projected net cash flows of the Concessions over the respective concession periods at a discount rate of approximately 10% as well as the net assets as at 31 May 2013 adjusted for investment in subsidiaries for the valuation of the subsidiary that do not hold any concessions. The discounted cash flow method is more appropriate and commonly used for the valuation of water concession assets compared with other valuation methods such as price to book multiple, dividend yield, price to earnings multiple or enterprise value given the nature of the water concession business as well as the finite period of the concession agreements.

2.3 Salient terms of SPA-A

2.3.1 Payment terms

Salcon shall sell as beneficial owner and BEWG shall purchase the entire issued and paid-up capital of Salcon Darco and Salcon Jiangsu ("**Sale Shares-A**") respectively for a total consideration of RMB307.0 million, subject to adjustment in accordance with the terms of the SPA-A ("**Consideration-A**") free from all encumbrances and with all rights attaching thereto.

The Consideration-A shall be paid in the following manner:

- (i) within 3 business days from the Purchaser's receipt of the notification issued by Salcon of the account details of a RMB account maintained with a bank in Hong Kong, the deposit for the sum of RMB30,700,000 in accordance with the terms of the SPA-A ("**Deposit-A**") shall be paid by BEWG to Salcon. The Deposit-A has been paid on 16 September 2013;
- (ii) on completion of the SPA-A ("**Completion-A**") which shall take place on the Completion Date-A, the amount of RMB268,300,000 subject to adjustment in accordance with the terms of the SPA-A ("**Second Payment-A**") shall be paid by BEWG to Salcon; and
- (iii) BEWG shall hold back RMB8,000,000 ("**Holdback Amount-A**") and pay the same to Salcon after the deductions allowed under the SPA-A¹, if any, within 10 business days after 9 months following the Completion-A.

The Second Payment-A is subject to the adjustment in accordance with the terms of the SPA-A calculated on the following basis:

- (a) As at 31 May 2013 (being the cut-off date, agreed between both Salcon and BEWG, used as a bench mark to compute the price adjustment arising on the changes of total liabilities and total current assets as compared to the Completion Management Accounts), the difference between the total liabilities amount² (RMB131,490,000) and the current assets value² (RMB101,950,000) of Salcon Darco, Salcon Jiangsu and their respective subsidiaries (collectively "**Target Companies-A**" and each "**Target Company-A**") (after deduction of minority interests) was RMB29,540,000 ("**Benchmark-A**") in accordance with the management accounts of the Target Companies-A as at 31 May 2013.
- (b) Where as at the last date of the month immediately preceding the Completion Date-A ("**Completion Management Accounts Date-A**"), the total liabilities amount of all the Target Companies-A (after deduction of minority interests) exceeds the current assets value of all the Target Companies-A (after deduction of minority interests) by more than the Benchmark-A, the Second Payment-A shall be capable of both upwards and downwards adjustment, based on the difference between the total liabilities and current assets as at 31 May 2013 as compared to the Completion Management Accounts and shall be calculated in the following manner:

Adjusted Second Payment-A = total liabilities amount - current assets value - Benchmark-A.

¹ Deductions may be made to the Holdback Amount-A under the following situations:

- (1) if there is any breach of any of Salcon's warranties and/or any outstanding and overdue obligations of Salcon under the SPA-A, BEWG shall notify Salcon of its claim stating the detail of the nature of such claim and the amount claimed and if Salcon fails to cure such breach, has such claim determined in its favour or perform the relevant obligations on or before 9 months from the Completion Date-A or within the reasonable period specified by BEWG (if later), BEWG shall be entitled to deduct the claim amount from the Holdback Amount-A;
- (2) if Salcon is liable to make any payment after adjusting the Consideration-A in accordance with the terms of the SPA-A and Salcon fails to make such payment within 3 business days from the generation of the Completion Management Accounts for all the Target Companies-A (and such amount remains outstanding as at the date falling 9 months following Completion-A), BEWG shall be entitled to deduct the payable amount from the Holdback Amount-A;
- (3) where (a) the treated water for any water supply or wastewater treatment project of any Target Company-A or the workmanship or design of any such project has failed to satisfy the requisite standard before Completion-A and/or (b) liabilities are incurred by the relevant Target Company-A in respect of the time period before Completion-A when it had not yet satisfied the requisite standard, Salcon shall compensate BEWG (or the relevant Target Company-A as BEWG may direct) for all direct and indirect losses therefore suffered by the Target Company-A and the amount to be incurred by the Target Company-A on the necessary improvement measures for raising the treated water to the requisite standard and on settling the aforesaid liabilities, as may be reasonably estimated by BEWG. If Salcon fails to pay the compensation within 9 months from the Completion-A, BEWG shall be entitled to deduct the claimed amount from the Holdback Amount-A.

² After deduction of minority interests.

(If the total liabilities amount of all the Target Companies-A (after deduction of minority interests) is less than the current assets value of all the Target Companies-A (after deduction of minority interest), paragraph (c) below shall be applicable.)

- (c) Where as at the Completion Management Accounts Date-A, the total liabilities amount of all the Target Companies-A (after deduction of minority interests) exceeds the current assets value of all the Target Companies-A (after deduction of minority interests) by less than the Benchmark-A, the Second Payment-A shall be calculated in the following manner:

Adjusted Second Payment-A = Benchmark-A + current assets value - total liabilities amount.

In the event that:

- (a) the Completion-A has not taken place after all of the Conditions-A as defined in Section 2.3.2 of this Circular have been satisfied or waived and Salcon having fully performed all of its obligations under the SPA-A but solely due to failure on the part of BEWG to comply with its own completion obligations under SPA-A, then Salcon shall be entitled to retain the Deposit-A;
- (b) the Completion-A has not taken place³ solely due to the breach by BEWG of the Conditions-A stated in Section 2.3.2(iii) of this Circular, then Salcon shall be entitled to retain the Deposit-A;
- (c) completion of the Conditions-A set out in Sections 2.3.2 (v), (vi) and (viii) of this Circular in respect of any Target Company-A ("**Given Up Target-A**") has not been fulfilled by 15 January 2014 then Salcon shall return to BEWG the Deposit-A in respect of the Given Up Target-A (free from interest) within 3 Business Days after completion of the sale and purchase of the Sale Shares-A of the other Target Companies-A; and
- (d) the sale and purchase of the Sale Shares-A is not completed, or the SPA-A is terminated⁴, Salcon shall refund Deposit-A to BEWG plus an additional amount equivalent to the amount of the Deposit-A (free from interest) within 3 Business Days after the date of termination of the SPA-A.

In the event of termination or non-completion of SPA-A as mentioned in paragraphs (a), (b) and (d) above, each party will bear its own cost that has been incurred.

2.3.2 Conditions

The sale and purchase of the Sale Shares-A shall be conditional upon the fulfillment (or waiver) prior to 15 January 2014 or such other date as the parties may agree to extend of the following conditions ("**Conditions-A**"):

- (i) the passing of resolutions by the shareholders of Salcon in a general meeting for the disposal of the Sale Shares-A to BEWG no later than 3 months after the date of SPA-A;
- (ii) Salcon's warranties in the SPA-A remaining true and accurate in all material respects and not misleading;
- (iii) BEWG's warranties in the SPA-A remaining true and accurate in all material respects and not misleading;

³ The timeframe for Completion-A is stated in Section 2.3.1(ii) of this Circular.

⁴ This provisions cater for situation where the sale and purchase of the Sale Shares-A is not completed or the SPA-A is terminated for any other reason apart from the reasons set out in the foregoing sub-paragraph (a), (b) and (c).

- (iv) no breach of any of Salcon's obligations, covenants, undertakings and agreements in SPA-A or of any of Salcon and Salcon Water's obligations, covenants, undertakings and agreements in SPA-B which is caused by fraud, wilful concealment, dishonesty, or deliberate act or omission remain unrectified and in aggregate will result in (1) a decrease in the asset value of, (2) an expense that may be incurred by, or (3) a loss that may be suffered by, the Target Companies-A and the Target Companies-B under the SPA-B taken as a whole, of an amount more than RMB50,000,000 as reasonably estimated by BEWG;
- (v) no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares-A or the operation of any Target Company-A having been proposed, enacted or taken by any governmental or official authority;
- (vi) Salcon and/or the Target Companies-A having provided notification in writing to and having received acknowledged receipt of the said notification without any objection by the relevant local governmental or official authorities and the joint venture partners of the Target Companies-A on the transactions under the SPA-A;
- (vii) Salcon having procured that not more than 3 persons nominated by BEWG are given access to the premise, books and information of the Target Companies-A in accordance with the terms and conditions of the SPA-A;
- (viii) no force majeure event having occurred;
- (ix) the Completion Management Accounts of the Target Companies-A having been generated in accordance with the terms and conditions of the SPA-A; and
- (x) the SPA-B having been completed.

2.3.3 In the event that any of the Conditions-A set out in Sections 2.3.2(v), (vi) and (viii) of this Circular in respect of any of the Given Up Target-A shall not have been fulfilled or waived prior to 15 January 2014 (or such other agreed extension for Completion-A by the parties), then the parties shall proceed with the Completion-A in respect of the Sale Shares-A for other platform company⁵ and the Second Payment-A shall be reduced by the amount of consideration for the Sale Shares-A of such Given Up Target-A, less the amount of the Deposit-A paid in respect of such Given Up Target-A.

2.3.4 Completion

Completion of the SPA-A shall take place on the Completion Date-A and shall occur immediately following and on the same day as the completion of the SPA-B.

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⁵ Platform companies under SPA-A refers to Salcon Darco and Salcon Jiangsu. The 'other platform company' refers to the platform company which do not suffer the items described in Sections 2.3.2(v), (vi) and (viii) of this Circular.

2.3.5 Globe Industrial Litigation

A legal suit was filed on 30 September 2011 by Fan Ming Chun (as "**Petitioner**") against (i) Thye Kim Meng ("**First Respondent**") (ii) Darco Environmental Pte Limited (*now known as Salcon Darco*) ("**Second Respondent**") and (iii) Globe Industrial ("**Third respondent**") in the High Court of the Hong Kong Special Administrative Region Court of First Instance Miscellaneous under Proceedings No. 189 of 2011 seeking *inter alia*, for a declaration that the increase of share capital and allotment of new shares in Globe Industrial to Salcon Darco resulting in the dilution of shares held by the Petitioner were void and invalid ("**Globe Industrial Litigation**"). Salcon had acquired 60% equity interests in Salcon Darco from Darco Water Technologies Ltd on 8 August 2012 and the remaining 40% equity interests in Salcon Darco on 26 July 2013. Under the terms of the SPA-A, Salcon agrees to fully indemnify BEWG, Salcon Darco, Globe Industrial and/or Deqing Huanzhong in respect of any fees (including legal fees), costs, losses and damage suffered or incurred by any of them arising from the Globe Industrial Litigation and Salcon will produce an irrevocable unconditional bank guarantee given by a bank approved by BEWG (which shall take effect from the Completion of the SPA-A) in respect of such indemnity up to an amount of RMB15,000,000 ("**Bank Guarantee**")⁶. Further details on the Globe Industrial Litigation are disclosed in Section 8, Appendix I of this Circular.

2.4 Salient terms of SPA-B

2.4.1 Payment terms

Salcon and Salcon Water (collectively "**Vendors**") shall sell as beneficial owner and BEWG shall purchase the entire issued and paid-up share capital of Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong ("**Sale Shares-B**") respectively for a total consideration of RMB648.0 million subject to adjustment in accordance with the terms of the SPA-B ("**Consideration-B**") free from all encumbrances and with all rights attaching thereto.

The Consideration-B shall be paid in the following manner:

- (i) within 3 business days from the Purchaser's receipt of the notification issued by the Vendors of the account details of a RMB account maintained with a bank in Hong Kong, the deposit for the sum of RMB64,800,000 in accordance with the terms of the SPA-B ("**Deposit-B**") shall be paid by BEWG to the Vendors. The Deposit-B has been paid on 16 September 2013;
- (ii) on completion of the SPA-B ("**Completion-B**") which shall take place on the Completion Date-B, the amount of RMB527,300,000 subject to adjustment in accordance with the terms of the SPA-B ("**Second Payment-B**") shall be paid by BEWG to the Vendors;
- (iii) BEWG shall hold back RMB17,000,000 ("**Holdback Amount-B**") and pay the same to the Vendors after the deductions allowed under the SPA-B⁷, if any, within 10 business days after 9 months following the Completion-B;

⁶ In respect to the Globe Industrial Litigation, Salcon has obtained Deed of Indemnity from Darco Water Technologies Ltd wherein Darco Water Technologies Ltd has undertaken to indemnify Salcon of all costs and expenses in connection with the Globe Industrial Litigation.

⁷ Deductions may be made to the Holdback Amount-B under the following situations:

- (1) if there is any breach of any of the Vendors' warranties and/or any outstanding and overdue obligations of the Vendors under the SPA-B, BEWG shall notify the Vendors of its claim stating the detail of the nature of such claim and the amount claimed and if the Vendors fail to cure such breach, has such claim determined in their favour or perform the relevant obligations on or before 9 months from the Completion Date-B or within the reasonable period specified by BEWG (if later), BEWG shall be entitled to deduct the claim amount from the Holdback Amount-B;
- (2) if the Vendors are liable to make any payment after adjusting the Consideration-B in accordance with the terms of the SPA-B and the Vendors fail to make such payment within 3 business days from the generation of the Completion Management Accounts for all the Target Companies-B (and such amount remains outstanding as at the date falling 9 months following Completion-B), BEWG shall be entitled to deduct the payable amount from the Holdback Amount-B;
- (3) where (a) the treated water for any water supply or wastewater treatment project of any Target Company-B or the workmanship or design of any such project has failed to satisfy the requisite standard before Completion-B and/or (b) liabilities are incurred by the relevant Target Company-B in respect of the time period before Completion-B when it had not yet satisfied the requisite standard, Salcon shall compensate BEWG (or the relevant Target Company-B as BEWG

- (iv) within 5 business days after the Vendors have fully complied with their obligations in relation to the Changle Project referred to in Section 2.4.4(a) of this Circular, BEWG shall pay to the Vendors an amount of RMB11,000,000;
- (v) within 5 business days after the timely completion of the Pipeline Acquisition referred to in Section 2.4.4(b) of this Circular, BEWG shall pay to the Vendors an amount of RMB11,000,000; and
- (vi) within 5 business days after the Vendors providing reasonable proof to BEWG of the implementation of the Water Tariff Increment referred to in Section 2.4.4(c) of this Circular, BEWG shall pay to the Vendors an amount of RMB16,900,000.

The Second Payment-B is subject to the adjustment in accordance with the terms of the SPA-B calculated on the following basis:

- (a) As at 31 May 2013 (being the cut-off date, agreed between Salcon, Salcon Water and BEWG, used as a bench mark to compute the price adjustment arising on the changes of total liabilities and total current assets as compared to the Completion Management Accounts), the difference between the total liabilities amount⁸ (RMB425,850,000) and the current assets⁸ (RMB159,800,000) value of Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong and their respective subsidiaries (collectively "Target Companies-B" and each "Target Company-B") (after deduction of minority interests) was RMB266,050,000 ("Benchmark-B") in accordance with the management accounts of the Target Companies-B as at 31 May 2013.

- (b) Where as at the last date of the month immediately preceding the Completion Date-B ("Completion Management Accounts Date-B"), the total liabilities amount of all the Target Companies-B (after deduction of minority interests) exceeds the current assets value of all the Target Companies-B (after deduction of minority interests) by more than the Benchmark-B, the Second Payment-B shall be capable of both upwards and downwards adjustment, based on the difference between the total liabilities and current assets as at 31 May 2013 as compared to the Completion Management Accounts and shall be calculated in the following manner:

Adjusted Second Payment-B = total liabilities amount - current assets value - Benchmark-B.

(If the total liabilities amount of all the Target Companies-B (after deduction of minority interests) is less than the current assets value of all the Target Companies-B (after deduction of minority interest), paragraph (c) below shall be applicable.)

- (c) Where as at the Completion Management Accounts Date-B, the total liabilities amount of all the Target Companies-B (after deduction of minority interests) exceeds the current assets value of all the Target Companies-B (after deduction of minority interests) by less than the Benchmark-B, the Second Payment-B shall be calculated in the following manner:

Adjusted Second Payment-B = Benchmark-B + current assets value - total liabilities amount.

may direct) for all direct and indirect losses therefore suffered by the Target Company-B and the amount to be incurred by the Target Company-B on the necessary improvement measures for raising the treated water to the requisite standard and on settling the aforesaid liabilities, as may be reasonably estimated by BEWG. If Salcon fails to pay the compensation within 9 months from the Completion-B, BEWG shall be entitled to deduct the claimed amount from the Holdback Amount-B.

⁸ After deducting minority interests.

In the event that:

- (a) the Completion-B has not taken place after all of the Conditions-B as defined in Section 2.4.2 of this Circular have been satisfied or waived and the Vendors having fully performed all of their obligations under the SPA-B but solely due to failure on the part of BEWG to comply with its own completion obligations under the SPA-B, then the Vendors shall be entitled to retain the Deposit-B;
- (b) the Completion-B not having taken place⁹ solely due to the breach by BEWG of the Conditions-B stated in Section 2.4.2(iii) of this Circular, then the Vendors shall be entitled to retain the Deposit-B;
- (c) completion of the Conditions-B set out in Sections 2.4.2(vi), (vii) and (ix) of this Circular have not been fulfilled in respect of any Target Company-B ("**Given Up Target-B**") by 15 January 2014, then Salcon shall return to BEWG the Deposit-B in respect of the Given Up Target-B (free from interest) within 3 Business Days after the completion of the sale and purchase of the Sale Shares-B of the other Target Companies-B; and
- (d) the sale and purchase of the Sale Shares-B is not completed, or the SPA-B is terminated¹⁰, Salcon¹¹ shall refund Deposit-B to BEWG plus an additional amount equivalent to the amount of the Deposit-B (free from interest) within 3 Business Days after the date of termination of the SPA-B.

In the event of termination or non-completion of SPA-B as mentioned in paragraphs (a), (b) and (d) above, each party will bear its own cost that has been incurred.

2.4.2 Conditions

The sale and purchase of the Sale Shares-B shall be conditional upon the fulfillment (or waiver) prior to 15 January 2014 or such other date as the parties may agree to extend of the following conditions ("**Conditions-B**"):

- (i) the passing of resolutions by the shareholders of Salcon in a general meeting for the disposal of the Sale Shares-B to BEWG no later than 3 months after the date of the SPA-B;
- (ii) the Vendors' warranties in SPA-B remaining true and accurate in all material respects and not misleading;
- (iii) BEWG's warranties in SPA-B remaining true and accurate in all material respects and not misleading;
- (iv) no breach of any of the Vendors' obligations, covenants, undertakings and agreements in SPA-B or of any of Salcon's obligations, covenants, undertakings and agreements in SPA-A which is caused by fraud, wilful concealment, dishonesty, or deliberate act or omission remain unrectified and in aggregate will result in (1) a decrease in the asset value of, (2) an expense that may be incurred by, or (3) a loss that may be suffered by, the Target Companies-B and the Target Companies-A under the SPA-A taken as a whole, of an amount more than RMB50,000,000 as reasonably estimated by BEWG;
- (v) the delivery to BEWG of a written consent from EMIF to the performance of the obligations by Salcon Water in SPA-B;

⁹ The timeframe for Completion-B is stated in Section 2.4.1(ii) of this Circular.

¹⁰ This provision cater for situation where the sale and purchase of the Sale Shares-B is not completed or the SPA-B is terminated for any other reason apart from the reasons set out in the foregoing sub-paragraph (a), (b) and (c).

¹¹ Only Salcon is responsible to pay to BEWG according to the provision above in view that Salcon controls the Target Companies-B via its 60% equity interests in Salcon Water and EMIF which holds 40% equity interest in Salcon Water is a fund management company and are not involved in the operations of the Target Companies-B.

- (vi) no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares-B or the operation of any Target Company-B having been proposed, enacted or taken by any governmental or official authority;
- (vii) the Vendors and/or the Target Companies-B having provided notification in writing to and having received acknowledged receipt of the said notification without any objection by the relevant local governmental or official authorities and the joint venture partners of the Target Companies-B on the transactions under the SPA-B;
- (viii) the Vendors having procured that not more than 3 persons nominated by BEWG are given access to the premises, books and information of the Target Companies-B in accordance with the terms and conditions of the SPA-B;
- (ix) no force majeure event having occurred; and
- (x) the Completion Management Accounts of the Target Companies-B having been generated in accordance with the terms and conditions of the SPA-B.

2.4.3 In the event that any of the Conditions-B set out in Section 2.4.2(vi), (vii) and (ix) of this Circular in respect of any of the Given Up Target-B shall not have been fulfilled or waived prior to 15 January 2014 (or such other agreed extension for Completion-B by the parties), then the parties shall proceed with the Completion-B in respect of the Sale Shares-B for other platform companies¹² and the Second Payment-B shall be reduced by the amount of consideration for the Sale Shares-B of such Given Up Target-B, less the amount of the Deposit-B paid in respect of such Given Up Target-B.

2.4.4 Projects

- (a) The Vendors shall, at their own cost and expense use best endeavours to procure that Shandong Changle Water completes, prior to the date falling three months after the date of the SPA-B, upgrading work at the Changle sewage treatment plant such that upon completion of the upgrading work, treated water of the Changle sewage treatment plant shall be ready for commercial operation and be of 1A standard (an upgrade from its existing classification of 1B standard) (the "**Changle Project**"), and deliver the project final accounts and the final acceptance report for the Changle Project to BEWG upon completion of the Changle Project. The Changle Project shall be completed by the date falling three months after the date of the SPA-B (or if the Vendors exercise their right to extend such period pursuant to SPA-B to six months after the date of the SPA-B).
- (b) The Vendors shall (i) procure that Nan An Water shall complete the acquisition of the raw water transmission pipeline starting at Houqiao Reservoir (后桥水库) and ending at Guanqiao Water Plant (官桥水厂) (the "**Pipeline Acquisition**") within 9 months after the date of the SPA-B; (ii) pay or procure the payment of the consideration of the Pipeline Acquisition; and (iii) procure that the raw water transmission pipeline shall be acquired free from encumbrances.
- (c) The Vendors shall procure that Nan An Water increases the water tariff for the Fujian Nan An Raw Water Plant (福建南安原水项目) ("**Water Tariff Increment**") from RMB 1.03/ton¹³ within 9 months after the date of the SPA-B.

¹² Platform companies under SPA-B refers to Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong. The 'other platform companies' refers to the platform company(ies) which do not suffer the items described in Sections 2.4.2(vi), (vii) and (ix) of this Circular.

¹³ The payment of the RMB16,900,000 in Section 2.4.1 (vi) of this Circular shall be subject to adjustment as follows:

- (1) if the water tariff is increased to RMB1.20/ton or more, BEWG shall pay to the Vendors additional consideration:
 - (i) in respect of the increment above RMB1.20/ton and up to RMB1.30/ton, RMB650,000 for each RMB0.01/ton increment and (ii) in respect of the increment above RMB1.30/ton, an additional RMB400,000 for each RMB0.01/ton increment;
- (2) if the water tariff is increased higher than RMB1.03/ton, but less than RMB1.20/ton, the said amount of RMB16,900,000 which shall be released to the Vendors in Section 2.4.1(vi) of this Circular shall be reduced by RMB650,000 for each shortfall of RMB0.01/ton below RMB1.20/ton.

In the event any of the projects mentioned in paragraphs (a) to (c) above are not completed by the respective due dates, the amount of deferred considerations as mentioned in Section 2.4.1 (iv), (v) and (vi) of this Circular shall not be payable by BEWG to the Vendors.

2.4.5 Completion

Completion of the SPA-B shall take place on the Completion Date-B and completion of the SPA-A shall take place on Completion Date-A, both of which shall fall on the same day. The SPA-A and SPA-B are inter-conditional upon each other.

2.5 Original cost and date of investment

The original cost and date of investment for Salcon Darco and Salcon Jiangsu, respectively by Salcon are as follows:

Company	Date of investment	Cost of investment	
		(HKD'000)	(RM'000) [^]
Salcon Darco	8 August 2012		47,848
	26 July 2013		32,687
			<u>80,535</u>
Salcon Jiangsu	28 December 2004		7
	₍₁₎		40,460
			<u>40,467</u>

Note:

(1) Advances from Salcon and a subsidiary to be capitalised upon completion of the Proposed Disposals.

The original cost and date of investment for Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong, respectively by Salcon Water and Salcon are as follows:

Company	Date of investment	Cost of investment	
		(HKD'000)	(RM'000) [^]
Salcon Fujian	30 July 2007	₍₁₎	₍₁₎
	12 January 2011	84,618	33,329
		<u>84,618</u>	<u>33,329</u>
Salcon Zhejiang	30 June 2006	₍₁₎	₍₁₎
	12 January 2011	61,830	24,353
		<u>61,830</u>	<u>24,353</u>
Salcon Linyi	17 February 2005	₍₁₎	₍₁₎
	12 January 2011	40,346	15,891
		<u>40,346</u>	<u>15,891</u>
Salcon Shandong	16 April 2008	₍₁₎	₍₁₎
	12 January 2011	127,489	50,214
		<u>127,489</u>	<u>50,214</u>

Notes:

[^] For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia as at 12 January 2011 used is HKD100:RM39.3873.

(1) Transfer of 1 subscriber share of HKD1.00 to Salcon.

2.6 Liabilities to be assumed

There are no liabilities, including contingent liabilities and guarantees to be assumed by BEWG arising from the Proposed Disposals, save for the liabilities stated in the management accounts of the Target Companies as at 31 May 2013.

3. BACKGROUND INFORMATION ON THE TARGET COMPANIES AND PURCHASER

3.1 Information on the Target Companies

Details of the Target Companies are set out in **Appendices I, II, III, IV, V and VI** of this Circular.

3.2 Information on BEWG

BEWG was incorporated in Bermuda on 23 November 1992 under The Companies Act 1981 of Bermuda as a limited liability company under the name of Wanon International Holdings Limited. The company subsequently changed its name to Beijing Enterprises Water Group Limited on 19 March 2008. It was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 19 April 2013.

As at 30 October 2013, the authorised share capital of BEWG is HKD1,500,000,000 comprising 15,000,000,000 ordinary shares of HKD0.10 each, of which 8,435,981,324 ordinary shares of HKD0.10 each have been issued and fully paid-up.

BEWG and its subsidiaries were involved in the following principal activities:

- construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the PRC and Malaysia.
- provision of sewage and reclaimed water treatment services in Mainland China and Portugal.
- distribution and sale of piped water in Mainland China and Portugal.
- provision of technical and consultancy services that are related to sewage treatment and construction of comprehensive renovation projects in Mainland China.
- licensing of technical know-how that is related to sewage treatment in Mainland China.

The directors of BEWG as at 30 October 2013 are as follows:

Executive Directors:

Mr. Zhang Honghai (*Chairman*)
Mr. E Meng (*Vice Chairman*)
Mr. Jiang Xinhao
Mr. Hu Xiaoyong (*Chief Executive Officer*)
Mr. Zhou Min
Mr. Li Haifeng
Mr. Zhang Tiefu
Ms. Qi Xiaohong
Mr. Ke Jian
Mr. Tung Woon Cheung Eric

Independent Non-Executive Directors:

Mr. Shea Chun Lok Quadrant
Mr. Zhang Gaobo
Mr. Guo Rui
Ms. Hang Shijun
Mr. Wang Kaijun
Mr. Yu Ning

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The substantial shareholders (holding 5% or more) of BEWG and their shareholdings in BEWG as at 30 June 2013 (as extracted from BEWG's published 2013 interim report) are as follows:

Name of shareholders	Capacity in which shares were held	Long position in the shares ¹⁴	Approximate percentage of BEWG's issued share capital ⁽⁵⁾
Beijing Enterprises Group Company Limited ⁽¹⁾⁽²⁾⁽³⁾	Interest of controlled corporation	3,824,367,831	49.76%
	Security Interest	400,000,000	5.20%
Beijing Enterprises Holdings Limited ("BEHL") ⁽¹⁾⁽²⁾⁽³⁾	Interest of controlled corporation	3,824,367,831	49.76%
	Security Interest	400,000,000	5.20%
Tenson Investment Limited ("Tension") ⁽²⁾⁽⁴⁾	Beneficial owner	682,193,919	8.88%

Notes:

- (1) *Beijing Enterprises Group Company Limited is deemed to be interested in 3,824,367,831 shares as a result of its indirect holding of such shares through the following entities including its wholly-owned subsidiaries:*

Name	Long position in shares
<i>Beijing Enterprises Environmental Construction Limited ("BE Environmental")</i>	<i>3,824,367,831</i>
<i>BEHL</i>	<i>3,824,367,831</i>
<i>Beijing Enterprises Group (BVI) Company Limited</i>	<i>3,824,367,831</i>
<i>Beijing Enterprises Group Company Limited</i>	<i>3,824,367,831</i>

BE Environmental beneficially holds 3,824,367,831 shares of the company. BE Environmental is a wholly-owned subsidiary of BEHL, which is in turn directly held as to approximately 35.26% by Beijing Enterprises Group (BVI) Company Limited, and which is in turn held as to 100% by Beijing Enterprises Group Company Limited.

- (2) *The company noted from the website of the Stock Exchange of Hong Kong Limited that on 29 May 2012, BEHL and Tenson entered into a share mortgage whereby Tenson agreed to charge mortgaged shares of 400,000,000 ordinary shares of BEWG ("Mortgaged Shares") beneficially owned by Tenson in favour of BEHL as security for the provision of guarantee entered into by BEHL on 29 May 2012 in favour of DBS Bank Ltd., Hong Kong Branch ("DBS") in respect of a loan facility granted to Tenson by DBS ("Guarantee").*
- (3) *The long positions held by Beijing Enterprises Group Company Limited and BEHL include: (i) the 3,824,367,831 Shares as described in Note 1 above; and (ii) 400,000,000 Mortgaged Shares as described in Note 2 above. Beijing Enterprises Group Company Limited is deemed to be interested in 400,000,000 Mortgaged Shares as its indirect holding of shares of BEHL as described in Note 1 above.*
- (4) *The share capital of Tenson is beneficially owned as to approximately 52.62% by Mr. Hu Xiaoyong, as to approximately 44.93% by Mr. Zhou Min, and as to approximately 2.45% by Mr. Hou Feng, all being executive directors.*

¹⁴ A long position arises where a person is a party to an equity derivative, by virtue of which the person:

- (i) has a right to take the underlying shares;
- (ii) is under an obligation to take the underlying shares;
- (iii) has a right to receive money if the price of the underlying shares increases; or
- (iv) has a right to avoid or reduce a loss if the price of the underlying shares increases.

(Source: Practice Note 5, Rules Governing the Listing of Securities, The Stock Exchange of Hong Kong Limited)

(5) *The percentage represented the number of shares over the total issued shares of the company as at 30 June 2013 of 7,685,981,324 shares.*

4. RATIONALE

The Proposed Disposals involve the disposal of the Group's subsidiaries which currently holds the concessions portfolio in the PRC, namely in Deqing, Jiangsu, Fujian, Zhejiang and Shandong provinces. Despite the positive contribution from the concessions in the PRC, the Group expects a more challenging operating environment in respect of the concessions in the PRC going forward, mainly due to the uncertainty in the economic outlook which was reflected in the decrease in the demand water volume from the industrial sector and the prolongation of upward revision in the water tariff. Out of the 9 concessions, only 2 concessions managed to obtain approval to increase the water tariff as at the LPD. Linyi Salcon Water Treatment Plant was able to raise its tariff rate in December 2008 with an average increase of RMB0.30 per cubic meter after the matter was first brought up to Linyi government in 2007. In year 2011, another proposal was brought to the Linyi government for negotiation to increase the tariff but was to no avail. Changle Salcon WWTP managed to obtain an increase of RMB0.36 per cubic meter in January 2013 after an application to the Changle government was made in 2010. As at the LPD, the Target Companies group did not submit any formal application for revision of water tariff for the remaining 7 concessions¹⁵ to the respective local authorities. Lower demand from the industrial sector¹⁶ due to uncertain economic outlook will affect revenue growth whilst escalating operating costs, such as increase in labour cost and chemical cost, and prolongation of upward revision in water tariff are expected to adversely affect the profitability of the concessions. Furthermore, intense competition from the domestic players may impede the Group's prospect of expanding into new concessions in the PRC.

Prior to April 2013, the Company only holds 60% equity interest in Salcon Darco. The Company had entered into a sale and purchase agreement in April 2013 for the acquisition of the remaining 40% equity interest in Salcon Darco, which was completed in July 2013 with a view to further expand the Group's presence in the PRC. Notwithstanding this, the Board is of the opinion that the offer from BEWG for the Proposed Disposals will provide an opportunity to the Salcon Group to realise and unlock the value of its investments in the Target Companies and allow the Group to strengthen its financial position by reducing the gearing level of the Group. Furthermore, with the proceeds from the Proposed Disposals, Salcon will be able to re-mobilise its capital and resources for expansion of its other core business including the property development segment and/or investments in new income stream. As disclosed in Section 5 of this Circular, the Group has yet to identify the future investments as at the LPD.

The Salcon Group had diversified its principal activities to include property development. For further details on the property development division as well as the other core business of the Salcon Group, please refer to Section 6 of this Circular.

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¹⁵ The remaining 7 concessions did not apply for tariff increase because:

- 2 concessions were only operational in 2012;
- 2 concessions were just acquired in 2012;
- the profits for the 2 concessions are at or above the benchmark 12% over the capital injected. The 12% is a benchmark that the government uses for the water industry in China. Normally only company whose profits is below the required 12% benchmark is allowed tariff increase; and
- 1 concession would only apply for tariff increase after the completion of the Phase 2 acquisition. The Phase 2 acquisition is expected to be completed in December 2013.

¹⁶ The management does not expect the optimum production capacity of the treatment plants would be met due to lower demand from the industrial sector.

5. UTILISATION OF PROCEEDS

The proceeds from the Proposed Disposals are intended to be utilised as follows:

Description	Note	Amount	Timeframe for utilisation of proceeds
			from the date of completion of the Proposed Disposals
		(RM'000)	
Future investments	1	230,000	Within 24 months
Repayment of borrowings	2	97,540	Within 6 months
Distribution to shareholders of Salcon	3	30,000	Within 12 months
Working capital	4	10,397	Within 24 months
Defraying expenses incidental to the Proposed Disposals	5	1,437	Within 3 months
Total	*	369,374	

Notes:

* The total proceeds from the Proposed Disposals attributable to Salcon (including repayment of shareholders' advances of RMB47.0 million) are RMB712.80 million (equivalent to RM369.37 million). The actual proceeds to be received from the Proposed Disposals are subject to adjustments in accordance with the terms of the SPAs. The details on the proceeds from the Proposed Disposals are as follows:

	Amount	
	(RMB'million)	(RM'million)
SPA-A		
Proposed disposal of Salcon Darco and Salcon Jiangsu	307.0	159.09
SPA-B		
Proposed disposal of Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong	648.0	335.79
(Less): Assuming repayment of shareholders' advances ¹⁷	(50.0)	(25.91)
Total	598.0	309.88
Net proceeds attributable to the following for SPA-B:		
Salcon and Salcon Water (60%)	358.8	185.93
EMIF (40%)	239.2	123.95
Total	598.0	309.88
Proceeds from the Proposed Disposals which are attributable to the Salcon Group are as follows:		
- SPA-A	307.0	159.09
- SPA-B	358.8	185.93
- Repayment of shareholders' advances	47.0	24.35
Total	712.8	369.37

¹⁷ The shareholders advances of RMB47.0 million (equivalent to RM24.35 million) and RMB3.0 million (equivalent to RM1.56 million) from Salcon and EMIF (which own 40% equity interest in Salcon Water), respectively to Salcon Water was provided between January 2012 to May 2013 and utilised to fund the increase in project/construction costs for the raw water transfer projects in Nan An City and Changle County. The shareholders advances have no fixed repayment terms, are repayable on demand, do not bear any interest and is unsecured. As at the LPD, the total amount owing by Salcon Water to Salcon and EMIF are RMB47.0 million and RMB3.0 million, respectively.

- (1) The Group expects to utilise the proceeds for future investments which has yet to be identified as at the LPD. The proposed investment activities may include acquisition of strategic investments and/or strategic collaborations, joint ventures or alliances. The proposed investment activities may or may not be in similar or complementary industries to the Group's existing businesses. In the event shareholders' approval is required pursuant to the Main Market Listing Requirements for the strategic investments and/or strategic collaborations, joint ventures or alliances, such approval will be sought as per the provisions of the Main Market Listing Requirements. Any excess/shortfall in the actual amount to be utilised for future investments would be adjusted to/from working capital.
- (2) The Group's total bank borrowings as at the LPD is approximately RM352.92 million. The proposed repayment of part of the Group's bank borrowings amounting to RM97.54 million is expected to contribute to interest savings of approximately RM5.30 million per annum based on the average interest rate of 5.44% per annum. Details are as below:

Name of financial institution	Type of facility	Total amount outstanding as at the LPD (RM'000)	Amount to be repaid from the proceeds received (RM'000)	Average interest rates per annum (%)	Interest expense per annum (RM'000)
Standard Chartered Bank Malaysia Berhad	Term loan	97,540	97,540	5.44	5,302

- (3) It is the intention of the Board to distribute part of the proceeds from the Proposed Disposals, of up to RM30.0 million to the shareholders of Salcon via a special dividend or other means, such as capital repayment, the method of which will be determined at a later stage, after taking into consideration, amongst others, the actual proceeds to be received from the Proposed Disposals ("Proposed Distribution"). The method of the Proposed Distribution is subject to the approval by the Board and an announcement in accordance with the Main Market Listing Requirements will be made by the Company once the method of distribution is finalised and the Board's approval is obtained. The Company will also seek the relevant approvals for the Proposed Distribution, if required. Any excess in the actual amount to be utilised for the Proposed Distribution, would be adjusted to working capital.
- (4) Working capital requirements for the Group include day-to-day operations to support the Group's existing business operations which shall include, but not limited to, the payment of trade and other payables, and management, employees and marketing expenses. The breakdown of proceeds to be utilised for each component of working capital has not been determined at this juncture. Moreover, the actual amount to be utilised by each component of working capital may differ subject to the operating requirements at the time of utilisation.
- (5) The estimated expenses in relation to the Proposed Disposals comprising professional fees such as the adviser and lawyers, regulatory fees and other related costs. Any excess/shortfall in the actual amount to be utilised for defraying the estimated expenses relating to the Proposed Disposals would be adjusted to/from working capital. The breakdown of the estimated expenses are as follows:

	RM'000
Professional fees	1,200
Fees to be paid to relevant authorities	30
Miscellaneous expenses, which includes printing, advertising and estimated costs for the forthcoming EGM	207
Total	1,437

The actual proceeds from the Proposed Disposals will depend on the final consideration to be determined as set out in Sections 2.3.1 and 2.4.1 of this Circular. Any difference between the actual proceeds received from the Proposed Disposals and the Disposal Consideration will be adjusted accordingly to the proceeds earmarked for future investments.

Pending the utilisation of the proceeds by Salcon, the proceeds will be placed in interest-bearing deposit accounts with financial institutions or short-term money market instrument(s) as the Board may deem fit.

6. FUTURE DIRECTION AND PROSPECTS

Upon completion of the Proposed Disposals, the Salcon Group would principally be involved in property development and engineering and construction. The Group expects to continue its efforts to bid for engineering and construction projects for water and wastewater related contracts in Malaysia.

Based on the latest audited financial statements of the Group for the FYE 31 December 2012, the segmental results of the Group is as follows:

Operating segment	Revenue		Segment profit	
	FYE 31 December 2012	After the Proposed Disposal ¹	FYE 31 December 2012	After the Proposed Disposal ¹
	RM'000	RM'000	RM'000	RM'000
Construction	141,891	141,891	10,321	10,321
Concession	185,866	27,206 ²	51,372	4,935 ²
Trading	13,049	13,049	3,450	3,450
Total	340,806	182,146	65,143	18,706

Notes:

1 Assuming the Proposed Disposal had been completed on 1 January 2012

2 Comprising the following:

- Letter of acceptance of tender by Jabatan Bekalan Air Negeri Sembilan to Salcon Engineering Berhad, a wholly-owned subsidiary of Salcon, dated 15 September 2003 for the management, operation and maintenance of Kuala Jelai Water Treatment Plant. The said contract expired on 31 March 2012.
- Letter of acceptance of tender by Jabatan Bekalan Air Negeri Sembilan to Salcon Engineering Berhad, a wholly-owned subsidiary of Salcon, dated 20 March 2003 for the management, operation and maintenance of Sungai Terip Water Treatment Plant. The said contract expired on 30 September 2012.
- The concession agreement dated 21 March 2011 entered into between Changzhou Salcon Wastewater Treatment Company Limited, an indirect wholly-owned subsidiary of Salcon, and Changzhou City Tian Ning District Diao Zhuang Street Office for the acquisition, upgrading, operation and maintenance of wastewater treatment plant in Changzhou City, PRC. The said concession was terminated on 12 November 2012.
- The bulk sales contract dated 25 May 1995 entered into between Binh An Water Corporation Ltd, an indirect associate company of Salcon, and Ho Chi Minh City Water Supply Company to supply treated water to Ho Chi Minh city and neighbouring industrial zones. The said concession will expire on 31 July 2019.
- The operation and maintenance agreement dated 1 November 1997 entered into between Binh An Water Corporation Ltd, an indirect associate company of Salcon, and Integrated Water Services (M) Sdn Bhd, a subsidiary of Salcon, for the operation and maintenance of Binh An, Vietnam water treatment plant. The said agreement will expire on 31 July 2019.

The Salcon Group had on 19 March 2013 obtained shareholders' approval to diversify its principal activities to include property development. Currently, the Group's property development portfolio comprises 2 projects, which are in Selayang known as Res 280 ("Selayang Res 280") with an estimated GDV of RM155.0 million and Johor ("Johor Project") with an estimated GDV of RM1.2 billion. Selayang Res 280 which comprises a 21-storey commercial building with 12 units of 2-storey shop offices and 280 units of SOHO (small office/home office) had received good response with more than 60% of the total units sold at its official launch on 6 October 2013. The project had commenced construction in early October 2013 and is expected to be completed over the next 3 years.

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The Johor Project which is strategically located in the city of Johor Bahru with a land area of approximately 12.7 acres is preliminarily planned for a mixed commercial, residential development, as well as such other development content as may be revised from time to time subject to approvals from the relevant authorities and products that are in line with market trend. The Johor Project is targeted to be launched in the second half of 2014 and is expected to be completed over the next 4 years. The company, Nusantara Megajuta Sdn Bhd, an indirect 50.01% subsidiary of Salcon, will be submitting the relevant proposed development plans to the relevant authorities, which include *inter-alia* Majlis Perbandaran Johor Bahru and the local state authority for approval, tentatively by fourth quarter of 2013. Salcon had on 12 September 2013 announced that Nusantara Megajuta Sdn Bhd intends to appoint Eco World Development Sdn Bhd as the project manager for the Johor Project. As the Johor Project is strategically located approximately 2 kilometres north of the Central Business District of Johor Bahru and the Causeway of Singapore, which is sited within the Flagship Zone A of the Iskandar Malaysia Economic Corridor, the Group expects the Johor Project to receive positive response in tandem with the growth prospects of Iskandar Malaysia.

After the completion of the Proposed Disposals, the Group would be able to leverage on its improved balance sheet to selectively acquire land or enter into joint venture(s) for property development in strategic locations in Klang Valley, Penang and Johor. Going forward, the Group expects the earnings contribution from the property development division to surpass the earnings from the engineering and construction division after a period of two years.

For the engineering and construction division, the Group is mainly involved in the design and construction of water treatment plants, sewerage and wastewater facilities and related works. The Group's subsidiaries also provide mechanical and electrical engineering services for general industries. For the FYE 31 December 2012, overseas projects contributed approximately 12% of the revenue for this division whilst the balance of the revenue is from the local market. The key overseas market for this division is Sri Lanka.

The Group managed to increase its order book by RM210 million for the FYE 31 December 2013, which comprise mainly of the construction of water treatment plant, WWTP and pipe laying projects. The current outstanding order book of RM330 million as at the LPD is expected to be completed within the next 3 years. Amongst the notable projects which the Group has secured are Package D55 Sewage Pipes network in Klang, Selangor and Kalu Ganga Water Supply in Sri Lanka. The Group will leverage on its expertise, experience and track record to continue bidding for projects locally as well as overseas such as Sri Lanka. The Group successfully completed the Batticaloa Water Supply and Kelani Right Bank Water Treatment projects, both in Sri Lanka in 2011 and 2012, respectively as well as the Dong Tam Water Treatment Plant project in Vietnam in 2011. As at the LPD, the Group has also participated in tenders for a total amount of RM2.2 billion worth of projects in water and wastewater related projects. Amongst the notable projects which the Group has tendered for include Langat 2 water treatment plant in Selangor and the Pengerang water treatment plant in Johor, which are currently pending decision from the relevant authorities.

7. RISK FACTORS

Shareholders should consider the following risk factors arising from the Proposed Disposals (which may not be exhaustive):

7.1 Failure/Delay in the completion of the Proposed Disposals

The completion of the Proposed Disposals are conditional upon the conditions of the SPA-A and SPA-B as set out in Sections 2.3.2 and 2.4.2 of this Circular being satisfied. The non-fulfillment of the conditions may result in the SPAs being terminated and the Company may be required to repay to the Purchaser an amount equivalent to two times the deposits received as disclosed in Sections 2.3.1 and 2.4.1 of this Circular. There is no assurance that the Proposed Disposals can be completed within the time period permitted under the SPAs.

Should a delay or non-completion occur, the Group may lose the opportunity to dispose the Target Companies. Consequently, the Group will not be able to utilise the proceeds from the Proposed Disposals in the manner set out in Section 5 of this Circular. Nevertheless, the Board will take reasonable steps such as assigning dedicated staffs to review and monitor closely the progress of the Proposed Disposals and liaising with the relevant authorities to ensure that the conditions are met within the stipulated timeframe and that every effort is made to obtain all the necessary approvals for the Proposed Disposals.

7.2 Legal risks

The Company may be subject to certain legal risks as a result of representations, warranties or covenants given or to be given pursuant to the SPAs for the Proposed Disposals or any documents executed therewith. Salcon may also be subjected to contractual risks as a result of non-fulfilment of its obligations under the SPAs for the Proposed Disposals.

In this respect, the Company endeavors to ensure full compliance in relation to fulfillment of its obligations under the SPAs for the Proposed Disposals.

7.3 Adjustments to be made to the Consideration-B

The SPA-B provides BEWG to pay the Vendors part of the Consideration-B of RMB38.9 million (equivalent to approximately RM20.16 million) in the manner as set out in Sections 2.4.1 (iv) to (vi) of this Circular.

As the Changle Project is still in the testing and commissioning stage whilst the Pipeline Acquisition is still under negotiation stage, there can be no firm assurance that the Changle Project and Pipeline Acquisition can be completed on time and consequently, the Consideration-B may be reduced. This is notwithstanding that Salcon may take all reasonable steps to mitigate occurrence of such adverse variations.

The Company does not expect any complication and delay in increasing the water tariff for the Project of Fujian Nan An Raw Water Plant as the Fujian government has set up a special task committee to review the application for the water tariff adjustment. The Company had also assigned a dedicated team to follow-up closely on the matter with the aforementioned special task committee. As at the LPD, the said application is still pending decision from the Fujian government.

7.4 Loss of contribution and future income from the Target Companies

Upon completion of the Proposed Disposals, the Target Companies which are major contributor to the Salcon Group in terms of profitability, will no longer be subsidiaries of the Company and Salcon will cease to consolidate the results of the Target Companies.

Based on the audited financial statements of the Group for the FYE 31 December 2010 to 2012, the contributions of the Target Companies to the Group are as follows:

	Revenue			Segment profit		
	FYE 31 December			FYE 31 December		
	2010	2011	2012	2010	2011	2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Contribution of the Target Companies	198,122	158,464	158,660	23,127	27,087	46,437
Total Salcon Group	549,879	472,462	340,806	65,933	55,907	65,143
% contribution of Target Companies	36.03%	33.54%	46.55%	35.08%	48.45%	71.28%

As disclosed in Section 5 of this Circular, the Group intends to utilise approximately RM243.0 million from the proceeds arising from the Proposed Disposals for future investments to enhance the income-generating capability of the Salcon Group. However, there is no assurance that Salcon will be successful in finding suitable investments or that the proposed future investments will be successful and able to generate sufficient earnings to compensate for the loss of contribution from the Target Companies. To mitigate such risks, the Board will actively seek to identify suitable investments as well as take reasonable steps including assessing the merits and risks of each investment as well as conducting due diligence on the proposed investments.

8. EFFECTS

8.1 Share capital and substantial shareholders' shareholding

The Proposed Disposals will not have any effect on the share capital and substantial shareholders' shareholdings of Salcon as the Proposed Disposals do not involve any issuance of new ordinary shares of RM0.50 each in Salcon.

8.2 Earnings and EPS

Save for the expected gain arising from the Proposed Disposals, the Proposed Disposals are not expected to have a material effect on the earnings of the Salcon Group for the FYE 31 December 2013.

Upon completion of the Proposed Disposals, the Salcon Group is expected to realise a net gain attributable to owners of the Company of approximately RM78.01 million based on the latest audited financial statements of the Salcon Group for the FYE 31 December 2012 (after incorporating the gain arising from the acquisition of the remaining 40% equity interests from the non-controlling interests of Salcon Darco prior to the proposed disposal of Salcon Darco). The net gain attributable to owners of the Company represents an EPS of approximately RM0.13. The net gain attributable to owners of the Company was derived as below.

Gain by Salcon for the proposed disposal of Target Companies-A:

	RM'000
Disposal consideration for SPA-A	159,088
(Less): Provision for cost to complete existing project	<u>(2,591)</u>
	156,497
(Less): Cost of investment	<u>(126,718)</u>
Gain on disposal	<u>29,779</u>

Gain by Salcon Water sub-group for the proposed disposals of Target Companies-B:

	RM'000
Disposal consideration for SPA-B	335,793
(Less): Adjustments for contingent considerations	<u>(11,400)</u>
	324,393
(Less): Cost of investment	<u>(144,635)</u>
Gain on disposal	<u>179,758</u>

Net gain for the Proposed Disposals at Group level:

	RM'000
Gain on disposal by Salcon	29,779
Share of 60% gain on disposal from Salcon Water sub-group	<u>107,855</u>
	137,634
(Less): Post-acquisition reserve	<u>(66,522)</u>
Net gain attributable to owners of the Company	71,112
Add: Gain on acquisition of the remaining 40% equity interests from the non-controlling interests of Salcon Darco prior to the proposed disposal of Salcon Darco	6,902
Net gain attributable to owners of the Company (after incorporating gain on acquisition of the remaining 40% equity interests from the non-controlling interests of Salcon Darco prior to the proposed disposal of Salcon Darco)	<u>78,014</u>

The Proposed Disposals are expected to contribute positively to the future earnings of the Salcon Group. Assuming the benefits arising from the utilisation of proceeds materialise, the proceeds received from the Proposed Disposals are expected to strengthen the Salcon Group's future ability to generate earnings through the contributions from the proposed future investments.

For illustration purposes, assuming that the Proposed Disposals had been completed on 1 January 2012, the effects of the Proposed Disposals on our consolidated EPS for the FYE 31 December 2012 are as follows:

	FYE 31 December 2012 [^] RM'000	After the Proposed Disposals RM'000
Consolidated PAT attributable to owners of the Company	11,282	11,282
(Less): PAT of Target Companies and its subsidiaries attributable to Salcon Group	-	(16,825) ⁽¹⁾
Consolidated PAT / (LAT) attributable to owners of the Company	11,282	(5,543)
Number of Shares in issue ('000)	521,738	521,738
EPS / (LPS) (sen)	2.16	(1.06)

Notes:

[^] As extracted from the audited consolidated financial statements of the Company for the FYE 31 December 2012.

(1) Assuming the acquisition of 40% equity interest in Salcon Darco by Salcon was completed on 1 January 2012 and Salcon Darco will be a wholly-owned subsidiary of Salcon and its results will be accounted for in our Group's consolidated results.

8.3 NA per share and gearing

Based on the latest audited consolidated financial statements of the Company as at 31 December 2012, the proforma effects of the Proposed Disposals on the Company's NA per Share and gearing are set out as follows:

	Audited as at 31 December 2012 RM'000	After adjusting for events after 31 December 2012 up to LPD Proforma I ⁽¹⁾ RM'000	Proforma II ⁽²⁾ RM'000	After the Proposed Disposals RM'000
Share capital	260,869	300,238	300,238	300,238
Reserves				
- Share premium	36,627	45,363	45,363	45,363
- Warrant reserve	22,150	22,150	22,150	22,150
- Translation reserve	13,309	13,309	13,309	5,599
- Share option reserve	3,909	4,538	4,538	4,538
Retained earnings	79,691	75,260	82,162	153,274
Shareholders' equity	416,555	460,858	467,760	531,162
Non-controlling interests	225,490	225,490	185,901	141,589
Total equity	642,045	686,348	653,661	672,751
Number of Shares outstanding ('000)	521,738	600,476	600,476	600,476
NA per Share (RM)	0.80	0.77	0.78	0.88
Total borrowings (RM'000)	343,660	327,907 ⁽³⁾	327,907	8,413 ⁽⁴⁾
Gearing (times)	0.54	0.48	0.50	0.01

Notes:

- (1) *Proforma I: After adjusting for 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, the 30,135,250 employee share options ("Options") granted and 24,712,400 Options which were exercised at an issue price ranging from RM0.50 to RM0.57 pursuant to the Company's employee share option scheme.*
- (2) *Proforma II: After adjusting for the acquisition of 40% equity interest in Salcon Darco for a total cash consideration of RMB63,000,000, which was completed on 26 July 2013.*
- (3) *Assuming repayment of borrowings of RM15,753,000 pursuant to the private placement completed by the Company on 20 August 2013.*
- (4) *After excluding borrowings of the Target Companies of RM217,094,127 and assuming repayment of borrowing of RM102,400,000.*

9. APPROVALS REQUIRED

The Proposed Disposals are conditional upon the following approvals being obtained:

- (i) the shareholders of Salcon at an EGM to be convened; and
- (ii) any other relevant authorities and/or parties, if required.

10. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

None of the Directors and/or major shareholders of Salcon and/or persons connected with a director or major shareholder of Salcon has any interest, either direct or indirect, in the Proposed Disposals.

11. DIRECTORS' RECOMMENDATION

The Board, having considered all aspects of the Proposed Disposals including but not limited to the rationale, salient terms of the SPAs, risk factors and effects of the Proposed Disposals, is of the opinion that the Proposed Disposals are in the best interests of the Company. Accordingly, the Board recommends that you vote in favour of the resolution pertaining to the Proposed Disposals to be tabled at the forthcoming EGM.

12. OTHER INTENDED CORPORATE EXERCISES WHICH HAVE BEEN ANNOUNCED BUT NOT YET COMPLETED

There are no other corporate exercises which have been announced by our Company but not yet completed as at the LPD.

The Proposed Disposals are not conditional or inter-conditional upon any other proposals.

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13. TENTATIVE TIMETABLE FOR IMPLEMENTATION

Barring any unforeseen circumstances, the Proposed Disposals are expected to be completed by end of December 2013. The indicative timetable for the implementation of the Proposed Disposals are as follows:

Event	Tentative timing
EGM	27 November 2013
Completion of the Proposed Disposals	End December 2013

14. EGM

The EGM for the Proposed Disposals, the notice of which is enclosed in this Circular, 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. or at any adjournment thereof, for the purpose of considering and if thought fit, passing the resolution pertaining to the Proposed Disposals.

If you are unable to attend and vote in person at the EGM, you may complete, sign and return the enclosed Proxy Form in accordance with the instructions printed therein as soon as possible and in any event, so as to arrive at the registered address of the Company at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan, no later than forty-eight (48) hours before the time fixed for holding the EGM or any adjournment thereof. The lodgement of the Proxy Form does not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

15. FURTHER INFORMATION

Shareholders are advised to refer to the Appendices set out in this Circular for further information.

Yours faithfully
For and on behalf of the Board of
SALCON BERHAD

TAN SRI DATO' TEE TIAM LEE
Executive Deputy Chairman

INFORMATION ON SALCON DARCO AND ITS SUBSIDIARIES

1. HISTORY AND BUSINESS

Salcon Darco was incorporated in Singapore under the Singapore Companies Act on 8 December 2001 as a private limited company under the name of Darco Environmental Pte Ltd. On 8 August 2012, Salcon acquired 60% equity interest in Salcon Darco from Darco Water Technologies Limited, a company incorporated in the Republic of Singapore. On 1 November 2012, Salcon Darco assumed its present name. Subsequently, Salcon completed the acquisition of the remaining 40% equity interest in Salcon Darco on 26 July 2013.

Salcon Darco is an investment holding company whilst the principal activities of its subsidiaries are further detailed in Section 5 herein.

2. SHARE CAPITAL

As at the LPD, the issued and paid-up share capital of Salcon Darco is SGD25,768,459 comprising 25,768,459 ordinary shares. Salcon Darco does not have an authorised share capital.

3. DIRECTORS

The directors of Salcon Darco and their respective shareholdings in Salcon Darco as at the LPD are as follows:

Name	Designation	Nationality	<----- Direct ----->		<----- Indirect ----->	
			No. of ordinary shares	%	No. of ordinary shares	%
Ooi Cheng Swee	Director	Malaysian	-	-	-	-
Law Woo Hock	Director	Malaysian	-	-	-	-
Tee Xun Hao	Director	Malaysian	-	-	-	-
Jean-Paul Max Alain Binot	Director	Belgian	-	-	-	-

4. SUBSTANTIAL SHAREHOLDERS

Salcon Darco is a wholly-owned subsidiary of Salcon.

5. SUBSIDIARY AND ASSOCIATE COMPANY

Save as disclosed below, Salcon Darco does not have any other subsidiary or associated companies as at the LPD:

Company	Date and place of incorporation	Equity interest (%)	Issued and paid-up share capital/ registered capital	Principal activities
<u>Held by Salcon Darco</u>				
Deqing Darco	13.12.2006 PRC	100.00	USD11,960,000	Management and operation of water production and sale of water in Deqing county, Zhejiang Province
Globe Industrial	17.07.2002 Hong Kong	95.58	HKD226,353	Investment holding
<u>Held by Globe Industrial</u>				
Deqing Huanzhong	28.09.2002 PRC	88.32	USD8,939,000	Management and operation of water production and sale of water in Deqing county, Zhejiang Province

INFORMATION ON SALCON DARCO AND ITS SUBSIDIARIES (Cont'd)

Deqing Darco and Deqing Huanzhong each currently operates a water treatment plant located in Deqing County, Zhejiang Province, PRC. The details of the concession held by Deqing Darco and Deqing Huanzhong are set out in Section 1 and Section 2 of Appendix VII, respectively.

6. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

As at the LPD, there are no material commitments or contingent liabilities incurred or known to be incurred by Salcon Darco and its subsidiaries ("**Salcon Darco Group**") that are likely to have a material adverse effect on the Salcon Darco Group's financial position.

7. MATERIAL CONTRACTS

Salcon Darco Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the past two (2) years immediately preceding LPD.

8. MATERIAL LITIGATION

Save as disclosed below, as at the LPD, Salcon Darco Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, and our Board has no knowledge of any proceedings pending or threatened against Salcon Darco Group or of any facts likely to give rise to any proceedings which may materially affect the financial position or business of Salcon Darco Group:

- (i) On 30 September 2011, Fan Ming Chun ("**the Petitioner**") filed a suit against Thye Kim Meng ("**First Respondent**"), Darco Environmental Pte Limited ("**Second Respondent**") and Globe Industrial ("**Third Respondent**") in the High Court of the Hong Kong Special Administrative Region Court of First Instance Miscellaneous under Proceedings No. 189 of 2011 seeking *inter alia*, for a declaration that the increase of the share capital and allotment of new shares in Globe Industrial to Darco Environmental Pte Limited resulting in the dilution of shares held by the Petitioner were void and invalid ("**the Suit**"). As at the LPD, the Petitioner has not proceeded further and there is no hearing date(s) scheduled for the Suit. The Directors of Globe Industrial are of the opinion that Globe Industrial will not suffer any losses or damages and will not be exposed to any financial risk regardless of the outcome of the Suit as the Petitioner is merely seeking for a declaratory relief from the court.

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INFORMATION ON SALCON DARCO AND ITS SUBSIDIARIES (Cont'd)
9. FINANCIAL SUMMARY
9.1 Proforma Salcon Darco Group

No consolidated financial statements have been prepared by Salcon Darco for the past three (3) years from FYE 31 December 2010 to FYE 31 December 2012 to include the results of its subsidiaries as Salcon, being the immediate holding company of Salcon Darco, prepared the consolidated financial statements. For illustration purposes, the proforma unaudited consolidated financial results of the Salcon Darco Group for the past three (3) years from FYE 31 December 2010 to 31 December 2012 (based on the audited financial statements of Salcon Darco and its subsidiaries for the respective financial years and the unaudited financial results of Salcon Darco and its subsidiaries for the six (6) months FPE 30 June 2012 and FPE 30 June 2013) are as follows:

	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	SGD	RM ⁽¹⁾	SGD	RM ⁽²⁾	SGD	RM ⁽³⁾	SGD	RM ⁽⁴⁾	SGD	RM ⁽⁵⁾
Revenue	5,248,153	12,521,569	6,459,380	15,778,327	9,216,462	23,068,805	4,491,956	11,249,205	5,277,604	13,262,619
Other income/ (expenses)	1,340,586	3,198,505	(103,544)	(252,927)	23,545	58,934	^	1	20,049	50,384
PBT/(LBT)	3,719,055	8,873,293	2,613,242	6,383,367	1,575,883	3,944,434	916,007	2,293,956	1,803,145	4,531,304
PATMI/ (LATMI)	3,267,953	7,797,010	1,782,788	4,354,816	863,893	2,162,323	565,071	1,415,107	1,425,324	3,581,839
Shareholders' funds	5,479,819	13,074,300	6,229,779	15,217,481	37,475,202	93,800,430	37,397,110	93,653,583	39,382,553	98,968,356
NA	5,479,819	13,074,300	6,229,779	15,217,481	37,475,202	93,800,430	37,397,110	93,653,583	39,382,553	98,968,356
Paid-up capital	200,000	477,180	200,000	488,540	25,768,459	64,498,453	25,768,459	64,531,952	25,768,459	64,756,137
Total interest bearing borrowings	11,573,295	27,612,724	12,138,314	29,650,260	9,727,783	24,348,640	10,559,781	26,444,860	13,300,555	33,424,295
NA per share	27.40	65.37	31.15	76.09	1.45	3.64	1.45	3.63	1.53	3.84
Gross EPS (cent)	1,633.98	3,898.50	891.39	2,177.41	3.35	8.39	2.19	5.49	5.53	13.90
Net EPS (cent)	1,633.98	3,898.50	891.39	2,177.41	3.35	8.39	2.19	5.49	5.53	13.90
Current ratio (times)	0.46		0.47		0.80		0.78		1.48	
Gearing ratio (times)	2.11		1.95		0.26		0.28		0.34	

INFORMATION ON SALCON DARCO AND ITS SUBSIDIARIES (Cont'd)

Notes:

[^] Less than SGD1.00.

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) SGD1: RM2.3859 for FYE 31 December 2010

(2) SGD1: RM2.4427 for FYE 31 December 2011

(3) SGD1: RM2.5030 for FYE 31 December 2012

(4) SGD1:RM2.5043 for FPE 30 June 2012

(5) SGD1:RM2.5130 for FPE 30 June 2013

9.2 Salcon Darco

The audited financial results of Salcon Darco for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	SGD	RM ⁽¹⁾	SGD	RM ⁽²⁾	SGD	RM ⁽³⁾	SGD	RM ⁽⁴⁾	SGD	RM ⁽⁵⁾
Other income/ (expenses)	1,340,583	3,198,497	(103,546)	(252,932)	23,545	58,933	-	-	-	-
PBT/(LBT)	1,328,275	3,169,131	(118,621)	(289,756)	2,253	5,639	20,840	52,190	(48,247)	(121,245)
PATMI/(LATMI)	1,328,275	3,169,131	(118,621)	(289,756)	2,253	5,639	20,840	52,190	(48,247)	(121,245)
Shareholders' funds	2,119,484	5,056,877	2,000,863	4,887,508	27,571,575	69,011,652	27,590,162	69,094,043	27,523,328	69,166,123
NA	2,119,484	5,056,877	2,000,863	4,887,508	27,571,575	69,011,652	27,590,162	69,094,043	27,523,328	69,166,123
Paid-up capital	200,000	477,180	200,000	488,540	25,768,459	64,498,453	25,768,459	64,531,952	25,768,459	64,756,137
Total interest bearing borrowings	-	-	-	-	-	-	-	-	-	-
NA per share	10.60	25.28	10.00	24.44	1.07	2.68	1.07	2.68	1.07	2.68
Gross EPS/ (LPS) (cent)	664.14	1,584.57	(59.31)	(144.88)	0.01	0.02	0.08	0.20	(0.19)	(0.47)
Net EPS/(LPS) (cent)	664.14	1,584.57	(59.31)	(144.88)	0.01	0.02	0.08	0.20	(0.19)	(0.47)
Current ratio (times)	0.46		0.46		0.58		0.09		0.35	
Gearing ratio (times)	-		-		-		-		-	

INFORMATION ON SALCON DARCO AND ITS SUBSIDIARIES (Cont'd)**Notes:**

- (a) The figures in RM currency are unaudited and are provided for comparison purposes.
- (b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:
- (1) SGD1: RM2.3859 for FYE 31 December 2010
 - (2) SGD1: RM2.4427 for FYE 31 December 2011
 - (3) SGD1: RM2.5030 for FYE 31 December 2012
 - (4) SGD1:RM2.5043 for FPE 30 June 2012
 - (5) SGD1:RM2.5130 for FPE 30 June 2013

Commentary on past performance**FYE 31 December 2010**

Salcon Darco is an investment holding company and has not recorded any revenue or received any dividends during the FYE 31 December 2010. Other income comprises gain on foreign exchange in respect of advances from the holding company. The PBT of approximately SGD1.33 million was attributable to the gain on foreign exchange amounting to SGD1.34 million.

FYE 31 December 2011

Salcon Darco has not recorded any revenue or received any dividends during the FYE 31 December 2011. Other income comprises loss on foreign exchange in respect of advances from the holding company. The LBT of SGD0.12 million incurred for FYE 31 December 2011 were mainly due to unrealised foreign exchange losses amounting to SGD0.10 million in respect of advances from the holding company.

FYE 31 December 2012

Salcon Darco has not recorded any revenue or received any dividends during the FYE 31 December 2012. Other income comprises gain on foreign exchange in respect of advances from the holding company. The PBT of SGD2,253 recorded for FYE 31 December 2012 were mainly due to unrealised foreign exchange gain amounting to SGD0.02 million in respect of advances from the holding company.

6 months FPE 30 June 2013

Salcon Darco has not recorded any revenue or received any dividends during the financial period under review. The LBT incurred during the financial period is SGD48,247 compared to PBT of SGD20,840 of the preceding year corresponding period. The LBT incurred for the financial period was due to operating costs incurred including insurance premium paid.

Adoption of accounting policies

Salcon Darco has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

INFORMATION ON SALCON DARCO AND ITS SUBSIDIARIES (Cont'd)**Audit qualification**

The financial statements of Salcon Darco for FYE 31 December 2012 and FYE 31 December 2010 were subject to a disclaimer of opinion. The basis for disclaimer of opinion was due to the auditors being unable to obtain sufficient evidence to satisfy themselves that the carrying amount of investments in subsidiaries are carried at no more than its recoverable amount as at the respective date of the financial year end. Accordingly, the auditors do not express an opinion on the financial statements.

The financial statements of Salcon Darco for FYE 31 December 2012 and FYE 31 December 2010 were also subject to emphasis of matter in view that the company's current liabilities exceed its current assets. However, the financial statements of the Company have been prepared on a going concern basis as the immediate and ultimate holding company of Salcon Darco has confirmed its intention to provide the necessary support to the company to continue its operations and meet its liabilities as and when they fall due. The auditors' opinion is not qualified in respect of this matter.

There is no audit qualification for the financial statements of Salcon Darco for FYE 31 December 2011.

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9.3 Deqing Darco

9.3 Deqing Darco

The audited financial results of Deqing Darco for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	RMB	RM ⁽¹⁾	RMB	RM ⁽²⁾	RMB	RM ⁽³⁾	RMB	RM ⁽⁴⁾	RMB	RM ⁽⁵⁾
Revenue	-	-	3,471,749	1,747,678	25,757,975	12,644,590	11,800,253	5,921,367	15,083,680	7,801,279
PBT/(LBT)	-	-	(2,437,551)	(1,227,063)	(1,660,156)	(814,971)	(162,591)	(81,588)	4,719,065	2,440,700
PATMI/(LATMI)	-	-	(2,437,551)	(1,227,063)	(1,660,156)	(814,971)	(162,591)	(81,588)	4,452,148	2,302,651
Shareholders' funds	87,534,925	40,808,782	85,097,375	42,838,019	83,437,219	40,959,331	84,934,784	42,620,275	87,889,366	45,456,380
NA	87,534,925	40,808,782	85,097,375	42,838,019	83,437,219	40,959,331	84,934,784	42,620,275	87,889,366	45,456,380
Paid-up capital	87,534,925	40,808,782	87,534,925	44,065,081	87,534,925	42,970,895	87,534,925	43,925,025	87,534,925	45,273,063
Total interest bearing borrowings	59,229,353	27,612,724	58,900,000	29,650,260	49,600,000	24,348,640	52,700,000	26,444,860	64,625,473	33,424,295
NA per share	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current ratio (times)	0.30		0.13		0.13		0.12		0.28	
Gearing ratio (times)	0.68		0.69		0.59		0.62		0.74	

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end.

(1) RMB1: RM0.4662 for FYE 31 December 2010

(2) RMB1: RM0.5034 for FYE 31 December 2011

(3) RMB1: RM0.4909 for FYE 31 December 2012

(4) RMB1: RM0.5018 for FPE 30 June 2012

(5) RMB1: RM0.5172 for FPE 30 June 2013

INFORMATION ON SALCON DARCO AND ITS SUBSIDIARIES (Cont'd)**Commentary on past performance****FYE 31 December 2010**

No revenue was generated for FYE 31 December 2010 as Deqing Darco only commenced operation of its water treatment plant in October 2011. The borrowings amounting to RMB59.23 million was obtained to finance the construction of the water treatment plant.

FYE 31 December 2011

Deqing Darco commenced operation of its water treatment plant in October 2011 and recorded revenue of RMB3.47 million for FYE 31 December 2011 from supplying bulk water. The LBT of RMB2.44 million incurred for FYE 31 December 2011 was mainly due to pre-operating expenses including amortisation of construction costs.

FYE 31 December 2012

Revenue for FYE 31 December 2012 increased by more than 100% to RMB25.76 million compared to the previous year due the full year operations compared to 3 months operations the previous year. Although revenue increased significantly, Deqing Darco incurred LBT of RMB1.66 million due to higher cost of sales for the treatment of water.

6 months FPE 30 June 2013

For FPE 30 June 2013, the Company recorded revenue and PBT of RMB15.08 million and RMB4.72 million, respectively. This represents an improvement of 28% and 3002% respectively from the preceding year corresponding period. The improvement in the revenue and PBT were mainly attributed to the higher output of treated water supplied.

Adoption of accounting policies

Deqing Darco has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

Audit qualification

There is no audit qualification for the financial statements of Deqing Darco for FYE 31 December 2010 to FYE 31 December 2012.

INFORMATION ON SALCON DARCO AND ITS SUBSIDIARIES (Cont'd)
9.4 Globe Industrial

The audited financial results of Globe Industrial for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	←-----FYE 31 December-----→									
	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	HKD	RM ⁽¹⁾	HKD	RM ⁽²⁾	HKD	RM ⁽³⁾	HKD	RM ⁽⁴⁾	HKD	RM ⁽⁵⁾
Revenue	6,686,569	2,648,904	7,223,461	2,953,680	-	-	-	-	-	-
Other income	19	8	12	5	3	1	3	1	-	-
PBT/(LBT)	4,246,009	1,682,069	6,651,892	2,719,965	(300,023)	(118,369)	(21,957)	(9,028)	-	-
PATM/(LATMI)	4,246,009	1,682,069	6,651,892	2,719,965	(300,023)	(118,369)	(21,957)	(9,028)	-	-
Shareholders' funds	9,776,843	3,873,126	16,338,735	6,680,925	46,729,063	18,436,204	47,014,118	19,330,136	46,729,051	19,146,439
NA	9,776,843	3,873,126	16,338,735	6,680,925	46,729,063	18,436,204	47,014,118	19,330,136	46,729,051	19,146,439
Paid-up capital	111,120	44,021	111,120	45,437	226,353	89,304	226,353	93,066	226,353	92,744
Total interest bearing borrowings	-	-	-	-	-	-	-	-	-	-
NA per share	87.98	34.86	147.04	60.12	206.44	81.45	207.70	85.40	206.44	84.59
Gross EPS/ (LPS) (cent)	3,821	1,514	5,986	2,448	(132.55)	(52.29)	(9.70)	(3.99)	-	-
Net EPS/ (LPS) (cent)	3,821	1,514	5,986	2,448	(132.55)	(52.29)	(9.70)	(3.99)	-	-
Current ratio (times)	0.01	-	0.24	-	18.22	-	63.64	-	18.22	-
Gearing ratio (times)	-	-	-	-	-	-	-	-	-	-

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) HKD100: RM39.6153 for FYE 31 December 2010

(2) HKD100: RM40.8901 for FYE 31 December 2011

(3) HKD100: RM39.4534 for FYE 31 December 2012

(4) HKD100: RM41.1156 for FPE 30 June 2013

(5) HKD100: RM40.9733 for FPE 30 June 2013

INFORMATION ON SALCON DARCO AND ITS SUBSIDIARIES (Cont'd)**Commentary on past performance****FYE 31 December 2010**

Globe Industrial is an investment holding company. For FYE 31 December 2010, Globe Industrial recorded revenue and PBT of approximately HKD6.69 million and HKD4.25 million, respectively. The revenue was attributable to dividends received from its subsidiary, namely Deqing Huanzhong.

FYE 31 December 2011

For FYE 31 December 2011, Globe Industrial recorded revenue and PBT of approximately HKD7.22 million and HKD6.65 million, respectively. The increase in revenue was attributable to higher dividend income while the higher PBT was due to the interest savings as the Company has fully repaid its amount due to ultimate holding company.

FYE 31 December 2012

No revenue was generated for FYE 31 December 2012 as Globe Industrial did not receive any dividend income during the said financial year due to transition period after the acquisition of the 60% equity interest in Salcon Darco by Salcon. The LBT of HKD0.30 million incurred for FYE 31 December 2012 were mainly due to administrative and operating expenses incurred including insurance, legal and professional fees.

6 months FPE 30 June 2013

For FPE 30 June 2013, Globe Industrial did not receive any dividend income. No administrative and operating expenses had been incurred during the period under review as the expenses such as audit fee and secretarial fee were mostly incurred/to be incurred during the second half of the financial year.

Adoption of accounting policies

Globe Industrial has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

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INFORMATION ON SALCON DARCO AND ITS SUBSIDIARIES (Cont'd)**Audit qualification**

There is no audit qualification for the financial statements of Globe Industrial for FYE 31 December 2010 to FYE 31 December 2011. Save for the non-preparation of the consolidated financial statements (hence, the financial statements do not show a true state of the affairs of the group as a whole), the auditors are of the opinion that the financial statements give a true and fair view of the state of the company's affairs as at the respective financial year end and of its profit and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

The financial statements of Globe Industrial for FYE 31 December 2012 was subject to an adverse audit opinion arising from disagreement about an accounting treatment whereby the consolidated financial statements have not been prepared to include the result of the subsidiary. This does not comply with Section 124 of the Hong Kong Companies Ordinance and Hong Kong Accounting Standard 27 – "Consolidated and Separate Financial Statements". The auditors are of the opinion that 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 the Hong Kong Financial Reporting Standards and the requirements of the Hong Kong Companies Ordinance. In all other respects, the auditors are of the opinion that the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

9.5 Deqing Huanzhong

The audited financial results of Deqing Huanzhong for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	RMB	RM ⁽¹⁾	RMB	RM ⁽²⁾	RMB	RM ⁽³⁾	RMB	RM ⁽⁴⁾	RMB	RM ⁽⁵⁾
Revenue	21,176,887	9,872,665	22,004,307	11,076,968	21,234,906	10,424,215	10,617,453	5,327,838	10,559,434	5,461,339
Other income	-	-	811,570	408,544	1,427,949	700,980	-	-	624,470	322,976
PBT	8,627,397	4,022,092	10,290,466	5,180,221	9,924,903	4,872,135	4,648,032	2,332,382	4,276,583	2,211,849
PATMI	7,673,825	3,577,537	7,699,107	3,875,730	7,443,677	3,654,101	3,430,282	1,721,316	3,207,438	1,658,887
Shareholders' funds	63,925,770	29,802,194	64,718,435	32,579,260	72,162,112	35,424,381	68,148,717	34,197,026	75,369,549	38,981,131
NA	63,925,770	29,802,194	64,718,435	32,579,260	72,162,112	35,424,381	68,148,717	34,197,026	75,369,549	38,981,131
Paid-up capital	54,941,821	25,613,876	54,941,821	27,657,712	54,941,821	26,970,939	54,941,820	27,569,805	54,941,821	28,415,909
Total interest bearing borrowings	-	-	-	-	-	-	-	-	-	-

INFORMATION ON SALCON DARCO AND ITS SUBSIDIARIES (Cont'd)

FYE	2010		FYE 31 December 2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	RMB	RM ⁽¹⁾	RMB	RM ⁽²⁾	RMB	RM ⁽³⁾	RMB	RM ⁽⁴⁾	RMB	RM ⁽⁵⁾
NA per share	N/A		N/A		N/A		N/A		N/A	
Gross EPS	N/A		N/A		N/A		N/A		N/A	
Net EPS	N/A		N/A		N/A		N/A		N/A	
Current ratio (times)	13.63		3.35		4.81		4.39		5.93	
Gearing ratio (times)	-		-		-		-		-	

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) RMB1: RM0.4662 for FYE 31 December 2010

(2) RMB1: RM0.5034 for FYE 31 December 2011

(3) RMB1: RM0.4909 for FYE 31 December 2012

(4) RMB1:RM0.5018 for FPE 30 June 2012

(5) RMB1:RM0.5172 for FPE 30 June 2013

Commentary on past performance

FYE 31 December 2010

For FYE 31 December 2010, Deqing Huanzhong recorded revenue and PBT of approximately RMB21.18 million and RMB8.63 million, respectively. Revenue was mainly attributable to the supply of water from its Wukang Water Treatment Plant.

FYE 31 December 2011

For FYE 31 December 2011, Deqing Huanzhong recorded revenue and PBT of approximately RMB22.00 million and RMB10.29 million, respectively. This represents increase in revenue and PBT of 3.9% and 19.3%, respectively compared with the previous financial year. The increase in revenue was attributable to higher production of treated water while the higher PBT was due to other income which comprises interest income.

FYE 31 December 2012

For FYE 31 December 2012, Deqing Huanzhong recorded revenue and PBT of approximately RMB21.23 million and RMB9.92 million, respectively. Revenue for FYE 31 December 2012 declined slightly by 3.5% compared with the previous financial year. PBT for FYE 31 December 2012 declined by 3.6% mainly attributable to the lower revenue recorded for the financial year due to lower production of treated water. Other income for FYE 31 December 2012 increased by 76% due to higher interest income received from its cash and bank balances of approximately RMB6.45 million.

INFORMATION ON SALCON DARCO AND ITS SUBSIDIARIES (Cont'd)**6 months FPE 30 June 2013**

For FPE 30 June 2013, Deqing Huanzhong recorded revenue and PBT of approximately RMB10.56 million and RMB4.28 million, respectively. This represents decline in revenue and PBT of 0.5% and 7.9% respectively from the preceding year corresponding period. The decline in PBT was due to higher operating cost such as staff and administrative costs. Other income for FPE 30 June 2013 comprises interest income.

Adoption of accounting policies

Deqing Huanzhong has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

Audit qualification

There is no audit qualification for the financial statements of Deqing Huanzhong for FYE 31 December 2010 to FYE 31 December 2012.

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INFORMATION ON SALCON JIANGSU AND ITS SUBSIDIARIES

1. HISTORY AND BUSINESS

Salcon Jiangsu was incorporated in Hong Kong under the Companies Ordinance on 23 March 2004 under the name Salcon Linqu (Hong Kong) Limited as a private limited company. On 14 January 2005, the company changed its name to Salcon Yunnan (HK) Limited and assumed its present name on 6 November 2009.

Salcon Jiangsu is an investment holding company whilst the principal activities of its subsidiaries are further detailed in Section 5 herein.

2. SHARE CAPITAL

As at the LPD, the authorised share capital of Salcon Jiangsu is USD1,000 comprising 1,000 ordinary shares of USD1.00 each, all of which has been issued and fully paid-up.

3. DIRECTORS

The directors of Salcon Jiangsu and their respective shareholdings in Salcon Jiangsu as at the LPD are as follows:

Name	Designation	Nationality	<----- Direct ----->		<----- Indirect ----->	
			No. of ordinary shares	%	No. of ordinary shares	%
Tan Sri Dato' Tee Tiam Lee	Director	Malaysian	-	-	-	-
Dato' Leong Kok Wah	Director	Malaysian	-	-	-	-
Law Woo Hock	Director	Malaysian	-	-	-	-

4. SUBSTANTIAL SHAREHOLDERS

Salcon Jiangsu is a wholly-owned subsidiary of Salcon.

5. SUBSIDIARY AND ASSOCIATE COMPANY

Save as disclosed below, Salcon Jiangsu does not have any other subsidiary or associated companies as at the LPD:

Company	Date and place of incorporation	Equity interest (%)	Issued and paid-up share capital/ registered capital	Principal activities
Jiangsu Water	10.12.2009 PRC	66.67	RMB120,000,000	Design, build and operate water transmission ¹ in Jiangsu Province
Yizheng Wastewater	27.08.2003 PRC	100.00	RMB32,536,679	Management and operation of wastewater treatment plant in Yizheng city.

Yizheng Wastewater currently operates a WWTP located in Yizheng City, Jiangsu Province, PRC. The details of the concession held by Jiangsu Water and Yizheng Wastewater are set out in Section 9 and Section 3 of Appendix VII.

¹ Water transmission involves the raw water distribution or transfer from the reservoir to the water treatment plant.

INFORMATION ON SALCON JIANGSU AND ITS SUBSIDIARIES (Cont'd)**6. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES**

As at the LPD, there are no material commitments or contingent liabilities incurred or known to be incurred by Salcon Jiangsu and its subsidiaries ("Jiangsu Group") that are likely to have a material adverse effect on Jiangsu Group's financial position.

7. MATERIAL CONTRACTS

Save as disclosed below, Jiangsu Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the past two (2) years immediately preceding LPD:

- (i) An assets acquisition agreement dated 6 May 2013 entered into between Yizheng Wastewater and Water Bureau of Yizheng City wherein Yizheng Wastewater had acquired assets² of Phase 2 of the Yizheng Waste Water Treatment Plant located in Yizheng City, Jiangsu Province, PRC for a total cash consideration of RMB30,754,000 upon the terms and condition stated therein. The purchase consideration for the acquisition was funded through bank borrowings and internally generated funds.

8. MATERIAL LITIGATION

As at the LPD, Jiangsu Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, and our Board has no knowledge of any proceedings pending or threatened against Jiangsu Group or of any facts likely to give rise to any proceedings which may materially affect the financial position or business of Jiangsu Group.

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² The assets comprise processing plants, pipelines, machineries and equipment of Phase 2 of the WWTP.

9. INFORMATION ON SALCON JIANGSU AND ITS SUBSIDIARIES (Cont'd)

9. FINANCIAL SUMMARY

9.1 Proforma Jiangsu Group

No consolidated financial statements have been prepared by Salcon Jiangsu for the past three (3) years from FYE 31 December 2010 to FYE 31 December 2012 to include the results of its subsidiaries as Salcon, being the immediate holding company of Salcon Jiangsu, prepared the consolidated financial statements. For illustration purposes, the proforma unaudited consolidated financial results of the Jiangsu Group for the past three (3) years from FYE 31 December 2010 to 31 December 2012 (based on the audited financial statements of Salcon Jiangsu and its subsidiaries for the respective financial years and the unaudited financial results of Salcon Jiangsu and its subsidiaries for the six (6) months FPE 30 June 2012 and FPE 30 June 2013) are as follows:

	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	USD	RM ⁽¹⁾	USD	RM ⁽²⁾	USD	RM ⁽³⁾	USD	RM ⁽⁴⁾	USD	RM ⁽⁵⁾
Revenue	1,693,616	5,222,265	2,337,427	7,426,006	3,007,741	9,198,574	1,476,768	4,710,152	1,542,474	4,902,753
Other income	4	12	4	13	4	12	4	13	2	6
PBT/(LBT)	(737,649)	(2,274,541)	543,118	1,725,486	898,779	2,748,735	717,594	2,288,767	556,918	1,770,163
PATMI/ (LATMI)	(515,830)	(1,590,562)	165,050	524,364	383,741	1,173,595	422,788	1,348,481	329,775	1,048,190
Shareholders' funds	2,133,891	6,579,852	3,703,032	11,764,533	5,195,886	15,890,580	3,734,024	11,909,671	6,373,034	20,256,690
NA	2,133,891	6,579,852	3,703,032	11,764,533	5,195,886	15,890,580	3,734,024	11,909,671	6,373,034	20,256,690
Paid-up capital	1,000	3,084	1,000	3,177	1,000	3,058	1,000	3,190	1,000	3,179
Total interest bearing borrowings	3,175,028	9,790,200	2,535,222	8,054,400	1,765,654	5,399,900	1,730,616	5,519,800	894,950	2,844,600
NA per share	2,134	6,580	3,703	11,765	5,196	15,891	3,734	11,910	6,373	20,257
Gross EPS/ (LPS)	(516)	(1,591)	165	524	384	1,174	423	1,348	330	1,048
Net EPS / (LPS)	(516)	(1,591)	165	524	384	1,174	423	1,348	330	1,048
Current ratio (times)	0.84		0.84		0.70		0.90		0.72	
Gearing ratio (times)	1.49		0.68		0.34		0.46		0.14	

INFORMATION ON SALCON JIANGSU AND ITS SUBSIDIARIES (Cont'd)
Notes:

- (a) The figures in RM currency are unaudited and are provided for comparison purposes.
- (b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:
- (1) USD1: RM3.0835 for FYE 31 December 2010
- (2) USD1: RM3.1770 for FYE 31 December 2011
- (3) USD1: RM3.0583 for FYE 31 December 2012
- (4) USD1: RM3.1895 for FPE 30 June 2012
- (5) USD1: RM3.1785 for FPE 30 June 2013

9.2 Salcon Jiangsu

The audited financial results of Salcon Jiangsu for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	USD	RM ⁽¹⁾	USD	RM ⁽²⁾	USD	RM ⁽³⁾	USD	RM ⁽⁴⁾	USD	RM ⁽⁵⁾
Other income	4	12	4	13	4	12	4	13	2	6
PBT/(LBT)	(72,126)	(222,401)	(4,055)	(12,883)	(20,047)	(61,310)	121,143	386,386	111,388	354,047
PATMI/(LATMI)	(72,126)	(222,401)	(4,055)	(12,883)	(20,047)	(61,310)	121,143	386,386	111,388	354,047
Shareholders' funds	297,524	917,415	293,469	932,351	273,422	836,207	414,613	1,322,408	384,809	1,223,115
NA	297,524	917,415	293,469	932,351	273,422	836,207	414,613	1,322,408	384,809	1,223,115
Paid-up capital	1,000	3,084	1,000	3,177	1,000	3,058	1,000	3,190	1,000	3,179
Total interest bearing borrowings	-	-	-	-	-	-	-	-	-	-
NA per share	297.52	917.42	293.47	932.35	273.42	836.21	414.61	1,322.41	384.81	1,223.12
Gross EPS/(LPS)	(72.13)	(222.40)	(4.06)	(12.88)	(20.05)	(61.31)	121.14	386.39	111.39	354.05
Net EPS/(LPS)	(72.13)	(222.40)	(4.06)	(12.88)	(20.05)	(61.31)	121.14	386.39	111.39	354.05
Current ratio (times)	[^]	.	[^]	[^]	0.18		0.07		0.07	
Gearing ratio (times)	-	-	-	-	-	-	-	-	-	-

Notes:

[^] Negligible

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) USD1: RM3.0835 for FYE 31 December 2010

(2) USD1: RM3.1770 for FYE 31 December 2011

INFORMATION ON SALCON JIANGSU AND ITS SUBSIDIARIES (Cont'd)

(3) USD1: RM3.0583 for FYE 31 December 2012

(4) USD1: RM3.1895 for FPE 30 June 2012

(5) USD1: RM3.1785 for FPE 30 June 2013

Commentary on past performance

FYE 31 December 2010

Salcon Jiangsu is an investment holding company and has not recorded any revenue or received any dividend income during the FYE 31 December 2010. Other income comprises interest income. The LBT of USD72,126 incurred for the financial year was mainly due administrative and operating expenses incurred during the financial year such as audit fees as well as loss on foreign exchange amounting to USD66,123.

FYE 31 December 2011

No revenue was generated for FYE 31 December 2011 and Salcon Jiangsu did not receive any dividend income during the financial year. Other income comprises interest income. Salcon Jiangsu incurred lower LBT of USD4,055 for FYE 31 December 2011 mainly due to gain on foreign exchange amounting to USD2,882.

FYE 31 December 2012

No revenue was generated for FYE 31 December 2012 and Salcon Jiangsu did not receive any dividend income during the financial year. Other income comprises interest income. Salcon Jiangsu incurred higher LBT of USD20,047 for FYE 31 December 2012 mainly due to loss on foreign exchange amounting to USD12,970.

6 months FPE 30 June 2013

No revenue was generated and Salcon Jiangsu did not receive any dividend income during the financial period. Other income comprises interest income. The PBT of USD11,388 recorded during the financial period is 0.08% lower when compared to preceding year corresponding period. The PBT for the period was attributable to the gain on foreign exchange of USD113,324.

Adoption of accounting policies

Salcon Jiangsu has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

INFORMATION ON SALCON JIANGSU AND ITS SUBSIDIARIES (Cont'd)**Audit qualification**

The financial statements of Salcon Jiangsu for FYE 31 December 2010 was subject to a qualified opinion arising from disagreement about an accounting treatment whereby the consolidated financial statements have not been prepared to include the result of the subsidiary. This does not comply with Section 124 of the Hong Kong Companies Ordinance and Hong Kong Accounting Standard 27 – “Consolidated and Separate Financial Statements”. Save for the abovementioned, which is the basis for the qualified opinion, the auditors are of the opinion that the financial statements give a true and fair view of the state of affairs of Salcon Jiangsu as at 31 December 2010 and of its loss and cash flows for the financial year ended in accordance with the Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Without qualifying their opinion, the auditors also draw attention to the net loss and net current liabilities of the company for FYE 31 December 2010, which indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern basis.

There is no audit qualification for the financial statements of Salcon Jiangsu for FYE 31 December 2011 to FYE 31 December 2012.

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INFORMATION ON SALCON JIANGSU AND ITS SUBSIDIARIES (Cont'd)
9.3 Jiangsu Water

The audited financial results of Jiangsu Water for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	←-----FYE 31 December-----→						6-month FPE		6-month FPE	
	2010		2011		2012		30 June 2012		30 June 2013	
	RMB	RM ⁽¹⁾	RMB	RM ⁽²⁾	RMB	RM ⁽³⁾	RMB	RM ⁽⁴⁾	RMB	RM ⁽⁵⁾
Revenue	-	-	2,700,000	1,359,180	2,700,000	1,325,430	1,350,000	677,430	850,200	439,723
PBT/ (LBT)	(3,503,475)	(1,633,320)	1,600,774	805,830	4,032,259	1,979,436	347,181	174,215	(161,833)	(83,700)
PATMI/ (LATMI)	(3,503,475)	(1,633,320)	1,600,774	805,830	3,773,204	1,852,266	347,181	174,215	(161,833)	(83,700)
Shareholders' funds	116,992,063	54,541,700	118,592,837	59,699,634	122,366,042	60,069,490	122,633,314	61,537,397	124,379,117	64,328,879
NA	116,992,063	54,541,700	118,592,837	59,699,634	122,366,042	60,069,490	122,633,314	61,537,397	124,379,117	64,328,879
Paid-up capital	120,000,000	55,944,000	120,000,000	60,408,000	120,000,000	58,908,000	120,000,000	60,216,000	120,000,000	62,064,000
Total interest bearing borrowings	-	-	-	-	-	-	-	-	-	-
NA per share	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current ratio (times)	9.46		133.53		116.57		132.83		130.63	
Gearing ratio (times)	-		-		-		-		-	

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) RMB1: RM0.4662 for FYE 31 December 2010

(2) RMB1: RM0.5034 for FYE 31 December 2011

(3) RMB1: RM0.4909 for FYE 31 December 2012

(4) RMB1:RM0.5018 for FPE 30 June 2012

(5) RMB1:RM0.5172 for FPE 30 June 2013

INFORMATION ON SALCON JIANGSU AND ITS SUBSIDIARIES (Cont'd)

Commentary on past performance
FYE 31 December 2010

No revenue was generated during FYE 31 December 2010 as no fees payable to Jiangsu Water was received during the financial year. The LBT of RMB3.50 million incurred during FYE 31 December 2010 were mainly due to administrative and operating expenses incurred such as staff costs and interest expense. The water transfer project has yet to be carried out during the financial year.

FYE 31 December 2011

For FYE 31 December 2011, Jiangsu Water recorded revenue of RMB2.70 million and PBT of RMB1.60 million. Revenue recorded during the financial year was fees payable to Jiangsu Water from the government; pursuant to the concession agreement dated 12 December 2009 entered into between Water Bureau of Yizheng, Jiangsu Province, PRC and Jiangsu Water. The fees paid in respect of the RMB30.0 million pursuant to the Acquisition Agreement (as defined in page VII -15, Section 9 of Appendix VII of this Circular). Please refer to Section 9 of Appendix VII of this Circular for further details on the Acquisition Agreement. The water transfer project has yet to be carried out during the financial year.

FYE 31 December 2012

For FYE 31 December 2012, Jiangsu Water recorded revenue of RMB2.70 million, being fees payable to Jiangsu Water from the government and PBT of RMB4.03 million. PBT for FYE 31 December 2012 improved significantly by 151.9% mainly due to share of profit from its investment in the subsidiary (i.e. Yizheng Wastewater) amounting to RMB3.51 million. The water transfer project has yet to be carried out during the financial year.

6 months FPE 30 June 2013

For FPE 30 June 2013, Jiangsu Water recorded revenue of RMB850,200. However, the company incurred LBT of RMB161,833 mainly due to administrative expenses incurred. Revenue declined by 37% from the preceding year corresponding period due to suspension of the concession which contributed to the loss of RMB161,833 for the financial period, as compared to preceding year corresponding period which recorded a PBT of RMB347,181.

The concession was suspended on 6 May 2013 due to the substantial increase in the final estimated construction cost compared with the original estimate cost which rendered the project not viable. With the suspension of the concession, Jiangsu Water is currently a dormant company. Based on the concession suspension agreement, WBYP and Jiangsu Water will conduct an evaluation to assess the feasibility of continuing the project under the concession agreement after 5 years from the date of concession suspension agreement. In the event both parties fail to reach an agreement, the concession agreement will be terminated.

Further details on the concession agreement and concession suspension agreement are disclosed in Section 9, Appendix VII of this Circular.

INFORMATION ON SALCON JIANGSU AND ITS SUBSIDIARIES (Cont'd)

Adoption of accounting policies

Jiangsu Water has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

Audit qualification

There is no audit qualification for the financial statements of Jiangsu Water for FYE 31 December 2011 to FYE 31 December 2012. However, the financial statements for FYE 31 December 2010 is subject to an explanatory paragraph. The auditors highlighted that as of 31 December 2010, Jiangsu Water had increased its registered capital by RMB60.0 million from Yizheng Urban and Rural Water Co., Ltd and Salcon Jiangsu. However, Jiangsu Water did not register the increase in its registered capital with the Industrial and Commercial Authorities as at 31 December 2010. The matter has been resolved in the FYE 31 December 2011.

In addition to the above, the consolidated accounts for FYE 31 December 2010 of its wholly owned subsidiary, Yizheng Wastewater, was prepared in accordance with the delivery date listed in the supplemental agreement dated 1 December 2010 even though the registration date for the Yizheng Wastewater with the Industrial and Commercial Authorities was on 20 October 2010. Hence, the consolidation accounts for FYE 31 December 2010 comprises of Yizheng Wastewater accounts was only from the period 1 December 2010 to 31 December 2010. No proper accrual has been made on the property tax and land use tax.

9.4 Yizheng Wastewater

The audited financial results of Yizheng Wastewater for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	RMB	RM ⁽¹⁾	RMB	RM ⁽²⁾	RMB	RM ⁽³⁾	RMB	RM ⁽⁴⁾	RMB	RM ⁽⁵⁾
Revenue	11,201,767	5,222,264	12,051,697	6,066,824	16,038,181	7,873,143	8,036,513	4,032,722	8,629,215	4,463,030
PBT/ (LBT)	(898,372)	(418,821)	2,635,252	1,326,586	5,197,323	2,551,366	3,443,933	1,728,166	2,899,877	1,499,816
PATMI/ (LATMI)	(898,372)	(418,821)	782,773	394,048	3,505,310	1,720,757	2,528,609	1,268,856	2,174,908	1,124,862
Shareholders' funds	47,690,555	22,233,337	48,473,328	24,401,473	51,978,638	25,516,313	51,001,936	25,592,771	54,153,546	28,008,214
NA	47,690,555	22,233,337	48,473,328	24,401,473	51,978,638	25,516,313	51,001,936	25,592,771	54,153,546	28,008,214
Paid-up capital	32,536,680	15,168,600	32,536,680	16,378,965	32,536,680	15,972,256	32,536,680	16,326,906	32,536,680	16,827,971
Total interest bearing borrowings	21,000,000	9,790,200	16,000,000	8,054,400	11,000,000	5,399,900	11,000,000	5,519,800	5,500,000	2,844,600

INFORMATION ON SALCON JIANGSU AND ITS SUBSIDIARIES (Cont'd)

FYE	← 2010		FYE 31 December 2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	RMB	RM ⁽¹⁾	RMB	RM ⁽²⁾	RMB	RM ⁽³⁾	RMB	RM ⁽⁴⁾	RMB	RM ⁽⁵⁾
NA per share	N/A		N/A		N/A		N/A		N/A	
Gross EPS	N/A		N/A		N/A		N/A		N/A	
Net EPS	N/A		N/A		N/A		N/A		N/A	
Current ratio (times)	0.72		0.67		0.30		0.97		0.38	
Gearing ratio (times)	0.44		0.33		0.21		0.22		0.10	

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) RMB1: RM0.4662 for FYE 31 December 2010

(2) RMB1: RM0.5034 for FYE 31 December 2011

(3) RMB1: RM0.4909 for FYE 31 December 2012

(4) RMB1: RM0.5018 for FPE 30 June 2012

(5) RMB1: RM0.5172 for FPE 30 June 2013

Commentary on past performance
FYE 31 December 2010

For FYE 31 December 2010, Yizheng Wastewater recorded revenue of RMB11.20 million. However, Yizheng Wastewater incurred LBT of RMB898,372 mainly due to higher interest expense from its bank borrowings. The bank borrowings of RMB21.0 million was obtained to finance the construction of the wastewater treatment plant.

FYE 31 December 2011

For FYE 31 December 2011, Yizheng Wastewater recorded higher revenue of approximately RMB12.05 million, an increase of 7.6% from the previous financial year due to higher volume of wastewater treatment. Yizheng Wastewater recorded PBT of RMB2.64 million for FYE 31 December 2011 mainly due to higher revenue and lower depreciation charge compared to the previous year.

INFORMATION ON SALCON JIANGSU AND ITS SUBSIDIARIES (Cont'd)

FYE 31 December 2012

Revenue for FYE 31 December 2012 increased by 33.1% to RMB16.04 million mainly due to higher volume of wastewater treatment. PBT for FYE 31 December 2012 improved significantly by 97.2% to RMB5.20 million mainly due to decrease in interest expense and also increase in revenue. The interest expense was lower due to repayment of bank loan during the financial year amounting to RMB5,000,000.

6 months FPE 30 June 2013

For FPE 30 June 2013, Yizheng Wastewater achieved revenue of RMB8.63 million. This represents an improvement of 7.4% from the preceding year corresponding period due to higher volume of wastewater treatment. However, PBT declined by 15.8% due to higher operating expenses and maintenance costs.

Adoption of accounting policies

Yizheng Water has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

Audit qualification

There is no audit qualification for the financial statements of Yizheng Water for FYE 31 December 2010. However, the financial statements was subject to an emphasis of matter. The auditors highlighted that the accounting of Yizheng Wastewater is done in accordance with the delivery date listed in the supplemental agreement. The registration date in Industrial and Commercial Authorities is on 20 October 2010. The accrual of property tax and land use tax was not standard enough.

The financial statements of Yizheng Wastewater for FYE 31 December 2011 and FYE 31 December 2012 were subject to a qualified opinion as the company's accounting treatment on fixed assets is not in compliance with the requirements of Accounting Standards for Business Enterprises. In 2010, the former sole shareholder, Rongxin International Investment Co., Ltd. transferred 100% equity interests in the company to Jiangsu Water. Based on the asset valuation report (Su Xin Hua Lian Ping Bao Zi (2010) No.178) issued by Jiangsu Xinhualian Asset Valuation Co., Ltd. on 12 August 2010, the company increased the carrying amount of fixed assets by RMB17,224,386.35, of which the original cost of fixed assets was increased by RMB13,924,460.44 while the accumulated depreciation was decreased by RMB 3,299,925.91. In accordance with the Accounting Standards for Business Enterprise, fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses. Except for the possible effects of the matters described above which is the basis for the qualified opinion, the auditors are of the opinion that the financial statements present fairly, in all material respects, the financial position of the company as at the respective financial year end, 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 PRC.

INFORMATION ON SALCON FUJIAN AND ITS SUBSIDIARIES

1. HISTORY AND BUSINESS

Salcon Fujian was incorporated in Hong Kong under the Companies Ordinance on 8 June 2007 as a private limited company.

Salcon Fujian is an investment holding company whilst the principal activities of its subsidiaries are further detailed in Section 5 herein.

2. SHARE CAPITAL

The authorised share capital of Salcon Fujian is HKD300,000,000 comprising 300,000,000 ordinary shares of HKD1.00 each of which HKD84,617,950 comprising 84,617,950 ordinary shares of HKD1.00 each has been issued and fully paid-up.

3. DIRECTORS

The directors of Salcon Fujian and their respective shareholdings in Salcon Fujian as at the LPD are as follows:

Name	Designation	Nationality	<---- Direct ---->		<---- Indirect ---->	
			No. of ordinary shares	%	No. of ordinary shares	%
Tan Sri Dato' Tee Tiam Lee	Director	Malaysian	-	-	-	-
Dato' Leong Kok Wah	Director	Malaysian	-	-	-	-
Law Woo Hock	Director	Malaysian	-	-	-	-

4. SUBSTANTIAL SHAREHOLDERS

The shareholders of Salcon Fujian as at the LPD are Salcon Water and Salcon with shareholdings of 99.99% and 1 share of the total paid-up capital, respectively.

5. SUBSIDIARY AND ASSOCIATE COMPANY

Save as disclosed below, Salcon Fujian does not have any other subsidiary or associated companies as at the LPD:

Company	Date and place of incorporation	Equity interest (%)	Issued and paid-up share capital/registered capital	Principal activities
Nan An Water	18.04.2008 PRC	65.0	RMB150,000,000	Design, build and operate water transmission in Fujian Province

Nan An Water currently operates and manages a raw water transfer project in Nan An City, Fujian Province, PRC. The details of the concession held by Nan An Water are set out in Section 4 of Appendix VII.

6. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

As at the LPD, there are no material commitments or contingent liabilities incurred or known to be incurred by Salcon Fujian and its subsidiary ("Fujian Group") that are likely to have a material adverse effect on Fujian Group's financial position.

INFORMATION ON SALCON FUJIAN AND ITS SUBSIDIARIES (Cont'd)**7. MATERIAL CONTRACTS**

Fujian Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the past two (2) years immediately preceding LPD.

8. MATERIAL LITIGATION

As at the LPD, Fujian Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, and our Board has no knowledge of any proceedings pending or threatened against Fujian Group or of any facts likely to give rise to any proceedings which may materially affect the financial position or business of Fujian Group.

9. FINANCIAL SUMMARY**9.1 Proforma Fujian Group**

No consolidated financial statements have been prepared by Salcon Fujian for the past three (3) years from FYE 31 December 2010 to FYE 31 December 2012 to include the results of its subsidiary as Salcon, being the ultimate holding company of Salcon Fujian, prepared the consolidated financial statements. For illustration purposes, the proforma unaudited consolidated financial results of the Fujian Group for the past three (3) years from FYE 31 December 2010 to 31 December 2012 (based on the audited financial statements of Salcon Fujian and its subsidiary for the respective financial years and the unaudited financial results of Salcon Fujian and its subsidiary for the six (6) months FPE 30 June 2012 and FPE 30 June 2013) are as follows:

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INFORMATION ON SALCON FUJIAN AND ITS SUBSIDIARIES (Cont'd)

	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	HKD	RM ⁽¹⁾	HKD	RM ⁽²⁾	HKD	RM ⁽³⁾	HKD	RM ⁽⁴⁾	HKD	RM ⁽⁵⁾
Revenue	-	-	8,897,955	3,638,383	12,667,702	4,997,839	5,056,781	2,079,126	12,606,408	5,165,261
Other income	-	-	-	-	-	-	-	-	-	-
LBT	(4,458,027)	(1,766,061)	(1,055,557)	(431,618)	(4,408,859)	(1,739,445)	(988,707)	(406,513)	(8,174,901)	(3,349,527)
LATMI	(3,318,833)	(1,314,766)	(705,507)	(288,483)	(3,133,278)	(1,236,185)	(631,202)	(259,523)	(5,523,476)	(2,263,151)
Shareholders' funds	(8,156,263)	(3,231,128)	80,509,275	32,920,323	80,697,414	31,837,873	74,164,359	30,493,121	75,051,818	30,751,206
NA	(8,156,263)	(3,231,128)	80,509,275	32,920,323	80,697,414	31,837,873	74,164,359	30,493,121	75,051,818	30,751,206
Paid-up capital	1	^	84,617,950	34,600,364	84,617,950	33,384,658	84,617,950	34,791,178	84,617,950	34,670,767
Total interest bearing borrowings	141,218,166	55,944,000	196,976,774	80,544,000	191,614,918	75,598,600	191,612,429	78,782,600	189,342,816	77,580,000
NA per share	(8,156,263)	(3,231,128)	0.95	0.39	0.95	0.38	0.88	0.36	0.89	0.36
Gross LPS (cent)	(331,883,289)	(131,476,560)	(0.83)	(0.33)	(3.70)	(1.47)	(0.75)	(0.31)	(6.53)	(2.67)
Net LPS (cent)	(331,883,289)	(131,476,560)	(0.83)	(0.33)	(3.70)	(1.47)	(0.75)	(0.31)	(6.53)	(2.67)
Current ratio (times)	1.08		3.78		0.31		1.04		0.15	
Gearing ratio (times)	(17.31)		2.45		2.37		2.58		2.52	

Notes:

^ Negligible

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) HKD100: RM39.6153 for FYE 31 December 2010

(2) HKD100: RM40.8901 for FYE 31 December 2011

(3) HKD100: RM39.4534 for FYE 31 December 2012

(4) HKD100: RM41.1156 for FPE 30 June 2013

(5) HKD100: RM40.9733 for FPE 30 June 2013

9.2 Salcon Fujian
9.2 Salcon Fujian

The audited financial results of Salcon Fujian for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	HKD	RM ⁽¹⁾	HKD	RM ⁽²⁾	HKD	RM ⁽³⁾	HKD	RM ⁽⁴⁾	HKD	RM ⁽⁵⁾
Revenue	-	-	-	-	-	-	-	-	-	-
(LBT)	(1,203,187)	(476,646)	(55,414)	(22,659)	(764,343)	(301,559)	32,734	13,459	(599,403)	(245,595)
(LATMI)	(1,203,187)	(476,646)	(55,414)	(22,659)	(764,343)	(301,559)	32,734	13,459	(599,403)	(245,595)
Shareholders' funds	(1,099,428)	(435,542)	83,463,107	34,128,148	82,698,764	32,627,474	74,164,359	30,493,121	82,099,361	33,638,817
NA/ (Net liabilities)	(1,099,428)	(435,542)	83,463,107	34,128,148	82,698,764	32,627,474	74,164,359	30,493,121	82,099,361	33,638,817
Paid-up capital	1	^	84,617,950	34,600,364	84,617,950	33,384,658	84,617,950	34,791,178	84,617,950	34,670,767
Total interest bearing borrowings	-	-	-	-	-	-	-	-	-	-
NA per share	(1,099,428)	(435,542)	0.99	0.40	0.98	0.39	0.88	0.36	0.97	0.40
Gross LPS (cent)	(120,318,700)	(47,664,614)	(0.07)	(0.03)	(0.90)	(0.36)	0.04	0.02	(0.71)	(0.29)
Net LPS (cent)	(120,318,700)	(47,664,614)	(0.07)	(0.03)	(0.90)	(0.36)	0.04	0.02	(0.71)	(0.29)
Current ratio (times)	^		0.12		^		0.07		^	
Gearing ratio (times)	-	-	-	-	-	-	2.58	-	-	-

Notes:

^ Negligible

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) HKD100: RM39.6153 for FYE 31 December 2010

(2) HKD100: RM40.8901 for FYE 31 December 2011

(3) HKD100: RM39.4534 for FYE 31 December 2012

(4) HKD100: RM41.1156 for FPE 30 June 2013

(5) HKD100: RM40.9733 for FPE 30 June 2013

INFORMATION ON SALCON FUJIAN AND ITS SUBSIDIARIES (Cont'd)

Commentary on past performance

FYE 31 December 2010

Salcon Fujian is an investment holding company and did not record any revenue or receive any dividend income during the financial year under review. The LBT of HKD1.20 million incurred during the financial year was mainly due to administrative and operating expenses incurred as well as loss on foreign exchange amounting to HKD1.17 million.

FYE 31 December 2011

No revenue was generated for FYE 31 December 2011 and Salcon Fujian did not receive any dividend income during the financial year. The lower LBT of HKD55,414 incurred was mainly due to the higher loss on foreign exchange incurred in the previous financial year. The increase in NA for FYE 31 December 2011 was mainly due to capitalisation of amount due to Salcon Water of HKD84.6 million.

FYE 31 December 2012

No revenue was generated for FYE 31 December 2011 and Salcon Fujian did not receive any dividends during the financial year. The higher LBT of HKD0.76 million incurred during the financial year was mainly due to administrative and operating expenses incurred as well as loss on foreign exchange of HKD701,818.

6 months FPE 30 June 2013

No revenue was generated for FPE 30 June 2013 and Salcon Fujian did not receive any dividend income during the financial period. The LBT of HKD0.60 million incurred during the financial period was mainly due to increase in administrative and operating expenses incurred as well as loss on foreign exchange of HKD585,081. The company recorded PBT of HKD32,734 for the preceding year corresponding period.

Adoption of accounting policies

Salcon Fujian has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

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INFORMATION ON SALCON FUJIAN AND ITS SUBSIDIARIES (Cont'd)**Audit qualification**

The financial statements of Salcon Fujian for FYE 31 December 2010 was subject to a qualified opinion arising from disagreement about an accounting treatment whereby the consolidated financial statements have not been prepared to include the result of the subsidiary. This does not comply with Section 124 of the Hong Kong Companies Ordinance and Hong Kong Accounting Standard 27 – "Consolidated and Separate Financial Statements". Except for the effect on the financial statements of the disagreement in accounting treatment which is the basis for the qualified opinion, the auditors are of the opinion that the financial statements give a true and fair view of the state of affairs of Salcon Fujian as at 31 December 2010 and of its loss and cash flows for the financial year ended in accordance with the Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

For FYE 31 December 2011 and FYE 31 December 2012, the financial statements of Salcon Fujian were subject to an adverse opinion as the auditors are of the opinion that the unconsolidated financial statements do not give a true and fair view of the state of the company's affairs as at the respective financial year end and of its profit/loss and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards and the requirements of the Hong Kong Companies Ordinance. In all other respects, the auditors are of the opinion that the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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9.3 Nan An Water

9.3 Nan An Water

The audited financial results of Nan An Water for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	2010		FYE 31 December 2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	RMB	RM ⁽¹⁾	RMB	RM ⁽²⁾	RMB	RM ⁽³⁾	RMB	RM ⁽⁴⁾	RMB	RM ⁽⁵⁾
Revenue	-	-	7,227,618	3,638,383	10,180,972	4,997,839	4,143,336	2,079,126	9,986,971	5,165,261
(LBT)	(2,765,797)	(1,289,415)	(812,395)	(408,960)	(2,929,080)	(1,437,885)	(836,930)	(419,971)	(6,001,414)	(3,103,931)
(LATMI)	(2,765,797)	(1,289,415)	(812,395)	(408,960)	(2,929,080)	(1,437,885)	(836,930)	(419,971)	(6,001,414)	(3,103,931)
Shareholders' funds	94,003,461	43,824,414	93,191,066	46,912,383	140,261,986	68,854,609	136,854,136	68,673,405	134,260,571	69,439,567
NA	94,003,461	43,824,414	93,191,066	46,912,383	140,261,986	68,854,609	136,854,136	68,673,405	134,260,571	69,439,567
Paid-up capital	100,000,000	46,620,000	100,000,000	50,340,000	150,000,000	73,635,000	144,500,000	72,510,100	150,000,000	77,580,000
Total interest bearing borrowings	120,000,000	55,944,000	160,000,000	80,544,000	154,000,000	75,598,600	157,000,000	78,782,600	150,000,000	77,580,000
NA per share	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current ratio (times)	17.49		3.80	0.56			4.14		0.33	
Gearing ratio (times)	1.28		1.72	1.10			1.15		1.12	

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) RMB1: RM0.4662 for FYE 31 December 2010

(2) RMB1: RM0.5034 for FYE 31 December 2011

(3) RMB1: RM0.4909 for FYE 31 December 2012

(4) RMB1:RM0.5018 for FPE 30 June 2012

(5) RMB1:RM0.5172 for FPE 30 June 2013

INFORMATION ON SALCON FUJIAN AND ITS SUBSIDIARIES (Cont'd)**Commentary on past performance****FYE 31 December 2010**

No revenue was generated during the FYE 31 December 2010 as Nan An Water only commenced supplying the raw water in 2011. The LBT of RMB2.77 million was mainly attributable to the operating expenses and interest expense incurred.

FYE 31 December 2011

For FYE 31 December 2011, Nan An Water recorded revenue of RMB7.23 million from the supply of raw water to the People's Government of Nan An City. However, the company incurred LBT of RMB0.81 million which was lower compared to FYE 31 December 2010 mainly due to revenue generated from April 2011 after the company commence its operations to supply raw water.

FYE 31 December 2012

For FYE 31 December 2012, Nan An Water recorded revenue of RMB10.18 million, an increase of approximately 40.9% compared with the previous financial year due to the full year result compared to the 9 months from the previous year. However, the LBT incurred for FYE 31 December 2012 was 261% higher compared to FYE 31 December 2011 mainly due to higher interest expense of RMB1.64 million incurred for the financial year. The increase in interest expense was mainly due to additional loan drawdown of RMB15,000,000 in September 2011 for water supply project.

6 months FPE 30 June 2013

For FPE 30 June 2013, Nan An Water recorded a higher revenue of RMB9.98 million as compared to the preceding year corresponding period mainly due to higher production of treated water. However, Nan An Water incurred a higher LBT of approximately RMB6 million mainly due to high depreciation costs. The depreciation costs increased by 5,699% from RMB99,255 to RMB5,755,779 due to the completion of the raw water transfer pipelines in November 2012.

Adoption of accounting policies

Nan An Water has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

Audit qualification

There is no audit qualification for the financial statements of Nan An Water for FYE 31 December 2010 to FYE 31 December 2012.

INFORMATION ON SALCON ZHEJIANG AND ITS SUBSIDIARIES

1. HISTORY AND BUSINESS

Salcon Zhejiang was incorporated in Hong Kong under the Companies Ordinance on 12 June 2006 as a private limited company.

Salcon Zhejiang is an investment holding company whilst the principal activities of its subsidiaries are further detailed in Section 5 herein.

2. SHARE CAPITAL

As at the LPD, the authorised share capital of Salcon Zhejiang is HKD300,000,000 comprising 300,000,000 ordinary shares of HKD1.00 each of which HKD61,829,945 comprising 61,829,945 ordinary shares of HKD1.00 each has been issued and fully paid-up.

3. DIRECTORS

The directors of Salcon Zhejiang and their respective shareholdings in Salcon Zhejiang as at the LPD are as follows:

Name	Designation	Nationality	<----- Direct ----->		<----- Indirect ----->	
			No. of ordinary shares	%	No. of ordinary shares	%
Tan Sri Dato' Tee Tiam Lee	Director	Malaysian	-	-	-	-
Dato' Leong Kok Wah	Director	Malaysian	-	-	-	-
Law Woo Hock	Director	Malaysian	-	-	-	-

4. SUBSTANTIAL SHAREHOLDERS

The shareholders of Salcon Zhejiang as at the LPD are Salcon Water and Salcon with shareholdings of 99.99% and 1 share of the total paid-up capital, respectively.

5. SUBSIDIARY AND ASSOCIATE COMPANY

Save as disclosed below, Salcon Zhejiang does not have any other subsidiary or associated companies as at the LPD:

Company	Date and place of incorporation	Equity interest (%)	Issued and paid-up share capital/ registered capital	Principal activities
Haining Water	28.09.2006 PRC	60.0	USD13,550,000	Management and operation of water production and sale of water in Haining City, Zhejiang Province

Haining Water currently operates a water treatment plant located in Haining City, Zhejiang Province, PRC. The details of the concession held by Haining Water are set out in Section 5 of Appendix VII.

6. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

As at the LPD, there are no material commitments or contingent liabilities incurred or known to be incurred by Salcon Zhejiang and its subsidiary ("**Zhejiang Group**") that are likely to have a material adverse effect on Zhejiang Group's financial position.

INFORMATION ON SALCON ZHEJIANG AND ITS SUBSIDIARIES (Cont'd)**7. MATERIAL CONTRACTS**

Zhejiang Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the past two (2) years immediately preceding LPD.

8. MATERIAL LITIGATION

As at the LPD, Zhejiang Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, and our Board has no knowledge of any proceedings pending or threatened against Zhejiang Group or of any facts likely to give rise to any proceedings which may materially affect the financial position or business of Zhejiang Group.

9. FINANCIAL SUMMARY**9.1 Proforma Zhejiang Group**

No consolidated financial statements have been prepared by Salcon Zhejiang for the past three (3) years from FYE 31 December 2010 to FYE 31 December 2012 to include the results of its subsidiary as Salcon, being the ultimate holding company of Salcon Zhejiang, prepared the consolidated financial statements. For illustration purposes, the proforma unaudited consolidated financial results of the Zhejiang Group for the past three (3) years from FYE 31 December 2010 to 31 December 2012 (based on the audited financial statements of Salcon Zhejiang and its subsidiary for the respective financial years and the unaudited financial results of Salcon Zhejiang and its subsidiary for the six (6) months FPE 30 June 2012 and FPE 30 June 2013) are as follows:

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INFORMATION ON SALCON ZHEJIANG AND ITS SUBSIDIARIES (Cont'd)

	←-----FYE 31 December-----→				2012		6-month FPE		6-month FPE	
	2010		2011		HKD	RM ⁽²⁾	HKD	RM ⁽³⁾	30 June 2012	30 June 2013
	HKD	RM ⁽¹⁾	HKD	RM ⁽²⁾	HKD	RM ⁽³⁾	HKD	RM ⁽⁴⁾	HKD	RM ⁽⁵⁾
Revenue	65,117,304	25,796,415	75,384,472	30,824,786	70,014,731	27,623,192	29,131,986	11,977,791	33,142,402	13,579,536
Other income	1,488	589	879	359	57,160	22,552	23,862	9,811	68	28
PBT	16,720,769	6,623,983	13,838,083	5,658,406	14,594,475	5,758,017	2,653,474	1,090,992	5,500,330	2,253,667
PATMI	9,625,597	3,813,209	8,274,279	3,383,361	7,630,589	3,010,527	1,575,230	647,665	2,922,037	1,197,255
Shareholders' funds	74,080,358	29,347,156	139,788,229	57,159,547	140,447,418	55,411,282	141,862,471	58,327,606	146,145,693	59,880,713
NA	74,080,358	29,347,156	139,788,229	57,159,547	140,447,418	55,411,282	141,862,471	58,327,606	146,145,693	59,880,713
Paid-up capital	1	^	61,829,645	25,282,204	61,829,945	24,394,016	61,829,945	25,421,753	61,829,945	25,333,769
Total interest bearing borrowings	136,510,894	54,079,200	119,417,169	48,829,800	63,456,888	25,035,900	115,912,147	47,657,975	64,376,557	26,377,200
NA per share	74,080,358	29,347,156	2.26	0.92	2.27	0.90	2.29	0.94	2.36	0.97
Gross EPS (cent)	962,559,707	381,320,916	13.38	5.47	12.34	4.87	2.55	1.05	4.73	1.94
Net EPS (cent)	962,559,707	381,320,916	13.38	5.47	12.34	4.87	2.55	1.05	4.73	1.94
Current ratio (times)	0.52		1.31		0.88		10.34		2.83	
Gearing ratio (times)	1.84		0.85		0.45		0.82		0.44	

Notes:

^ Negligible

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) HKD100: RM39.6153 for FYE 31 December 2010

(2) HKD100: RM40.8901 for FYE 31 December 2011

(3) HKD100: RM39.4534 for FYE 31 December 2012

(4) HKD100:RM41.1156 for FPE 30 June 2012

(5) HKD100:RM40.9733 for FPE 30 June 2013

INFORMATION ON SALCON ZHEJIANG AND ITS SUBSIDIARIES (Cont'd)
9.2 Salcon Zhejiang

The audited financial results of Salcon Zhejiang for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	HKD	RM ⁽¹⁾	HKD	RM ⁽²⁾	HKD	RM ⁽³⁾	HKD	RM ⁽⁴⁾	HKD	RM ⁽⁵⁾
Revenue	7,450,268	2,951,446	8,510,837	3,480,090	8,817,252	3,478,706	-	-	-	-
Other income	25	10	378	155	452	178	220	90	68	28
PBT/ (LBT)	6,433,107	2,548,495	8,439,410	3,450,883	8,745,419	3,450,365	(42,135)	(17,324)	(6,899)	(2,827)
PATMI/ (LATMI)	6,060,594	2,400,922	8,013,868	3,276,879	8,304,556	3,276,430	(42,135)	(17,324)	(6,899)	(2,827)
Shareholders' funds	9,446,149	3,742,120	72,789,961	29,763,888	74,578,439	29,423,730	72,747,827	29,910,706	74,571,539	30,554,420
NA	9,446,149	3,742,120	72,789,961	29,763,888	74,578,439	29,423,730	72,747,827	29,910,706	74,571,539	30,554,420
Paid-up capital	1	^	61,829,645	25,282,204	61,829,945	24,394,016	61,829,945	25,421,753	61,829,945	25,333,769
Total interest bearing borrowings	-	-	-	-	-	-	-	-	-	-
NA per share	9,446,149	3,742,120	1.18	0.48	1.21	0.48	1.18	0.48	1.21	0.49
Gross EPS/ (LPS) (cent)	606,059,400	240,092,249	12.96	5.30	13.43	5.30	(0.07)	(0.03)	(0.01)	^
Net EPS/ (LPS) (cent)	606,059,400	240,092,249	12.96	5.30	13.43	5.30	(0.07)	(0.03)	(0.01)	^
Current ratio (times)	^	1.23	1.23	1.25	1.25	1.23	1.23	1.23	1.50	1.50
Gearing ratio (times)	-	-	-	-	-	-	-	-	-	-

Notes:

^ Negligible

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) HKD100: RM39.6153 for FYE 31 December 2010

(2) HKD100: RM40.8901 for FYE 31 December 2011

(3) HKD100: RM39.4534 for FYE 31 December 2012

(4) HKD100:RM41.1156 for FPE 30 June 2012

(5) HKD100:RM40.9733 for FPE 30 June 2013

INFORMATION ON SALCON ZHEJIANG AND ITS SUBSIDIARIES (Cont'd)**Commentary on past performance****FYE 31 December 2010**

Salcon Zhejiang is an investment holding company. For FYE 31 December 2010, the company recorded revenue and PBT of approximately HKD7.45 million and HKD6.43 million, respectively. The revenue was attributable to dividends received from its subsidiary, namely Haining Water. Other income comprises interest income for the financial year.

FYE 31 December 2011

For FYE 31 December 2011, the company's revenue increased by 14.2% to HKD8.51 million while PBT increased by 31.2% to HKD8.44 million. The increase in revenue was attributable to increase in dividend income from its subsidiary. The increase in PBT was mainly due to lower foreign exchange loss amounting to HKD15,833. Other income comprises interest income. The increase in NA for FYE 31 December 2011 was mainly due to capitalisation of amount due to Salcon Water of HKD61.8 million.

FYE 31 December 2012

For FYE 31 December 2012, the company's revenue increased marginally by 3.6% to HKD8.82 million. The revenue was attributable to dividends received from its subsidiary, namely Haining Water. Other income comprises interest income for the financial year. PBT for the financial year improved slightly by 3.6% to HKD8.75 million in tandem with the marginal increase in revenue.

6 months FPE 30 June 2013

No revenue generated for the FPE 30 June 2013 and the company has not received any dividends during the said financial period. Other income comprises interest income for the financial period. LBT of HKD6,899 incurred for the financial period is mainly attributable to administrative expenses incurred.

Adoption of accounting policies

Salcon Zhejiang has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

INFORMATION ON SALCON ZHEJIANG AND ITS SUBSIDIARIES (Cont'd)**Audit qualification**

The financial statements of Salcon Zhejiang for FYE 31 December 2010 was subject to a qualified opinion arising from disagreement about an accounting treatment whereby the consolidated financial statements have not been prepared to include the result of the subsidiary. This does not comply with Section 124 of the Hong Kong Companies Ordinance and Hong Kong Accounting Standard 27 – “Consolidated and Separate Financial Statements”. Except for the effect on the financial statements of the disagreement in accounting treatment which is the basis for the qualified opinion, the auditors are of the opinion that the financial statements give a true and fair view of the state of affairs of Salcon Zhejiang as at 31 December 2010 and of its profit and cash flows for the financial year ended in accordance with the Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

For FYE 31 December 2011 and FYE 31 December 2012, the financial statements of Salcon Zhejiang were subject to an adverse opinion as the auditors are of the opinion that the unconsolidated financial statements do not give a true and fair view of the state of the company's affairs as at the respective financial year end and of its profit and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards and the requirements of the Hong Kong Companies Ordinance. In all other respects, the auditors are of the opinion that the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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INFORMATION ON SALCON ZHEJIANG AND ITS SUBSIDIARIES (Cont'd)
9.3 Haining Water

The audited financial results of Haining Water for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	FYE 31 December						6-month FPE		6-month FPE	
	2010		2011		2012		30 June 2012	30 June 2013	30 June 2012	30 June 2013
	RMB	RM ⁽¹⁾	RMB	RM ⁽²⁾	RMB	RM ⁽³⁾	RMB	RM ⁽⁴⁾	RMB	RM ⁽⁵⁾
Revenue	55,333,366	25,796,415	61,233,186	30,824,786	56,270,507	27,623,192	23,869,651	11,977,791	26,255,870	13,579,536
Other income	1,243	579	407	205	45,576	22,373	19,371	9,720	-	-
PBT	15,072,789	7,026,934	11,298,396	5,687,613	11,787,242	5,786,357	2,208,680	1,108,316	4,362,903	2,256,493
PATMI	15,072,789	7,026,934	11,298,396	5,687,613	10,317,333	5,064,779	2,208,680	1,108,316	3,867,240	2,000,137
Shareholders' funds	160,236,987	74,702,483	159,735,383	80,410,792	158,252,716	77,686,258	161,944,063	81,263,531	162,016,166	83,794,761
NA	160,236,987	74,702,483	159,735,383	80,410,792	158,252,716	77,686,258	161,944,063	81,263,531	162,016,166	83,794,761
Paid-up capital	105,314,130	49,097,447	105,314,130	53,015,133	105,314,130	51,698,706	105,314,130	52,846,630	105,314,130	54,468,468
Total interest bearing borrowings	116,000,000	54,079,200	97,000,000	48,829,800	51,000,000	25,035,900	94,974,043	47,657,975	84,000,000	43,444,800
NA per share	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current ratio (times)	1.04		1.33		0.83		36.88		3.15	
Gearing ratio (times)	0.72		0.61		0.32		0.59		0.52	

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) RMB1: RM0.4662 for FYE 31 December 2010

(2) RMB1: RM0.5034 for FYE 31 December 2011

(3) RMB1: RM0.4909 for FYE 31 December 2012

(4) RMB1: RM0.5018 for FPE 30 June 2012

(5) RMB1: RM0.5172 for FPE 30 June 2013

INFORMATION ON SALCON ZHEJIANG AND ITS SUBSIDIARIES (Cont'd)**Commentary on past performance****FYE 31 December 2010**

For FYE 31 December 2010, Haining Water recorded revenue of approximately RMB55.33 million and PBT of approximately RMB15.07 million. The revenue was derived from the supply of treated water in bulk. Revenue for the FYE 31 December 2010 improved by 19% compared to the previous financial year due to the higher production of treated water.

FYE 31 December 2011

For FYE 31 December 2011, Haining Water's revenue increased by 10.7% to RMB61.23 million compared to the previous financial year in line with the increase in supply of treated water in bulk. However, PBT FYE 31 December 2011 declined by 25.0% mainly due to losses incurred on disposal of fixed assets amounting to RMB3.64 million and higher operating costs such as interest expense.

FYE 31 December 2012

For FYE 31 December 2012, Haining Water recorded revenue of RMB56.27 million, a decline of 8.1% compared with the previous financial year mainly due to lower production of treated water. Notwithstanding the lower revenue recorded for the financial year, PBT increased by 4.3% to RMB11.79 million mainly due to lower depreciation costs.

6 months FPE 30 June 2013

For the FPE 30 June 2013, the Company recorded revenue of RMB26.26 million and PBT of RMB4.36 million. This represents an improvement of 9.9% and 97.5% respectively from the preceding year corresponding period. The improvement in the PBT was mainly attributable to the higher output of treated water as well as lower interest expense.

Adoption of accounting policies

Haining Water has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

Audit qualification

There is no audit qualification for the financial statements of Haining Water for FYE 31 December 2010 to FYE 31 December 2012. However, the financial statements for FYE 31 December 2010 was subject to an emphasis of matters. The auditors highlighted that RMB38 million being subsidy from National Development and Reform Commission for the construction of city water supply project has been recognised as capital reserve during the year.

INFORMATION ON SALCON LINYI AND ITS SUBSIDIARIES

1. HISTORY AND BUSINESS

Salcon Linyi was incorporated in Hong Kong under the Companies Ordinance on 11 January 2005 as a private limited company.

Salcon Linyi is an investment holding company whilst the principal activities of its subsidiaries are further detailed in Section 5 herein.

2. SHARE CAPITAL

The authorised share capital of Salcon Linyi is HKD300,000,000 comprising 300,000,000 ordinary shares of HKD1.00 each of which HKD40,345,802 comprising 40,345,802 ordinary shares of HKD1.00 each has been issued and fully paid-up.

3. DIRECTORS

The directors of Salcon Linyi and their respective shareholdings in Salcon Linyi as at the LPD are as follows:

Name	Designation	Nationality	<---- Direct ---->		<---- Indirect ---->	
			No. of ordinary shares	%	No. of ordinary shares	%
Tan Sri Dato' Tee Tiam Lee	Director	Malaysian	-	-	-	-
Dato' Leong Kok Wah	Director	Malaysian	-	-	-	-
Law Woo Hock	Director	Malaysian	-	-	-	-

4. SUBSTANTIAL SHAREHOLDERS

The shareholders of Salcon Linyi as at the LPD are Salcon Water and Salcon with shareholdings of 99.99% and 1 share of the total paid-up capital, respectively.

5. SUBSIDIARY AND ASSOCIATE COMPANY

Save as disclosed below, Salcon Linyi does not have any other subsidiary or associated companies as at the LPD:

Company	Date and place of incorporation	Equity interest (%)	Issued and paid-up share capital/ registered capital	Principal activities
Linyi Water	07.11.2005 PRC	60.0	USD7,400,000	Management and operation of water production and distribution of water in Linyi City
Linyi Runcheng Water	03.07.1993 PRC	100.0*	RMB120,000	Repair and maintenance of municipal water supply pipeline, equipment, water supply equipment in Shandong Province
Linyi Water Supply Facilities	11.07.2011 PRC	100.0	RMB10,000,000	Repair and maintenance of municipal water supply pipeline, equipment, water supply equipment in Shandong Province

Note:

* Sole beneficial owner

INFORMATION ON SALCON LINYI AND ITS SUBSIDIARIES (Cont'd)

Linyi Water currently operates a water treatment plant located in Linyi City, Shandong Province, PRC. The details of the concession held by Linyi Water are set out in Section 6 of Appendix VII.

6. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

As at the LPD, there are no material commitments or contingent liabilities incurred or known to be incurred by Salcon Linyi and its subsidiaries ("**Linyi Group**") that are likely to have a material adverse effect on Linyi Group's financial position.

7. MATERIAL CONTRACTS

Linyi Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the past two (2) years immediately preceding LPD.

8. MATERIAL LITIGATION

As at the LPD, Linyi Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, and our Board has no knowledge of any proceedings pending or threatened against Linyi Group or of any facts likely to give rise to any proceedings which may materially affect the financial position or business of Linyi Group.

9. FINANCIAL SUMMARY**9.1 Proforma Linyi Group**

No consolidated financial statements have been prepared by Salcon Linyi for the past three (3) years from FYE 31 December 2010 to FYE 31 December 2012 to include the results of its subsidiaries as Salcon, being the ultimate holding company of Salcon Linyi, prepared the consolidated financial statements. For illustration purposes, the proforma unaudited consolidated financial results of the Linyi Group for the past three (3) years from FYE 31 December 2010 to 31 December 2012 (based on the audited financial statements of Salcon Linyi and its subsidiaries for the respective financial years and the unaudited financial results of Salcon Linyi and its subsidiaries for the six (6) months FPE 30 June 2012 and FPE 30 June 2013) are as follows:

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INFORMATION ON SALCON LINYI AND ITS SUBSIDIARIES (Cont'd)

	←-----FYE 31 December-----→		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	2010	2011	HKD	RM ⁽¹⁾	HKD	RM ⁽³⁾	HKD	RM ⁽⁴⁾	HKD	RM ⁽⁵⁾
Revenue	64,371,607	25,501,005	82,578,658	33,766,496	74,015,436	29,201,606	32,091,524	13,194,623	39,603,399	16,226,820
Other income	4,139,202	1,639,757	7,253,155	2,965,822	26,467,842	10,442,463	15,871,102	6,525,499	10,966,180	4,493,206
PBT	2,872,631	1,138,002	6,683,518	2,732,897	21,845,200	8,618,674	13,280,322	5,460,284	9,137,605	3,743,978
PATMI	1,141,835	452,341	3,257,834	1,332,132	11,020,795	4,348,078	7,031,617	2,891,092	4,437,242	1,818,084
Shareholders' funds	2,782,009	1,102,101	48,001,849	19,628,004	68,821,118	27,152,271	60,785,642	24,992,381	79,372,107	32,521,372
NA	2,782,009	1,102,101	48,001,849	19,628,004	68,821,118	27,152,271	60,785,642	24,992,381	79,372,107	32,521,372
Paid-up capital	1	^	40,345,802	16,497,439	40,345,802	15,917,791	40,345,802	16,588,419	40,345,802	16,531,006
Total interest bearing borrowings	42,597,522	16,875,136	40,309,643	16,482,654	40,174,570	15,850,234	39,961,147	16,430,265	41,330,579	16,934,502
NA per share	2,782,009	1,102,101	1.19	0.49	1.71	0.67	1.51	0.62	1.97	0.81
Gross EPS (cent)	114,183,470	45,234,124	8.07	3.30	27.32	10.78	17.43	7.17	11.00	4.51
Net EPS (cent)	114,183,470	45,234,124	8.07	3.30	27.32	10.78	17.43	7.17	11.00	4.51
Current ratio (times)	0.72	1.51	1.73	1.48	0.66	0.52	0.66	0.52	0.52	0.52
Gearing ratio (times)	15.31	0.84	0.58	0.58	0.58	0.58	0.58	0.58	0.52	0.52

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) HKD100: RM39.6153 for FYE 31 December 2010

(2) HKD100: RM40.8901 for FYE 31 December 2011

(3) HKD100: RM39.4534 for FYE 31 December 2012

(4) HKD100: RM41.1156 for FPE 30 June 2012

(5) HKD100: RM40.9733 for FPE 30 June 2013

INFORMATION ON SALCON LINYI AND ITS SUBSIDIARIES (Cont'd)

9.2 Salcon Linyi

The audited financial results of Salcon Linyi for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	2010		FYE 31 December 2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	HKD	RM ⁽¹⁾	HKD	RM ⁽²⁾	HKD	RM ⁽³⁾	HKD	RM ⁽⁴⁾	HKD	RM ⁽⁵⁾
Other income	6	2	6	2	6	2	2	1	3	1
(LBT)	(615,768)	(243,938)	(56,573)	(23,133)	(54,707)	(21,584)	(28,031)	(11,525)	(14,182)	(5,811)
(LATMI)	(615,768)	(243,938)	(56,573)	(23,133)	(54,707)	(21,584)	(28,031)	(11,525)	(14,182)	(5,811)
Shareholders' funds /	(1,207,259)	(478,259)	39,081,969	15,980,656	39,027,262	15,397,582	39,053,938	16,057,261	39,013,080	15,984,946
NA / (Net Liabilities)	(1,207,259)	(478,259)	39,081,969	15,980,656	39,027,262	15,397,582	39,053,938	16,057,261	39,013,080	15,984,946
Paid-up capital	1	^	40,345,802	16,497,439	40,345,802	15,917,791	40,345,802	16,588,419	40,345,802	16,531,006
Total interest bearing borrowings	-	-	-	-	-	-	-	-	-	-
NA per share	(1,207,259)	(478,259)	0.97	0.40	0.97	0.38	0.97	0.40	0.97	0.40
Gross LPS (cent)	(61,576,800)	(24,393,834)	(0.14)	(0.06)	(0.14)	(0.05)	(0.07)	(0.03)	(0.04)	(0.01)
Net LPS (cent)	(61,576,800)	(24,393,834)	(0.14)	(0.06)	(0.14)	(0.05)	(0.07)	(0.03)	(0.04)	(0.01)
Current ratio (times)	^		0.74		0.44		0.55		0.39	
Gearing ratio (times)	-	-	-	-	-	-	-	-	-	-

Notes:

^ Negligible

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) HKD100: RM39.6153 for FYE 31 December 2010

(2) HKD100: RM40.8901 for FYE 31 December 2011

(3) HKD100: RM39.4534 for FYE 31 December 2012

(4) HKD100:RM41.1156 for FPE 30 June 2012

(5) HKD100:RM40.9733 for FPE 30 June 2013

INFORMATION ON SALCON LINYI AND ITS SUBSIDIARIES (Cont'd)**Commentary on past performance****FYE 31 December 2010**

Salcon Linyi is an investment holding company and has not recorded any revenue or received any dividends during the financial year under review. Other income comprises interest income received for the financial year. The LBT of HKD0.62 million was mainly attributable to loss from foreign exchange amounting to HKD0.58 million.

FYE 31 December 2011

No revenue generated for FYE 31 December 2011 and the company has not received any dividends during the said financial year. Salcon Linyi incurred a lower LBT of HKD56,573 compared to FYE 31 December 2010 due to the high foreign exchange loss incurred in the previous financial year. The increase in NA for FYE 31 December 2011 was mainly due to capitalisation of amount due to Salcon Water of approximately HKD40.3 million.

FYE 31 December 2012

No revenue generated for FYE 31 December 2012 and the company has not received any dividends during the said financial year. The LBT of HKD54,707 incurred during the financial year is marginally lower than FYE 31 December 2011.

6 months FPE 30 June 2013

No revenue generated for the FPE 30 June 2013 and the company has not received any dividends during the said period. The LBT incurred during the financial period is 49.4% lower when compared to preceding year corresponding period. The lower LBT incurred for the period was attributable to lower administrative expenses such as company secretarial fees.

Adoption of accounting policies

Salcon Linyi has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

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INFORMATION ON SALCON LINYI AND ITS SUBSIDIARIES (Cont'd)**Audit qualification**

The financial statements of Salcon Linyi for FYE 31 December 2010 was subject to a qualified opinion arising from disagreement about an accounting treatment whereby the consolidated financial statements have not been prepared to include the result of the subsidiary. This does not comply with Section 124 of the Hong Kong Companies Ordinance and Hong Kong Accounting Standard 27 – “Consolidated and Separate Financial Statements”. Except for the effect on the financial statements of the disagreement in accounting treatment which is the basis for the qualified opinion, the auditors are of the opinion that the financial statements give a true and fair view of the state of affairs of Salcon Linyi as at 31 December 2010 and of the its loss and cash flows for the year ended in accordance with the Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

For FYE 31 December 2011 and FYE 31 December 2012, the financial statements of Salcon Linyi were subject to an adverse opinion as the auditors are of the opinion that the unconsolidated financial statements do not give a true and fair view of the state of the company's affairs as at the respective financial year end and of its profit/loss and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards and the requirements of the Hong Kong Companies Ordinance. In all other respects, the auditors are of the opinion that the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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9.3 Linyi Water

9.3 Linyi Water

The audited financial results of Linyi Water for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	←-----FYE 31 December-----→						6-month FPE	
	2010		2011		2012		30 June 2013	
	RMB	RM ⁽¹⁾	RMB	RM ⁽²⁾	RMB	RM ⁽³⁾	RMB	RM ⁽⁵⁾
Revenue	35,280,043	16,447,556	38,649,946	19,456,383	43,171,892	21,193,082	19,840,635	23,260,614
Other income	2,393,713	1,115,949	1,585,287	798,033	995,413	488,648	920,195	8,630,333
PBT	2,421,403	1,128,858	5,831,888	2,935,772	19,034,317	9,343,946	10,524,609	6,888,724
PATMI	1,991,339	928,362	5,171,499	2,603,333	16,508,173	8,103,862	9,353,946	5,573,148
Shareholders' funds	62,265,473	29,028,164	67,436,972	33,947,772	83,945,145	41,208,672	76,620,366	89,788,094
NA	62,265,473	29,028,164	67,436,972	33,947,772	83,945,145	41,208,672	76,620,366	89,788,094
Paid-up capital	59,999,964	27,971,983	59,999,964	30,203,982	59,999,964	29,453,982	59,999,964	30,107,982
Total interest bearing borrowings	36,197,203	16,875,136	35,742,657	17,992,854	35,742,657	17,546,070	32,742,657	16,430,265
NA per share	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current ratio (times)	2.61	2.14	2.14	1.41	1.41	1.57	1.57	1.12
Gearing ratio (times)	0.58	0.53	0.53	0.43	0.43	0.43	0.43	0.36

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) RMB1: RM0.4662 for FYE 31 December 2010

(2) RMB1: RM0.5034 for FYE 31 December 2011

(3) RMB1: RM0.4909 for FYE 31 December 2012

(4) RMB1: RM0.5016 for FPE 30 June 2012

(5) RMB1: RM0.5172 for FPE 30 June 2013

INFORMATION ON SALCON LINYI AND ITS SUBSIDIARIES (Cont'd)**Commentary on past performance****FYE 31 December 2010**

For FYE 31 December 2010, Linyi Water recorded revenue of approximately RMB35.28 million. Other income of approximately RMB2.39 million was attributable to interest income and rental income. However, Linyi Water only recorded PBT of approximately RMB2.42 million due to high administrative expenses and interest expenses incurred for the financial year. For FYE 31 December 2010, Linyi Water has total bank borrowings of RMB36.19 million which was obtained for the purpose of financing the construction of the water treatment plant.

FYE 31 December 2011

For FYE 31 December 2011, Linyi Water recorded revenue of RMB38.65 million, an increase of 9.6% compared with the previous financial year mainly due to increase in output of water supply. PBT improved substantially by 140.8% to RMB5.83 million for FYE 31 December 2011 mainly due to higher non-operating income from pipelines installation.

FYE 31 December 2012

For FYE 31 December 2012, Linyi Water recorded revenue and PBT of approximately RMB43.17 million and RMB19.03 million, respectively. Revenue improved by 11.7% in FYE 31 December 2012 mainly due to the increase in water consumption by the domestic sector. PBT for FYE 31 December 2012 improved substantially by 226.4% mainly due to higher non-operating income from pipelines installation.

6 months FPE 30 June 2013

For the FPE 30 June 2013, the Company recorded revenue RMB23.26 million. This represents an improvement of 17.2% from the preceding year corresponding period due to increase in output of water supply. However, the PBT declined by 34.5% to RMB6.89 million due to lower non-operating income from pipelines installation.

Adoption of accounting policies

Linyi Water has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

Audit qualification

There is no audit qualification for the financial statements of Linyi Water for FYE 31 December 2010 to FYE 31 December 2012. However, the financial statements were subject to an emphasis of matter paragraph. The auditors highlighted that the company's information shows that since the company is incorporated and effective from 1 January 2006, some parts the assets and liabilities are in the process of transferring ownership. The matter has been resolved in FYE 31 December 2011. In addition, the land located in the middle of Jiefang Road, Linyi (which is part of the assets) transferred from Linyi Water Treatment Company has been restated to its original cost value.

INFORMATION ON SALCON LINYI AND ITS SUBSIDIARIES (Cont'd)

9.4 Linyi Runcheng Water

The audited financial results of Linyi Runcheng Water for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

	2010		FYE 31 December 2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	RMB	RM ⁽¹⁾	RMB	RM ⁽²⁾	RMB	RM ⁽³⁾	RMB	RM ⁽⁴⁾	RMB	RM ⁽⁵⁾
Revenue	27,181,027	12,671,795	28,426,923	14,310,113	21,251,837	10,432,527	6,453,951	3,238,593	6,967,267	3,603,470
PBT	601,781	280,550	1,309,626	659,266	948,727	465,730	379,754	190,561	209,208	108,202
PATMI	390,945	182,259	982,220	494,450	709,567	348,326	286,736	143,884	167,931	86,854
Shareholders' funds	1,496,035	697,452	2,478,255	1,247,554	3,187,822	1,564,902	2,757,307	1,383,617	3,311,653	1,712,787
NA	1,496,035	697,452	2,478,255	1,247,554	3,187,822	1,564,902	2,757,307	1,383,617	3,311,653	1,712,787
Paid-up capital	120,000	55,944	120,000	60,408	120,000	58,908	120,000	60,216	120,000	62,064
Total interest bearing borrowings	-	-	-	-	-	-	-	-	-	-
NA per share	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current ratio (times)	1.08	1.18	1.18	1.35	1.35	1.35	1.14	1.14	1.19	1.19
Gearing ratio (times)	-	-	-	-	-	-	-	-	-	-

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) RMB1: RM0.4662 for FYE 31 December 2010

(2) RMB1: RM0.5034 for FYE 31 December 2011

(3) RMB1: RM0.4909 for FYE 31 December 2012

(4) RMB1: RM0.5018 for FPE 30 June 2012

(5) RMB1: RM0.5172 for FPE 30 June 2013

INFORMATION ON SALCON LINYI AND ITS SUBSIDIARIES (Cont'd)**Commentary on past performance****FYE 31 December 2010**

For FYE 31 December 2010, Linyi Runcheng Water recorded revenue of approximately RMB27.18 million. However, the PBT was only RMB0.60 million due to higher administrative expenses including staff costs.

FYE 31 December 2011

For FYE 31 December 2011, Linyi Runcheng Water recorded revenue of RMB28.43 million, an increase of 4.6% compared with the previous financial year due to higher revenue from installation of pipelines. PBT for FYE 31 December 2011 increased substantially by 117.6% to RMB1.31 million compared to FYE 31 December 2010 mainly due to lower raw material costs such as water supply pipes and fittings. PBT margin of the company improved slightly to 4.6% for FYE 31 December 2011 from 2.2% in the previous financial year.

FYE 31 December 2012

For FYE 31 December 2012, Linyi Runcheng Water recorded revenue and PBT of approximately RMB21.25 million and RMB0.95 million. Revenue for FYE 31 December 2012 declined by 25.2% mainly due to reduction in installation of pipelines to the residential segment whereas the decline in PBT by 27.6% was mainly due to lower revenue generated during the financial year and higher operating expenses including staff costs.

6 months FPE 30 June 2013

For the FPE 30 June 2013, the Company achieved revenue of RMB6.97 million. This represents an improvement of 7.9% from the preceding year corresponding period due to higher revenue from installation of pipelines. However, the PBT declined by 44.9% due to higher operating expenses including staff costs.

Adoption of accounting policies

Linyi Runcheng Water has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

Audit qualification

There is no audit qualification for the financial statements of Linyi Runcheng Water for FYE 31 December 2010 to FYE 31 December 2012.

INFORMATION ON SALCON LINYI AND ITS SUBSIDIARIES (Cont'd)
9.5 Linyi Water Supply Facilities

The company was incorporated on 11 July 2011. The audited financial results of Linyi Water Supply Facilities from 11 July 2011 until FPE 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

	FPE 31 December 2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	RMB	RM ⁽¹⁾	RMB	RM ⁽²⁾	RMB	RM ⁽³⁾
Revenue	2,227,692	1,093,574	794,268	398,564	1,146,480	592,959
PBT	381,274	187,167	219,468	110,129	152,240	78,739
PATMI	286,509	140,647	217,094	108,937	136,387	70,539
Shareholders' funds	3,614,161	1,774,192	3,606,168	1,809,575	3,908,380	2,021,414
NA	3,614,161	1,774,192	3,606,168	1,809,575	3,908,380	2,021,414
Paid-up capital	3,600,000	1,767,240	3,600,000	1,806,480	3,600,000	1,861,920
Total interest bearing borrowings	-	-	-	-	-	-
NA per share	N/A		N/A		N/A	
Gross EPS	N/A		N/A		N/A	
Net EPS	N/A		N/A		N/A	
Current ratio (times)	3.24		3.24		3.24	
Gearing ratio (times)	-		-		-	

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) RMB1: RM0.4909 for FPE 31 December 2012

(2) RMB1: RM0.5018 for FPE 30 June 2012

(3) RMB1: RM0.5172 for FPE 30 June 2013

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INFORMATION ON SALCON LINYI AND ITS SUBSIDIARIES (Cont'd)**Commentary on past performance****FYE 31 December 2012**

For FYE 31 December 2012, Linyi Water Supply Facilities recorded revenue of approximately RMB2.23 million and PBT of approximately RMB0.38 million. Revenue for FYE 31 December 2012 was from sales of pipes and water supply equipments.

6 months FPE 30 June 2013

For the FPE 30 June 2013, Linyi Water Supply Facilities recorded revenue of approximately RMB1.15 million and PBT of approximately RMB0.15 million. Revenue increased by 44.3% from the preceding year corresponding period due to higher sales of pipes and water supply equipments. However, the PBT declined by 30.6% due to higher cost of sales.

Adoption of accounting policies

Linyi Water Supply Facilities has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

Audit qualification

There is no audit qualification for the financial statements of Linyi Water Supply Facilities for FYE 31 December 2012.

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INFORMATION ON SALCON SHANDONG AND ITS SUBSIDIARIES

1. HISTORY AND BUSINESS

Salcon Shandong was incorporated in Hong Kong under the Companies Ordinance on 14 April 2008 as a private limited company.

Salcon Shandong is an investment holding company whilst the principal activities of its subsidiaries are further detailed in Section 5 herein.

2. SHARE CAPITAL

The authorised share capital of Salcon Shandong is HKD300,000,000 comprising 300,000,000 ordinary shares of HKD1.00 each of which HKD127,488,971 comprising 127,488,971 ordinary shares of HKD1.00 each has been issued and fully paid-up.

3. DIRECTORS

The directors of Salcon Shandong and their respective shareholdings in Salcon Shandong as at the LPD are as follows:

Name	Designation	Nationality	<----- Direct ----->		<----- Indirect ----->	
			No. of ordinary shares	%	No. of ordinary shares	%
Tan Sri Dato' Tee Tiam Lee	Director	Malaysian	-	-	-	-
Dato' Leong Kok Wah	Director	Malaysian	-	-	-	-
Law Woo Hock	Director	Malaysian	-	-	-	-

4. SUBSTANTIAL SHAREHOLDERS

The shareholders of Salcon Shandong as at the LPD are Salcon Water and Salcon with shareholdings of 99.99% and 1 share of the total paid-up capital, respectively.

5. SUBSIDIARY AND ASSOCIATE COMPANY

Save as disclosed below, Salcon Shandong does not have any other subsidiary or associated companies as at the LPD:

Company	Date and place of incorporation	Equity interest (%)	Issued and paid-up share capital/ registered capital	Principal activities
Shandong Changle Water	14.11.2003 PRC	100.0	USD7,000,000	Management and operation of water production and waste water treatment plant and distribution of water in Changle County, Shandong Province
Changle Raw Water	12.06.2008 PRC	100.0	USD8,680,000	Design, build and operate of water transmission in Changle County, Shandong Province

INFORMATION ON SALCON SHANDONG AND ITS SUBSIDIARIES (Cont'd)

Shandong Changle Water currently operates a water treatment plant and WWTP located in Changle County, Shandong Province, PRC whilst Changle Raw Water currently operates and manages a raw water supply project in Changle County, Shandong Province, PRC. The details of the concessions held by Shandong Changle Water and Changle Raw Water are set out in Section 7 and Section 8 of Appendix VII, respectively.

6. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

Save as disclosed below, as at the LPD, there are no material commitments or contingent liabilities incurred or known to be incurred by Salcon Shandong and its subsidiaries ("Shandong Group") that are likely to have a material adverse effect on Shandong Group's financial position:

Material Commitments	RMB'000
Capital expenditure:	
Upgrading of the Shandong Changle Water's WWTP from Class 1B currently to Class 1A as required by Weifang Environmental Bureau of Changle County	25,000

7. MATERIAL CONTRACTS

Shandong Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the past two (2) years immediately preceding LPD.

8. MATERIAL LITIGATION

As at the LPD, Shandong Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, and our Board has no knowledge of any proceedings pending or threatened against Shandong Group or of any facts likely to give rise to any proceedings which may materially affect the financial position or business of Shandong Group.

9. FINANCIAL SUMMARY**9.1 Proforma Shandong Group**

No consolidated financial statements have been prepared by Salcon Shandong for the past three (3) years from FYE 31 December 2010 to FYE 31 December 2012 to include the results of its subsidiaries as Salcon, being the ultimate holding company of Salcon Shandong, prepared the consolidated financial statements. For illustration purposes, the proforma unaudited consolidated financial results of the Shandong Group for the past three (3) years from FYE 31 December 2010 to 31 December 2012 (based on the audited financial statements of Salcon Shandong and its subsidiaries for the respective financial years and the unaudited financial results of Salcon Shandong and its subsidiaries for the six (6) months FPE 30 June 2012 and FPE 30 June 2013) are as follows:

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INFORMATION ON SALCON SHANDONG AND ITS SUBSIDIARIES (Cont'd)

	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	HKD	RM ⁽¹⁾	HKD	RM ⁽²⁾	HKD	RM ⁽³⁾	HKD	RM ⁽⁴⁾	HKD	RM ⁽⁵⁾
Revenue	33,280,459	13,184,154	35,881,096	14,671,816	73,324,010	28,928,815	27,936,836	11,486,398	41,485,624	16,998,029
Other income	4,722,514	1,870,838	8,696,315	3,555,932	8,349,024	3,293,974	2,108,596	866,962	8,963,041	3,672,454
PBT	14,959,716	5,926,337	15,595,784	6,377,132	20,315,661	8,015,219	9,945,500	4,089,152	13,540,314	5,547,913
PATMI	11,086,629	4,392,001	11,598,940	4,742,818	15,410,119	6,079,816	7,220,547	2,968,771	10,704,384	4,385,939
Shareholders' funds	24,925,404	9,874,274	165,039,320	67,484,743	180,708,912	71,295,810	171,936,103	70,692,560	192,183,992	78,744,124
NA	24,925,404	9,874,274	165,039,320	67,484,743	180,708,912	71,295,810	171,936,103	70,692,560	192,183,992	78,744,124
Paid-up capital	1	^	127,488,971	52,130,368	127,488,971	50,298,734	127,488,971	52,417,855	127,488,971	52,236,439
Total interest bearing borrowings	109,402,487	43,340,124	154,065,089	62,997,369	138,712,296	54,726,717	143,149,815	58,856,905	144,270,681	59,112,459
NA per share	24,925,404	9,874,274	1.29	0.53	1.42	0.56	1.35	0.55	1.51	0.62
Gross EPS (cent)	1,108,662,932	439,200,146	9.10	3.72	12.09	4.77	5.66	2.33	8.40	3.44
Net EPS (cent)	1,108,662,932	439,200,146	9.10	3.72	12.09	4.77	5.66	2.33	8.40	3.44
Current ratio (times)	0.34		0.55		5.22		0.84		1.13	
Gearing ratio (times)	4.39		0.93		0.77		0.83		0.75	

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) HKD100: RM39.6153 for FYE 31 December 2010

(2) HKD100: RM40.8901 for FYE 31 December 2011

(3) HKD100: RM39.4534 for FYE 31 December 2012

(4) HKD100:RM41.1156 for FPE 30 June 2012

(5) HKD100:RM40.9733 for FPE 30 June 2013

9.2 Salcon Shandong AND ITS SUBSIDIARIES (Cont'd)
9.2 Salcon Shandong

The audited financial results of Salcon Shandong for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	HKD	RM ⁽¹⁾	HKD	RM ⁽²⁾	HKD	RM ⁽³⁾	HKD	RM ⁽⁴⁾	HKD	RM ⁽⁵⁾
Other income	3	1	1	^	15	6	-	-	3	1
LBT	(79,737)	(31,588)	(55,907)	(22,860)	(59,491)	(23,471)	(31,134)	(12,801)	(15,185)	(6,222)
LATMI	(79,737)	(31,588)	(55,907)	(22,860)	(59,491)	(23,471)	(31,134)	(12,801)	(15,185)	(6,222)
Shareholders' funds	157,350	62,335	127,590,413	52,171,847	127,530,922	50,315,285	127,559,279	52,446,763	127,515,736	52,247,405
NA	157,350	62,335	127,590,413	52,171,847	127,530,922	50,315,285	127,559,279	52,446,763	127,515,736	52,247,405
Paid-up capital	1	^	127,488,971	52,130,368	127,488,971	50,298,734	127,488,971	52,417,855	127,488,971	52,236,439
Total interest bearing borrowings	-	-	-	-	-	-	-	-	-	-
NA per share	157,350	62,335	1.00	0.41	1.00	0.39	1.00	0.41	1.00	0.41
Gross LPS (cent)	(7,973,700)	(3,158,805)	(0.04)	(0.02)	(0.05)	(0.02)	(0.02)	(0.01)	(0.01)	^
Net LPS (cent)	(7,973,700)	(3,158,805)	(0.04)	(0.02)	(0.05)	(0.02)	(0.02)	(0.01)	(0.01)	^
Current ratio (times)	^		0.29		0.99		0.20		0.99	
Gearing ratio (times)	-		-		-		-		-	

Notes:

^ Negligible

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) HKD100: RM39.6153 for FYE 31 December 2010

(2) HKD100: RM40.8901 for FYE 31 December 2011

(3) HKD100: RM39.4534 for FYE 31 December 2012

(4) HKD100: RM41.1156 for FPE 30 June 2012

(5) HKD100: RM40.9733 for FPE 30 June 2013

INFORMATION ON SALCON SHANDONG AND ITS SUBSIDIARIES (Cont'd)**Commentary on past performance****FYE 31 December 2010**

Salcon Shandong is an investment holding company and has not recorded any revenue or received any dividends for FYE 31 December 2010. Other income comprises interest income received for the financial year. The LBT of HKD79,737 incurred for FYE 31 December 2010 were mainly due to administrative and operating expenses incurred as well as loss on foreign exchange amounting to HKD43,896.

FYE 31 December 2011

No revenue generated for FYE 31 December 2011 and the company has not received any dividends during the financial year. Other income comprises interest income received for the financial year. Lower LBT of HKD55,907 incurred for the financial year under review compared to FYE 31 December 2010 was mainly due to lower administrative and operating expenses. The increase in NA for FYE 31 December 2011 was mainly due to capitalisation of amount due to Salcon Water of approximately HKD127.5 million.

FYE 31 December 2012

No revenue generated for FYE 31 December 2012 and the company has not received any dividends during the said financial year. Other income comprises interest income received for the financial year. LBT incurred for FYE 31 December 2012 of HKD59,491 was 6.4% higher compared with the previous financial year mainly due to higher administrative costs such as legal and professional fees.

6 months FPE 30 June 2013

No revenue generated for the FPE 30 June 2013 and the company has not received any dividends during the said financial period. Other income comprises interest income received for the financial year. LBT was lower by 51.2% compared to preceding year corresponding period due to lower administrative and operating expenses.

Adoption of accounting policies

Salcon Shandong has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

INFORMATION ON SALCON SHANDONG AND ITS SUBSIDIARIES (Cont'd)**Audit qualification**

The financial statements of Salcon Shandong for FYE 31 December 2010 was subject to a qualified opinion arising from disagreement about an accounting treatment whereby the consolidated financial statements have not been prepared to include the result of the subsidiary. This does not comply with Section 124 of the Hong Kong Companies Ordinance and Hong Kong Accounting Standard 27 – “Consolidated and Separate Financial Statements”. Except for the effect on the financial statements of the disagreement in accounting treatment which is the basis for the qualified opinion, the auditors are of the opinion that the financial statements give a true and fair view of the state of affairs of Salcon Shandong as at 31 December 2010 and of the its loss and cash flows for the year ended in accordance with the Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

For FYE 31 December 2011 and FYE 31 December 2012, the financial statements of Salcon Shandong were subject to an adverse opinion as the auditors are of the opinion that the unconsolidated financial statements do not give a true and fair view of the state of the company's affairs as at the respective financial year end and of its profit/loss and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards and the requirements of the Hong Kong Companies Ordinance. In all other respects, the auditors are of the opinion that the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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INFORMATION ON SALCON SHANDONG AND ITS SUBSIDIARIES (Cont'd)
9.3 Shandong Changle Water

The audited financial results of Shandong Changle Water for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	RMB	RM ⁽¹⁾	RMB	RM ⁽²⁾	RMB	RM ⁽³⁾	RMB	RM ⁽⁴⁾	RMB	RM ⁽⁵⁾
Revenue	28,280,038	13,184,154	29,145,443	14,671,816	43,865,890	21,533,765	17,392,793	8,727,704	22,830,726	11,808,051
Other income	4,012,949	1,870,837	7,063,829	3,555,932	6,710,059	3,293,968	1,727,704	866,962	7,100,643	3,672,453
PBT	12,779,761	5,957,925	12,713,532	6,399,992	15,232,179	7,477,477	8,597,095	4,314,022	8,433,255	4,361,679
PATMI	9,488,609	4,423,590	9,466,982	4,765,679	11,289,618	5,542,073	6,364,371	3,193,641	6,186,592	3,199,705
Shareholders' funds	71,754,545	33,451,969	81,126,857	40,839,260	92,303,579	45,311,827	87,491,228	43,903,098	98,490,171	50,939,116
NA	71,754,545	33,451,969	81,126,857	40,839,260	92,303,579	45,311,827	87,491,228	43,903,098	98,490,171	50,939,116
Paid-up capital	50,707,982	23,640,061	50,707,982	25,526,398	50,707,982	24,892,548	50,707,982	25,445,265	50,707,982	26,226,168
Total interest bearing borrowings	45,348,390	21,141,419	53,000,000	26,680,200	41,215,877	20,232,874	46,034,092	23,099,907	48,075,422	24,864,608
NA per share	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current ratio (times)	1.00	0.65	0.65	0.87	0.87	1.27	1.27	1.27	1.84	1.84
Gearing ratio (times)	0.63	0.65	0.65	0.45	0.45	0.53	0.53	0.53	0.49	0.49

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) RMB1: RM0.4662 for FYE 31 December 2010

(2) RMB1: RM0.5034 for FYE 31 December 2011

(3) RMB1: RM0.4909 for FYE 31 December 2012

(4) RMB1: RM0.5018 for FPE 30 June 2012

(5) RMB1: RM0.5172 for FPE 30 June 2013

INFORMATION ON SALCON SHANDONG AND ITS SUBSIDIARIES (Cont'd)**Commentary on past performance****FYE 31 December 2010**

For FYE 31 December 2010, Shandong Changle Water recorded revenue of approximately RMB28.28 million and PBT of approximately RMB12.78 million. The revenue increased by 10.2% due to the higher output of treated water. PBT for FYE 31 December 2010 was higher by 53.7% compared to FYE 31 December 2009, in line with higher revenue generated and higher other income from installation of pipelines.

FYE 31 December 2011

For FYE 31 December 2011, Shandong Changle Water recorded revenue of approximately RMB29.15 million, a marginal increase of 3.1% compared with the previous financial year. Other income which comprises income from installation of pipelines improved by 76.0% compared with the previous financial year. Notwithstanding the increase in revenue, PBT declined slightly by 0.5% due to higher operating costs such as staff and administrative expenses.

FYE 31 December 2012

For FYE 31 December 2012, revenue increased by 50.5% due to the increase in output of water supply with the completion of a new water treatment plant during the financial year. Notwithstanding the increase in revenue and PBT for FYE 31 December 2012, PBT margin declined from 43.6% to 34.7% mainly due to higher operating costs such as increase in staff and administrative costs. Due to the lower PBT margin, PBT of the company improved by only 19.8% for FYE 31 December 2012 compared with the previous financial year.

6 months FPE 30 June 2013

For FPE 30 June 2013, the company recorded revenue of RMB22.83 million, representing an improvement of 31.3% from the preceding year corresponding period. The improvement in revenue was mainly attributed to the higher output of treated water. However, due to the increase of cost of sales by 40.4%, the company recorded PBT of RMB8.43 million. This represents a decline in PBT of 1.9% from the preceding year corresponding period.

Adoption of accounting policies

Shandong Changle Water has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

Audit qualification

There is no audit qualification for the financial statements of Shandong Changle for FYE 31 December 2010 to FYE 31 December 2012.

INFORMATION ON SALCON SHANDONG AND ITS SUBSIDIARIES (Cont'd)
9.4 Change Raw Water

The audited financial results of Change Raw Water for the past three (3) years from FYE 31 December 2010 to 31 December 2012 and the unaudited financial results for the six (6) months FPE 30 June 2012 and FPE 30 June 2013 are as follows:

FYE	2010		2011		2012		6-month FPE 30 June 2012		6-month FPE 30 June 2013	
	RMB	RM ⁽¹⁾	RMB	RM ⁽²⁾	RMB	RM ⁽³⁾	RMB	RM ⁽⁴⁾	RMB	RM ⁽⁵⁾
Revenue	-	-	-	-	15,064,269	7,395,050	5,497,597	2,758,694	10,034,760	5,189,978
PBT/ (LBT)	-	-	-	-	1,143,234	561,214	(422,617)	(212,069)	2,305,599	1,192,456
PATMI/ (LATMI)	-	-	-	-	1,143,234	561,214	(422,617)	(212,069)	2,305,599	1,192,456
Shareholders' funds	59,136,414	27,569,396	59,136,414	29,769,271	60,279,647	29,591,279	58,713,797	29,462,583	62,585,246	32,369,089
NA	59,136,414	27,569,396	59,136,414	29,769,271	60,279,647	29,591,279	58,713,797	29,462,583	62,585,246	32,369,089
Paid-up capital	59,136,347	27,569,365	59,136,347	29,769,237	59,136,347	29,030,033	59,136,347	29,674,619	59,136,347	30,585,319
Total interest bearing borrowings	47,616,268	22,198,704	72,143,760	36,317,169	70,266,537	34,493,843	71,257,469	35,756,998	66,217,809	34,247,851
NA per share	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gross EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current ratio (times)	1.18	0.34			0.32		0.33		0.56	
Gearing ratio (times)	0.81	1.22			1.17		1.21		1.06	

Notes:

(a) The figures in RM currency are unaudited and are provided for comparison purposes.

(b) For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia are used for the respective financial year end:

(1) RMB1:RM0.4662 for FYE 31 December 2010

(2) RMB1: RM0.5034 for FYE 31 December 2011

(3) RMB1: RM0.4909 for FYE 31 December 2012

(4) RMB1:RM0.5018 for FPE 30 June 2012

(5) RMB1:RM0.5172 for FPE 30 June 2013

INFORMATION ON SALCON SHANDONG AND ITS SUBSIDIARIES (Cont'd)**Commentary on past performance****FYE 31 December 2010 and FYE 31 December 2011**

No revenue generated for FYE 31 December 2010 and FYE 31 December 2011 as the construction of the raw water pipelines was completed on 11 November 2011 and commenced operations on 1 March 2012.

Borrowings increased from RMB47.62 million in FYE 31 December 2010 to RM72.14 million in FYE 31 December 2011. The borrowings were utilised for the construction of the raw water pipelines.

FYE 31 December 2012

For FYE 31 December 2012, Changle Raw Water recorded revenue of approximately RMB15.06 million and PBT of approximately RMB1.14 million. Revenue for the financial year was derived from supplying of raw water.

6 months FPE 30 June 2013

For the FPE 30 June 2013, the company achieved revenue of RMB10.03 million representing an improvement of 82.5% from the preceding year corresponding period. The improvement in revenue was mainly attributed to the higher output of raw water in line with increase in demand from the domestic and industrial users. The company recorded PBT of RMB2.31 million for the financial period under review compared with an LBT of RMB0.42 million incurred in the preceding year corresponding period, mainly due to the improved PBT margins, in line with the higher output of raw water.

Adoption of accounting policies

Changle Raw Water has not adopted any accounting policies which are peculiar to the nature of business and/or the industry in which it is involved in.

Audit qualification

There is no audit qualification for the financial statements of Changle Raw Water for FYE 31 December 2010 to FYE 31 December 2012.

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DETAILS OF CONCESSIONS

1. DEQING DARCO

Deqing Darco, currently operates a water treatment plant known as "Qian Yuan Water Treatment Plant" located in Deqing County, Zhejiang Province, PRC ("**Qian Yuan Water Treatment Plant**"). On 12 December 2006, Darco Environmental Pte. Ltd. (now known as Salcon Darco), the shareholder of Deqing Darco had entered into a concession agreement involving the granting by Deqing County Construction Bureau of 25 years concession rights to Darco Environmental Pte. Ltd. (now known as Salcon Darco) ("**Concession Agreement**") to invest, construct and operate, the water supply engineering works in Deqing County and to sell treated water to Deqing County Water Co., Ltd. ("**Deqing County Water Co.**").

Darco Environmental Pte. Ltd. (now known as Salcon Darco) had also on 12 December 2006 entered into a water purchase agreement with Deqing County Water Co. whereby Deqing County Water Co. agreed to purchase treated water from Darco Environmental Pte. Ltd. (now known as Salcon Darco) ("**Water Purchase Agreement**") for a period of 25 years after Qian Yuan Water Treatment Plant commenced operations on 1 January 2012 and will expire on 31 December 2036.

The Qian Yuan Water Treatment Plant has a design capacity of 100 MLD. The Concession Agreement and Water Purchase Agreement are not renewable.

The salient terms of the Concession Agreement are as follows:

- (a) Darco Environmental Pte. Ltd. (now known as Salcon Darco) shall be responsible in the design, construction, ownership, operation and maintenance of the water supply engineering works at its own cost and risk;
- (b) Darco Environmental Pte. Ltd. (now known as Salcon Darco) shall supply and Deqing County Water Co. shall purchase 80 MLD treated water in the first year of operation, 90 MLD treated water in the second year of operation and 100 MLD treated water in the third year and subsequent years of operation according to the water tariff and charge as stipulated in the Water Purchase Agreement entered between Darco Environmental Pte. Ltd. (now known as Salcon Darco) and Deqing County Water Co.;
- (c) The concession period shall be 25 years, which commences from the date on which Qian Yuan Water Treatment Plant is officially operated;
- (d) During the concession period, Darco Environmental Pte. Ltd. (now known as Salcon Darco) enjoy the concession right, the right to property (including all facilities) and land use rights;
- (e) Darco Environmental Pte. Ltd. (now known as Salcon Darco) is obliged to meet the normal water supply capacity within the concession area and to ensure the compliance of drinking water standards in accordance to the law of China; and
- (f) Darco Environmental Pte. Ltd. (now known as Salcon Darco) has the right to assign all its concession rights and obligations to Deqing Darco.

Pursuant to an approval letter dated 28 May 2008 issued by Development and Reform Commission, Zhejiang Province, PRC ("**DRC**"), DRC has approved Deqing Darco to construct and operate Qian Yuan Water Treatment Plant, and produce and supply treated water to Deqing County Water Co. for a period of 25 years.

The total initial investment amount in Deqing Darco was approximately RMB165.0 million. The investment cost was funded 80% through bank borrowings and 20% through internally generated funds. Deqing Darco had subsequently obtained loan from financial institution for the project financing.

DETAILS OF CONCESSIONS (Cont'd)

2. DEQING HUANZHONG

Deqing Huanzhong currently operates a water treatment plant known as "Wukang Water Treatment Plant" located in Deqing County, Zhejiang Province, PRC ("Wukang Water Treatment Plant"). On 5 September 2005, Globe Industrial Technology Company Limited ("Globe Industrial"), a 95.58% owned subsidiary of Salcon Darco, entered into a joint-venture agreement with Deqing County Water Co. to set up a joint venture company, namely Deqing Huanzhong ("Joint Venture Agreement") for the design, construction, operation and maintenance of phase 1 of the Wukang Water Treatment Plant and water supply engineering works on a Build-Operate-Transfer ("BOT") basis in Deqing County ("Project").

Pursuant to the Joint Venture Agreement, Deqing Huanzhong was set up and was granted concession rights in respect of the Project. The Wukang Water Treatment Plant has a design capacity of 60 MLD and had commenced operations since 18 April 2006 and the concession will expire on 27 March 2028 pursuant to the Joint Venture Agreement. A separate water purchase agreement has been entered between Deqing Huanzhong and Deqing County Water Co on the same day, i.e. on 5 September 2005 and the same is annexed to the Joint Venture Agreement. The Joint Venture Agreement and the water purchase agreement are not renewable.

The salient terms of the concession which are provided under the Joint Venture Agreement are as follows:

- (a) The concession period of the Project under the Joint Venture Agreement shall be 22 years, which commences from the date on which Wukang Water Treatment Plant is officially operated;
- (b) Deqing County Water Co. shall purchase 60,000 cubic meters per day of treated water from Deqing Huanzhong for a period of 22 years and Deqing Huanzhong shall collect payment therefrom according to the water purchase agreement entered between Deqing Huanzhong and Deqing County Water Co. on 5 September 2005;
- (c) All the costs for construction, maintenance and facilities during the phase 1¹ of the Project shall be borne by Globe Industrial; and
- (d) Globe Industrial shall also be responsible for the debt and credit of Deqing Huanzhong during the operation period of the Project.

The total investment by Globe Industrial is RMB65.24 million cash (approximately USD7.89 million), representing 88.32% of the total registered share capital of Deqing Huanzhong. Globe Industrial shall inject the capital based on the timing stipulated in the Joint Venture Agreement. Deqing County Water Co. Ltd will inject a land with a value of RMB8.63 million as its capital, representing 11.68% of the total registered share capital of Deqing Huanzhong. The said land shall be used as Wukang Treatment Plant's construction site. The investment cost of RMB65.24 million was funded 80% through bank borrowings and 20% through internally generated funds.

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¹ The Joint Venture Agreement involves only Phase 1 of the Project. Phase 1 of the Project has been completed on 18 April 2006, i.e. on the same date when Wukang Water Treatment Plant commenced its operation. As at the LPD, the subsequent phases of the Project has yet to be decided by Deqing County Municipal government.

DETAILS OF CONCESSIONS (Cont'd)

3. YIZHENG WASTEWATER

Yizheng Wastewater currently operates a WWTP known as "Yizheng Waste Water Treatment Plant" located in Yizheng City, Jiangsu Province, PRC. Jiangsu Water, a 66.67% owned subsidiary of Salcon Jiangsu, had on 20 August 2010 entered into an equity transfer agreement with Wins Sun International Investment Company Limited ("**Wins Sun**"), in relation to the acquisition of the entire equity interest in Yizheng Rong Xin Wastewater Treatment Company Limited (now known as "**Yizheng Wastewater**") for a total cash consideration of RMB44 million. Wins Sun had on 18 July 2003 entered into a concession agreement with the People's Government of Yizheng, Jiangsu Province, PRC ("**Concession Agreement**") to build, finance, operate and maintain the WWTP on a BOT basis for the purpose of carrying out treatment of wastewater in Yizheng City. The rights and obligation in the Concession Agreement has been novated and assigned to Yizheng Wastewater upon its incorporation pursuant to the terms and conditions set out in the supplemental concession agreement dated 1 December 2010 ("**Supplemental Concession Agreement**"). The concession is exclusive and Phase 1 and Phase 2 of the concession will expire on 1 September 2043.

The WWTP has a design capacity of 50 MLD, of which 25 MLD has been completed under Phase 1 in October 2006. Further and subsequent to the Supplemental Concession Agreement, Phase 2 of the WWTP for 25 MLD was constructed by Water Bureau of Yizheng City and was completed in October 2011. The commercial operation of Phase 2 was on 1 September 2013.

On 6 May 2013, Yizheng Wastewater had entered into an assets acquisition agreement with Water Bureau of Yizheng City ("**Assets Acquisition Agreement**") wherein Yizheng Wastewater had acquired assets of Phase 2 of the WWTP² for a total cash consideration of RMB30.754 million upon the terms and condition stated therein. The cash consideration of RMB30.754 million would be funded wholly through internally generated funds. The cash consideration of RMB30.754 million was arrived at based on market value of the said assets of RMB30.754 million as ascribed by Shenzhen ShiHua Assets Appraisal Co Ltd, an independent valuer, on 30 September 2012. The said assets were valued using the cost-based valuation. The Assets Acquisition Agreement is expected to be completed by December 2013.

On the same day, Yizheng Wastewater also entered into an assets custodian agreement with Water Bureau of Yizheng City ("**Asset Custodian Agreement**") whereby Water Bureau of Yizheng City has assigned to Yizheng Wastewater the non-operating support facilities of Phase 2 of the WWTP including garden, greenfield, lights, rock garden ("**Custody Assets**") for a period consistent with the concession right period, which will expire on 1 September 2043 ("**Custody Period**").

The salient terms of the Concession Agreement are as follows:

- (a) Yizheng Wastewater shall be responsible to invest, build and operate the WWTP on BOT basis for the purpose of carrying out treatment of wastewater in Yizheng.
- (b) The concession period for phase 1 of the WWTP is 21.5 years commencing from 1 July 2003 and expiring on 31 December 2024, and shall consist of the following:
 - (i) 1.5 years for the construction of the WWTP; and
 - (ii) 20 years for the operation of the WWTP.

The concession period may be extended subject to mutual agreement of the People's Government of Yizheng and Yizheng Wastewater.

² Assets comprise processing plants, pipelines, machineries and equipment of Phase 2 of the WWTP. The assets acquired are sufficient to run the operation of Phase 2 of the WWTP.

DETAILS OF CONCESSIONS (Cont'd)

- (c) The concession rights granted to Yizheng Wastewater to operate in Yizheng is exclusive. The People's Government of Yizheng has undertaken not to grant the concession rights, wholly or partly, to any third party and will not approve the setting up of other WWTPs in the areas designated for Yizheng Wastewater.
- (d) The wastewater treatment fee is collected from the People's Government of Yizheng, and the Finance Department of the People's Government of Yizheng has also undertaken to settle the treatment fee which has been delayed by the government and make good for the shortfall of the treatment fee which has not been paid by the government, if any.

The purchase consideration for the acquisition of Yizheng Wastewater of RMB44 million was funded via equity (cash) injection by the shareholders of Jiangsu Water into Jiangsu Water. Yizheng Wastewater had subsequently obtained loan from financial institution for the project financing. The acquisition of Yizheng Wastewater was completed on 12 November 2010.

The salient terms of the Supplemental Concession Agreement are as follows:-

- (a) Yizheng Wastewater shall have the exclusive rights to invest, build, operate and maintain the WWTP on BOT basis for the purpose of carrying out Phase 2 of WWTP in Yizheng.
- (b) The concession period is 30 years commencing from the commercial operation date under Phase 2 of WWTP. Accordingly, the concession period for Phase 1 shall be extended and be terminated together with Phase 2 of the WWTP.

The Supplemental Concession Agreement is not renewable. Upon the expiration of the Supplemental Concession Agreement on 1 September 2043, the WWTP must be transferred to People's Government of Yizheng, Jiangsu Province, PRC.

The salient terms of the Assets Acquisition Agreement are as follows:-

- (a) Water Bureau of Yizheng City has invested and constructed major assets for phase 2 of the WWTP on the State-owned land during the concession period granted to Yizheng Wastewater.
- (b) Water Bureau of Yizheng City agreed to transfer and Yizheng Wastewater agreed to acquire the assets in cash consideration of a sum of RMB30.754 million paid by Yizheng Wastewater to Water Bureau of Yizheng City in the following manner:
 - (i) RMB30.0 million will be paid to Water Bureau of Yizheng City within 5 months from the date of delivery of the assets and engineering data by Water Bureau of Yizheng City to Yizheng Wastewater ("**First Payment**"). The expected date of delivery of the assets and engineering data is in end of December 2013; and
 - (ii) subject to any deductions arising from the defects of assets to be acquired by Yizheng Wastewater under the Asset Acquisition Agreement, the balance of the cash consideration amounting to RMB754,252 will be payable to Water Bureau of Yizheng City within 1 year from the First Payment.
- (c) Water Bureau of Yizheng City shall undertake to transfer all government project information, the certificates of equipment, invoices, technical information, bidding information, construction contracts, completion of final accounts, inspection data, environmental inspection data, and all files related to the operation of the major assets to Yizheng Wastewater.
- (d) Yizheng Wastewater shall have the right to acquire the remaining assets of phase 2 of WWTP at the appropriate time³.

³ As at the LPD, the appropriate time to acquire the remaining assets of phase 2 of WWTP has yet to be decided by parties to the Assets Acquisition Agreement. For details of the remaining assets of Phase 2 of WWTP, please refer to the Custody Assets as described in the Asset Custodian Agreement as set out in Section 3 of Appendix VII of this Circular.

DETAILS OF CONCESSIONS (Cont'd)

The salient terms of the Asset Custodian Agreement are as follows:-

- (a) During the Custody Period, Yizheng Wastewater shall have the exclusive right to the ownership, usage and management of the Custody Assets;
- (b) Yizheng Wastewater shall be responsible to the repair and maintenance of the Custody Assets at its own costs, unless the Custody Assets or any part thereof shall be destroyed or damaged by force majeure;
- (c) Yizheng Wastewater shall not assign or transfer the Custody Assets to any other party during the Custody Period, failing which Yizheng Wastewater shall be liable to compensate Water Bureau of Yizheng City, the amount of which shall be calculated based on the valuation to be carried out by an independent valuer at that point of time; and
- (d) The Assets Custody Agreement shall be effective at the same time with the Asset Acquisition Agreement.

4. NAN AN WATER

Nan An Water currently operates and manages a raw water transfer project in Nan An City, Fujian Province, PRC. Salcon Fujian had on 14 January 2008 entered into a joint venture agreement with Nan An City Trading Industry & Agriculture Investment Co Ltd. to jointly establish Nan An Water, on a 65:35 basis, to develop and construct coastal 3-town water supply engineering project of Nan An City ("**Coastal 3-Town Water Project**").

On 26 May 2008, Nan An Water entered into a concession agreement with the People's Government of Nan An City ("**Nan An Government**") for a concession period of 30 years, on a BOT basis whereby Nan An Water has been granted the right by Nan An Government to design, finance, construct, operate and maintain the relevant water supply engineering works, supply raw water to Nan An Guan Qiao Water Supply Company, Nan An Shui Tou Water Supply Company and Nan An Shi Jing Water Supply Company respectively (Guan Qiao, Shui Tou and Shi Jing shall collectively referred as "**3 Coastal Towns**") and the right to collect fees therefrom, as well as the exclusive right to execute standardised management on the water resources or to purchase source water from ShiBi, HouQiao and ShuNei reservoirs for the 3 Coastal Towns.

Nan An Water had on 8 December 2009, 7 September 2009 and 22 April 2009 entered into raw water purchase agreement with Nan An Guan Qiao Water Supply Company, Nan An Shui Tou Water Supply Company and Nan An Shi Jing Water Supply Company, respectively, for the purpose of the Coastal 3-Town Water Project. Each of the raw water purchase agreement is valid until the expiration of the concession period and it is not renewable.

The Coastal 3-Town Water Project will be constructed in 2 phases i.e. 170 MLD in Phase I and 175 MLD in Phase II. Phase I of the raw water transfer project was completed in 1 November 2012 and commenced operations on the same date. Phase II of the raw water transfer project is expected to be completed on 31 December 2026. The concession will expire on 25 May 2038.

The salient terms of the concession agreement are as follows:

- (a) the agreement shall form the basis for Nan An Water in the financing, designing, construction, operation, maintenance, service of the project during the concession period. It shall also form part of the basis for the Nan An Government to supervise Nan An Water;
- (b) The Nan An Government shall assist in the following area in accordance/compliance with the relevant laws in China:

DETAILS OF CONCESSIONS (Cont'd)

- (i) monitoring and supervising the design, construction, operation and maintenance of the water supply engineering works;
 - (ii) assist Nan An Water in obtaining all the necessary approval pertaining to the design, construction, operation and maintenance of the water supply engineering works;
 - (iii) assist Nan An Water in processing documentations for land approval in accordance with the law;
 - (iv) guarantee that Nan An Water enjoys the water intake right within the concession period; and
 - (v) ensure the concession right is fulfilled according to the law by Nan An Water within the concession area;
- (c) During the concession period, Nan An Water shall enjoy, amongst others the following rights and obligations:
- (i) to supply water to Nan An Guan Qiao Water Supply Company, Nan An Shui Tou Water Supply Company and Nan An Shi Jing Water Supply Company respectively in accordance with the stipulated price and areas stated in the respective water purchase agreement, to operate legally and obtain reasonable returns; and
 - (ii) to guarantee the sufficiency and quality of the raw water and to meet the requirement of Nan An 3 Coastal Towns water plants (GuanQiao, Shui Tou, Shi Jing) in accordance with the law of PRC and the requirement contained in the agreement;
- (d) The Nan An Government shall guarantee that Nan An Water can obtain the approval for taking water from the water resource area granted by the government continuously;
- (e) The Nan An Government shall assure the minimum guarantee water quantity with Nan An Water; and
- (f) Upon the expiry of the concession right, Nan An Water shall transfer its water supply engineering, all the relevant document, material and files pertaining to the project to the Nan An Government or its designated organisation.

Both Nan An Government, being the concession giver, and Nan An Water are bounded by the concession agreement. Nevertheless, in incidences of any breach by Nan An Water, the concession giver has the right to terminate the said agreement. In this respect, Nan An Water will ensure that all reasonable steps are taken to prevent any such breach.

The initial funding of the water supply project was via equity (cash) injections made by Nan An City Trading Industry & Agriculture Investment Co Ltd. and Salcon Fujian. The total initial investment by Salcon Fujian and Nan An City Trading Industry & Agriculture Investment Co Ltd. was RMB65 million and RMB35 million representing 65% and 35% respectively of the total registered share capital of Nan An Water. The investment cost of RMB65 million by Salcon Fujian was funded 80% through bank borrowings and 20% through internally generated funds. Nan An Water had subsequently obtained loan from financial institution for the project financing.

DETAILS OF CONCESSIONS (Cont'd)

5. HAINING WATER

Haining Water currently operates a water treatment plant known as "Haining Shuang Xi Qiao Water Treatment Plant" located in Haining City, Zhejiang Province, PRC ("**Haining Shuang Xi Qiao Water Treatment Plant**"). Salcon Zhejiang had on 31 August 2006 entered into an agreement with Haining City Water Investment Ltd. Group to set up Haining Water, a joint venture company, on a 60:40 basis to design, operate, maintain, produce and sell treated water in bulk to Haining City Water Supply Company, a wholly-owned subsidiary of Haining City Water Investment Ltd which in turn will supply the treated water to the consumers of Haining City, Zhejiang Province, PRC.

On 9 October 2006, Haining Water entered into a bulk purchase agreement involving the purchase by Haining City Water Supply Company from Haining Water of treated water ("**Bulk Purchase Agreement**"). On even date, Haining Water entered into a concession agreement involving the granting by Haining City Construction & Planning Bureau, Zhejiang Province, PRC ("**Haining City Construction**") of 30 years concession rights on a BOT basis to Haining Water ("**Concession Agreement**") to design, finance, construct, operate and maintain the water supply engineering works and collection of charges from Haining City Water Supply Company.

Construction of the Phase I and Phase II of the water treatment plant with a total capacity of 300 MLD have been fully completed and commenced operations in November 2007 and June 2010, respectively. Both the Concession Agreement and Bulk Purchase Agreement will expire on 8 October 2036.

The salient terms of the concession agreement are as follows:

- (a) During the concession period, Haining Water shall enjoy the following rights and obligations:
 - (i) to supply water in accordance with the Bulk Purchase Agreement and obtain reasonable returns;
 - (ii) to guarantee the sufficiency and quality of the water source and to meet the requirement of Haining City Water Supply Company of water quality and provision of water supply service in accordance with the law of PRC;
 - (iii) Haining Water has priority for the newly built water supply facilities; and
 - (iv) establish and improve production safety system to prevent accidents occur.
- (b) Haining City Construction shall enjoy the following rights and obligations:
 - (i) to supervise and inspect the provision of water supply service by Haining Water;
 - (ii) to formulate annual water supply quality supervision and investigation proposals, conduct sampling on the water quality of the water source and provide comprehensive evaluation on a yearly basis; and
 - (iii) to maintain the completeness of the concession right; and
- (c) The Bulk Purchase Agreement and Concession Agreement are not renewable. Upon expiry of the concession right, Haining Water shall transfer its water supply engineering, all the relevant document, material and files pertaining to the project to Haining City Construction or its designated organisation.

DETAILS OF CONCESSIONS (Cont'd)

Both Haining City Construction, being the concession giver, and Haining Water are bounded by the concession agreement. Nevertheless, in incidences of any breach by Haining Water, the concession giver has the right to terminate the said agreement. In this respect, Haining Water will ensure that all reasonable steps are taken to prevent any such breach.

The initial funding of the water supply project was via equity injections made by Haining City Water Investment Ltd. Group (assets and cash) and Salcon Zhejiang (cash). The investment by Salcon Zhejiang is approximately USD8.13 million, representing 60% of the total registered capital of Haining Water. The investment cost of USD8.13 million by Salcon Zhejiang was funded 80% through bank borrowings and 20% through internally generated funds. Haining Water had subsequently obtained loan from financial institution for the project financing whereby corporate guarantee was provided by Salcon and Haining City Water Investment Ltd. Group. The corporate guarantee provided by Salcon is for a sum of RMB10.5 million and will be uplifted prior to the completion of SPA-B.

6. LINYI WATER

Linyi Water currently operates a water treatment plant known as "Linyi Dong Bei Yuan Water Treatment Plant" located in Linyi City, Shandong Province, PRC. Salcon Water (HK) Limited, a wholly-owned subsidiary of Salcon, had on 28 May 2004 entered into a joint venture agreement with Shandong Province Linyi City Water Supply Company ("**Linyi Municipality Company**") to set up Linyi Water, a joint venture company, on a 60:40 basis. Subsequently on 3 April 2005, both parties entered into a supplementary agreement whereby it was agreed amongst others that the name of the investment company which was stated as Salcon Water (HK) Limited in the original agreement be changed to Salcon Linyi (HK) Limited.

On 11 November 2005, Linyi Water entered into a concession agreement with the People's Government of Linyi City, Shandong Province, PRC ("**Linyi City Government**") on a Transfer-Operate-Transfer ("**TOT**") basis ("**Concession Agreement**") whereby the Linyi City Government granted to Linyi Water the right on the design, construction, operation, maintenance of water supply engineering works, supplying water to the consumers and collection of charges from the end consumers within the concession area⁴, within the concession period of 30 years from the effective date of the agreement and the official operation date where Linyi Water starts to supply water to the consumers.

The water treatment plant commenced operations since 1997 and has a design capacity of 150 MLD. The Concession Agreement will expire on 31 December 2035. Linyi Water shall enjoy the exclusive right under the Concession Agreement.

The salient terms of the Concession Agreement are as follows:

- (a) Except for the obligations stated in the agreement, the Linyi City Government shall assist, supervise and monitor Linyi Water in carrying out the following works. However, the Linyi City Government shall not bear any responsibility in providing such assistance, supervision nor would their existence result in the elimination or reduction of any obligations or responsibilities which shall be borne by Linyi Water:
 - (i) monitoring and supervising the design, construction, operation and maintenance of the water supply engineering works;
 - (ii) assist Linyi Water in obtaining all the necessary approval pertaining to the design, construction, operation and maintenance of the water supply engineering works;
 - (iii) assist Linyi Water in obtaining the land use right of the project site in accordance with the land use standard of public infrastructure;

⁴ Concession area means Lan Shan District (including Nan Fang Pian District), He Dong District, Luo Zhuong District, Linyi Economic Development Zone and Linyi High-Tech Industrial Development Zone.

DETAILS OF CONCESSIONS (Cont'd)

- (iv) protect and manage water collection zone. When proposed by Linyi Water to the Linyi City Government, the Linyi City Government shall increase and confirm the additional water collection zone or increase the raw water supply at anytime. Further, the increasing rate of raw water resource fee shall be maintained at minimum cost and shall not exceed the increasing rate of water supply fee;
 - (v) guarantee Linyi Water to enjoy the water intake right within the concession period, as well as assuring the sufficiency of water supply and water quality which is in compliance with the relevant regulations;
 - (vi) assist Linyi Water in completing the preliminary works and construction of permanent municipal facilities and other works, including:
 - relocating the affected residents, dismantling any buildings or obstacles at the project site;
 - temporary or permanent electricity, water supply, wastewater, sewerage and road; and
 - the closing down of self-supply wells and other water supply according to the time as stipulated in the agreement within the cover area of reticulation network.
 - (vii) assist in confirming the electricity fee pursuant to the standards of major industrial electricity charges;
- (b) During the concession period, Linyi Water shall enjoy the following rights and obligations:
- legal rights to supply water to the final consumers exclusively in the concession area and obtain reasonable returns;
 - to ensure the operation of the water treatment plant in the concession area, normal maintenance of the water supply reticulation network and provision of water supply service to the consumers in the concession area in line with social and economic development;
 - to meet the requirements of water quality, water quantity, water pressure and provision of water supply service in accordance with the law of PRC and the requirement contained in the agreement;
 - to fulfill the obligation with social benefit as agreed by both parties; and
 - save from the regulations stipulated in the agreement, Linyi Water shall report the project contract to the Linyi City Government for recording purpose;
- (c) The Concession Agreement is not renewable. Upon expiry of the concession right as stipulated in the agreement, Linyi Water shall transfer with no considerations all of its fixed assets, rights, documents, materials and files to the Linyi City Government or its designated organisation on the date of transfer and ensure that the fixed assets fulfill the standard technical requirements and functionality requirement.

Both Linyi City Government, being the concession giver, and Linyi Water are bounded by the concession agreement. Nevertheless, in incidences of any breach by Linyi Water, the concession giver has the right to terminate the said agreement. In this respect, Linyi Water will ensure that all reasonable steps are taken to prevent any such breach.

DETAILS OF CONCESSIONS (Cont'd)

The initial funding of the water supply project was via equity (cash) injections made by Linyi City Government and Salcon Linyi. The investment by Salcon Linyi is approximately USD3.71 million, representing 60% of the total registered capital of Linyi Water. The investment cost of USD3.71 million by Salcon Linyi was funded 80% through bank borrowings and 20% through internally generated funds.

7. SHANDONG CHANGLE WATER

7.1 Water concession

Shandong Changle Water currently operates Cheng Nan Water Treatment Plant located in Changle County, Shandong Province, PRC. Salcon Water (HK) Limited, a wholly-owned subsidiary of Salcon, had on 25 July 2003 entered into a joint venture agreement with Changle County General Water Supply Company to set up the joint venture company, Shandong Changle Water, on a 75:25 basis to handle, upgrade and manage the existing and newly-built facilities/plant for the production and supply of potable water and industrial water to the consumers in Changle County, including water users from household, organization, industrial and business, respectively, on a TOT basis. On 25 July 2003, the People's Government of Changle County, Shandong Province, PRC ("**Changle Government**") issued a letter of undertaking granting the concession right to Shandong Changle Water to operate the plant with 40 MLD capacity, exclusively for 50 years i.e. from 1 January 2004 to 31 December 2053 ("**Undertaking Letter**"). On 21 November 2005, Salcon Water (HK) Limited entered into a sale and purchase agreement with Changle County General Water Supply Company to acquire the remaining 25% of the registered share capital of Shandong Changle Water for RMB4 million in cash, which was financed wholly by internally generated funds.

Subsequently, Shandong Changle Water signed a "Memorandum of Shandong Changle 100 MLD Water Plant Expansion and Investment Project" and the "Construction of 100 MLD New Water Plant and Nan Liu Quan Water Plant Counter Buy Agreement" with Changle Government on 18 March 2008 and 21 April 2008, respectively, which stipulates that within the authority of the existing concession right, Shandong Changle Water shall construct, operate and manage a new water treatment plant with a capacity of 100MLD, on a BOT basis. Upon operation of the 100 MLD new water plant, the Changle Government shall close down the existing 40 MLD water plant, after the acquisition of the said existing 40 MLD water plant by the Changle Government from Shandong Changle Water.

On 3 July 2008, Salcon Water (HK) Limited entered into a sale and purchase agreement with Salcon Shandong to dispose all its shares in Shandong Changle Water to Salcon Shandong.

The 40 MLD water treatment plant commenced operations since 1 January 2004 and ceased operations in October 2011. The new 100 MLD water treatment plant commenced operations in October 2011. The concession will expire on 13 November 2053. The concession right given is not renewable.

The salient terms of concession are as provided in the joint venture agreement, as follows:

- (a) Shandong Changle Water is to possess, upgrade, construct, operate and manage the water production and distribution systems in the Changle County as well as to produce and sell water in compliance with the standards to potable and industrial users (excluding wastewater treatment and its related activities).
- (b) The co-operation period shall be of 50 years commencing from the date on which the business license was obtained ("**Co-operation Period**"). The said business license was issued by the National Administrative Bureau for Industry and Commerce, PRC.
- (c) The following are the water tariff and charge:
 - (i) Initial water tariff and charge for household and industrial consumption shall be based on the existing regulations and policies;

DETAILS OF CONCESSIONS (Cont'd)

- (ii) The General Manager of Shandong Changle Water shall submit the proposal for the revision to the water tariff to the Board of Directors of Shandong Changle Water and relevant government departments for approval after the signing of the joint venture agreement. The approval from the Board of Directors of Shandong Changle Water is to be obtained one (1) month before the end of every two (2) years or within one (1) month upon which the state policies are published; and
- (iii) In the event there is an obvious increase in the production costs of Shandong Changle Water, the Board of Directors of Shandong Changle Water has the rights to request for an increase in the water tariff from the government departments.

Both Changle County General Water Supply Company and Shandong Changle Water are bounded by the Undertaking Letter. Nevertheless, in incidences of any breach by Shandong Changle Water, the concession giver has the right to terminate the said agreement. In this respect, Shandong Changle Water will ensure that all reasonable steps are taken to prevent any such breach.

The initial funding of the water project was via equity injections made by Changle County General Water Supply Company (assets and cash) and Salcon Water (HK) Limited (cash). The investments by Salcon Water (HK) Limited is approximately USD1.44 million, representing 75% of the total registered share capital of Shandong Changle Water. The investment cost of USD1.44 million by Salcon Water (HK) Limited was funded 80% through bank borrowings and 20% through internally generated funds.

In 2008, Salcon Shandong acquired Shandong Changle Water from Salcon Water (HK) Limited. The acquisition was funded via equity (cash) injection by the shareholders of Salcon Shandong. Shandong Changle Water had subsequently obtained loans from financial institution for the project financing whereby corporate guarantee was provided by Salcon. The corporate guarantee provided by Salcon is for a sum of RMB69.2 million and will be uplifted prior to the completion of SPA-B.

7.2 Wastewater concession

Shandong Changle Water currently operates a WWTP known as "Changle Salcon Waste Water Treatment Plant" located in Changle County, Shandong Province, PRC. Salcon Water (HK) Limited had on 27 February 2005 entered into a framework agreement with the Changle Government to takeover a wastewater treatment plant on a TOT basis. Subsequently on 22 April 2005, Salcon Water (HK) Limited entered into a TOT agreement i.e. "**Changle Wastewater Treatment Plant TOT Project Agreement**" to secure the concession of 30 years from the Changle Government, whereby an operating Company, **Shandong Changle Water** was incorporated to engage in the design, finance, construction, transfer, operation and maintenance of the wastewater treatment facilities inside the Changle County WWTP for the Changle Government.

The WWTP commenced operations since 22 April 2005 and has a design capacity of 40 MLD. The concession is exclusive and will expire on 21 April 2035. The concession right given is not renewable.

The salient terms and conditions of the concession which are provided in the Changle Wastewater Treatment Plant TOT Project Agreement are as follows:

- (a) The Changle Government shall grant the following exclusive responsibilities to Salcon Water (HK) Limited without compensation for 30 years from the first transfer date (60 days within the signing and effectives of the agreement or 15 days upon which all the conditions precedents are fulfilled, whichever is later), which shall be the date on which the existing facilities is transferred from Changle Government to Salcon Water (HK) Limited ("**First Transfer Date**") ("**Concession Period**") and issue relevant license of operating wastewater treatment business to Shandong Changle Water:
 - (i) Manage, own, operate and maintain the existing facilities and extension portion of the existing facilities;

DETAILS OF CONCESSIONS (Cont'd)

- (ii) Financing, design and build the extension part of the existing facilities;
- (iii) Exclusive right to treat wastewater in the service area; and
- (iv) Collect the abovementioned relevant wastewater treatment service fee from Changle government.

The effective date being the First Transfer Date is 5 January 2006.

- (b) The Concession rights have been novated to Shandong Changle Water on 7 December 2005.
- (c) Salcon Water (HK) Limited shall be entitled to enjoy the following rights within the Concession Period:
 - (i) To enjoy the property rights of the project and takeover all the facilities, equipment, records of the WWTP;
 - (ii) To operate and manage the wastewater treatment plant, enjoy all owner's equity and profit-sharing right, own, use, manage and maintain all the facilities;
 - (iii) Salcon Water (HK) Limited shall have the exclusive right within the service areas on the concession right granted by the Changle Government; the Changle Government shall guarantee that it shall not sign any contracts or agreements with any third party which is in competition with any items contained in the agreement; and
 - (iv) The ownership of the project and the concession right on the wastewater treatment business belong to Salcon Water (HK) Limited and the Shandong Changle Water during the Concession Period. All the ownership right of the project shall be transferred to the Changle Government upon expiry of the Concession Period and Salcon Water (HK) Limited shall guarantee that the project is free from encumbrances during the second transfer which is the date on which the existing facilities is transferred by Salcon Water (HK) Limited to Changle Government based on the market price at that time and settlement of the transfer payment upon expiry of the Concession Period. The transfer value will be determined later.

Both Changle Government, being the concession giver, and Shandong Changle Water are bounded by the concession agreement. Nevertheless, in incidences of any breach by Shandong Changle Water, the concession giver has the right to terminate the said agreement. In this respect, Shandong Changle Water will ensure that all reasonable steps are taken to prevent any such breach.

The total investment amount for the WWTP is RMB18 million by Shandong Changle Water was funded 80% through bank borrowings and 20% through internally generated funds.

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DETAILS OF CONCESSIONS (Cont'd)

8. CHANGLE RAW WATER

Changle Raw Water currently operates and manages a raw water supply project in Changle County, Shandong Province, PRC. Salcon Shandong had on 21 April 2008 entered into a concession agreement ("**Raw Water Supply Concession Agreement**") with the Changle Government to establish Changle Raw Water, a foreign wholly owned project company in Changle County, Shandong Province, PRC ("**Project Company**"). Upon the establishment of the Project Company, Salcon Shandong's rights and obligations stated in the agreement shall be transferred to the Project Company. The concession is on a BOT basis for a period of 30 years and involves the design, construction, ownership, operation and maintenance of the raw water project. The facilities i.e. raw water pipelines are to channel raw water from the Gao Ya reservoir to the 100 MLD water treatment plant owned by Shandong Changle Water.

Construction of the raw water pipelines was completed on 11 November 2011 and commenced operations on 1 March 2012. The concession will expire on 28 February 2042.

The salient terms of the Raw Water Supply Concession Agreement are as follows:

- (a) Salcon Shandong shall be responsible in the design, finance, construction, ownership, operation and maintenance of the water supply engineering works, and upon the expiry of the concession period, shall transfer the raw water supply project to the organisation appointed by the Changle Government.
- (b) Each party agrees that the agreement shall only form the basis for the Project Company in the financing, design, construction, operation, maintenance, service of the project during the concession period. It shall also form part of the basis for the Changle Government to supervise Salcon Shandong in accordance with the terms and conditions contained in the agreement during the concession period.
- (c) The agreement shall not constitute a joint venture or partnership relationship between the Changle Government and Salcon Shandong.
- (d) The concession period shall be 30 years, which commences from the date on which the Project Company is officially operated.
- (e) The initial estimated investment amount of the Project Company shall be USD15.8 million (RMB109 million) whereby Salcon Shandong shall inject the capital based on the timing stipulated in the Memorandum & Articles of Association approved by the approving authority. On 3 June 2009, the investment amount of the Project Company was revised to USD21.7 million (RMB148 million).
- (f) Salcon Shandong shall be responsible in the design and technical service, financing arrangement, procurement, construction, operation and maintenance of the project within the concession period whilst the Changle Government shall assist in the following area in accordance with the relevant laws in PRC:
 - (i) Monitoring and supervising the design, construction, operation and maintenance of the water supply engineering works;
 - (ii) Assist Salcon Shandong in obtaining all the necessary approval pertaining to the design, construction, operation and maintenance of the water supply engineering works;
 - (iii) Assist Salcon Shandong in obtaining the land use right of the project site in accordance with the land use standard of public infrastructure;
 - (iv) Assist Salcon Shandong in processing the documentations of using the land in accordance with the law;
 - (v) Guarantee Salcon Shandong to enjoy the water intake right within the concession period;

DETAILS OF CONCESSIONS (Cont'd)

- (vi) Assist Salcon Shandong in completing the preliminary works and construction of permanent municipal facilities and other works; and
 - (vii) Taking strong measures to protect the ecology of water resources area.
- (g) During the concession period, Salcon Shandong shall enjoy the following rights and obligations:
- (i) to supply water to areas in accordance with the price stipulated;
 - (ii) to meet water demand within the concession area and to ensure that water quality is in compliance with the requirement of relevant standards as well as the law of PRC and the requirement contained in the agreement;
 - (iii) upon the operation of water supply engineering works, Salcon Shandong shall obtain the water resource from Gao Ya Reservoir or various water reservoirs within the Changle County, and has the right to sell raw water to the raw water users (both water production companies and end consumers) of Changle County; and
- (h) The Raw Water Supply Concession Agreement is not renewable. Upon expiry of the concession right, Salcon Shandong shall guarantee that all facilities are in good condition and all the liabilities have been cleared, Salcon Shandong, shall transfer without consideration the engineering facilities which is related to the water supply project and all the relevant document, material and files to the Changle Government of its designated organization.

Both Changle Government, being the concession giver, and Changle Raw Water are bounded by the concession agreement. Nevertheless, in incidences of any breach by Changle Raw Water, the concession giver has the right to terminate the said agreement. In this respect, Changle Raw Water will ensure that all reasonable steps are taken to prevent any such breach.

The initial investment amount in Changle Raw Water amounting to approximately USD8.70 million was funded by Salcon Shandong. The investment cost was funded 80% through bank borrowings and 20% through internally generated funds. Changle Raw Water had subsequently obtained loan from financial institution for the project financing, whereby corporate guarantee was provided by Salcon. The corporate guarantee provided by Salcon is for a sum of RMB74 million and will be uplifted prior to the completion of SPA-B.

9. JIANGSU WATER

On 12 December 2009, the People's Government of Yizheng City, Jiangsu Province, PRC had authorised both Jiangsu Water to enter into a concession agreement with Water Bureau of Yizheng City on a Build-Operate-Transfer ("**BOT**") basis ("**Concession Agreement**") whereby Jiangsu Water was granted the concession right for the implementation of the water transfer project in the central region of Yizheng City ("**Project**").

The salient terms of the Concession Agreement are as follows:

- (a) Jiangsu Water shall be responsible in the design, finance, construction, operation, maintenance and transfer of the water supply engineering works on a BOT basis;
- (b) The concession period shall be 30 years, which commences from the official commercial operation date of the Project (not inclusive construction period);

DETAILS OF CONCESSIONS (Cont'd)

- (c) Jiangsu Water shall connect the water engineering works together with the related construction facilities in the concession area which include Long He Town, Ma Ji Town, Xie Ji Village and Yue Tang Village, from Yizheng Huaqian Water Center to Xiangzhaolinwan Ecology Park and Tongshan office (1st and 2nd pipeline networks), and supply water from the towns and villages under the 1st and 2nd pipeline networks to the end user;
- (d) The total investment of the water engineering works together with the related construction facilities of the Project is tentatively fixed at RMB150.0 million;
- (e) During the concession period, Jiangsu Water shall enjoy the land use rights and shall has the right to collect service fee from Water Bureau of Yizheng City at the stipulated rate; and
- (f) The concession agreement is not renewable. Upon the expiry of the concession, Jiangsu Water shall transfer without consideration the engineering works facilities which are related to the Project to Water Bureau of Yizheng City.

Subsequent to the Concession Agreement, Yizheng City & Rural Water Company Limited, a subordinate unit of Water Bureau of Yizheng City constructed the Project. Hence, Yizheng City & Rural Water Company Limited, a subordinate unit of Water Bureau of Yizheng City, had on 1 December 2010 entered into an asset acquisition agreement with Jiangsu Water ("**Acquisition Agreement**") for Jiangsu Water to acquire the pipelines networks and its ancillary facilities in connection with the Project from Yizheng City & Rural Water Company Limited. The salient terms of the Acquisition Agreement are as follows:

- (a) Yizheng City & Rural Water Company Limited has agreed to transfer and Jiangsu Water has agreed to acquire assets including pipelines networks of the central region of the Yizheng city, pipelines of automobile industry park, Chao Shan pressure pump station, Chen Jia Zhuang pressure pump station and the rights to use the land ("**Assets**");
- (b) Both parties agreed for Yizheng City Audit Department to delegate a qualified valuation body to assess and determine the acquisition price of the Assets;
- (c) Within 30 days from the date of the Acquisition Agreement, Jiangsu Water shall pay a sum of RMB30.0 million cash to Yizheng City & Rural Water Company Limited as part payment, which is amounting to 20% of the tentative price of the Project (RMB150,000,000). The RMB30.0 million⁵ was paid by Jiangsu Water to Yizheng City & Rural Water Company Limited on 28 December 2010.

However, due to the construction cost incurred pertaining to the Project was higher than the estimated or original budgeted cost of the Project, Jiangsu Water and Water Bureau of Yizheng City had mutually agreed to suspend the Project and thus a concession suspension agreement dated 6 May 2013 ("**Concession Suspension Agreement**") was entered upon by both parties. In view of the Concession Suspension Agreement, Jiangsu Water is no longer required to pay the remaining 80% of the tentative price of the Project amounting to RMB120,000,000.

Salient terms of the Concession Suspension Agreement are as follows:

- (a) A reassessment of the Project under the Concession Agreement will be conducted after 5 years from the date of the Concession Suspension Agreement or anytime mutually agreed by both parties within 5 years after the date of the Concession Suspension Agreement ("**Suspension Period**"), to ascertain the feasibility of continuing the Project;
- (b) Both parties agreed to suspend the Concession Agreement and terminate the Acquisition Agreement due to the construction cost was higher than the original budgeted cost;

⁵ For the timing of the refund of RMB30.0 million by Yizheng City & Rural Water Company Limited, please refer to the salient terms of the Termination of Acquisition Agreement as stated in page VII – 16 of this Circular.

DETAILS OF CONCESSIONS (Cont'd)

- (c) The Concession Agreement shall be terminated if mutual agreement cannot be reached by the end of the Suspension Period; and
- (d) The Acquisition Agreement shall be terminated.

Accordingly, Water Bureau of Yizheng City, Yizheng City & Rural Water Company Limited and Jiangsu Water had on 6 May 2013 entered into an agreement to terminate the Acquisition Agreement ("**Termination of Acquisition Agreement**"). Salient terms of the Termination of Acquisition Agreement are as follows:

- (a) Yizheng City & Rural Water Company Limited shall return RMB30.0 million to Jiangsu Water in the following manner:
 - (i) Pursuant to the Assets Acquisition Agreement dated 6 May 2013⁶ entered into by Water Bureau of Yizheng City and Yizheng Wastewater, Yizheng Wastewater shall pay a sum of RMB30.754 million to Water Bureau of Yizheng City;
 - (ii) Within 5 days upon receipt of the sum of RMB30.754 million from Yizheng Wastewater, Water Bureau of Yizheng City shall pay RMB30.0 million to Yizheng City & Rural Water Company Limited; and
 - (iii) Within 5 days upon receipt of the sum of RMB30.0 million from Water Bureau of Yizheng City, Yizheng City & Rural Water Company Limited shall pay the same to Jiangsu Water.
- (b) Water Bureau of Yizheng City and Yizheng City & Rural Water Company Limited shall be liable to Jiangsu Water should either party fails to adhere to the agreed repayment time.
- (d) Upon execution of the agreement, Yizheng City & Rural Water Company Limited and Jiangsu Water shall not enjoy any rights and no longer bear any responsibility under the Acquisition Agreement.

The Concession Agreement does not form part of the Disposal Consideration.

For clarification purposes, all the salient terms of the agreements as extracted/summarised and provided herein have been translated from the original Chinese agreements to English. In the event of any discrepancy between the original and translated version of the agreements, the terms of the original Chinese agreement shall prevail over the translated English version.

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⁶ Please refer to Section 3 of Appendix VII of this Circular for further details on the Assets Acquisition Agreement dated 6 May 2013.

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

CLIENT COPY

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
(Company Registration No.: 200107899E)

Annual Report 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 Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
Annual Report

Directors' Report
for the year ended 31 December 2012

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2012.

Directors

The directors in office at the date of this report are as follows:

Tee Xun Hao	(appointed on 25 October 2012)
Law Woo Hock	(appointed on 17 August 2012)
Ooi Cheng Swee	(appointed on 17 August 2012)
Thye Kim Meng	
Heather Tan Chern Ling	

Directors' interests

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Cap. 50 ("the Act"), particulars of interests of directors who held office at the end of the financial year in shares, debentures, warrants and share options in the Company and in related corporations are as follows:

Name of director and corporation in which interests are held	Holdings at beginning of the year/date of appointment	Holdings at end of the year
Tee Xun Hao		
Salcon Berhad #		
- ordinary shares		
- deemed interests	29,397,400	29,397,400
- shares options of RM0.57 each		
- interests held	30,000	30,000
- warrants of RM0.75 each		
- deemed interests	7,370,650	7,370,650
Law Woo Hock		
Salcon Berhad #		
- ordinary shares		
- interests held	40,000	60,000
- shares options of RM0.57 each		
- interests held	400,000	400,000
Ooi Cheng Swee		
Salcon Berhad #		
- shares options of RM0.50 each		
- interests held	750,000	750,000

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
Annual Report

Directors' Report
for the year ended 31 December 2012

Directors' interests (cont'd)

Name of director and corporation in which interests are held	Holdings at beginning of the year/date of appointment	Holdings at end of the year
Thye Kim Meng		
Salcon Darco Environmental Pte. Ltd. (formerly known as Darco Environmental Pte Ltd)		
- ordinary shares		
- deemed interests	200,000	-
Darco Water Technologies Limited #		
- ordinary shares		
- interests held	36,795,711	63,795,711
- deemed interests	27,000,000	-
Heather Tan Chern Ling		
Darco Water Technologies Limited #		
- ordinary shares		
- interests held	68,000	68,000

Formerly, the immediate and ultimate holding company is Darco Water Technologies Limited. On 28 July 2012, Salcon Berhad acquired 60% equity interest in the Company. Salcon Berhad thus became the immediate and ultimate holding company of the Company.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, 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.

Except as disclosed in this report and in the notes to the financial statements, since the end of the last financial year, no director has received or become entitled to receive, a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Share options

During the financial year, there were:

- (i) no options granted by the Company to any person to take up unissued shares in the Company; and
- (ii) no shares issued by virtue of any exercise of option to take up unissued shares of the Company.

As at the end of the financial year, there were no unissued shares of the Company under option.

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
Annual Report

Directors' Report
for the year ended 31 December 2012

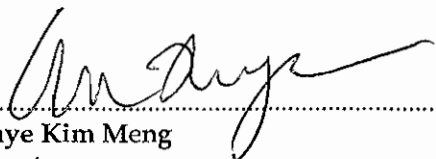
Auditors

The auditors, S P Tan & Co, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors



.....
Law Woo Hock
Director



.....
Thye Kim Meng
Director

27 March 2013

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
Annual Report

Statement by Directors
for the year ended 31 December 2012

In our opinion:

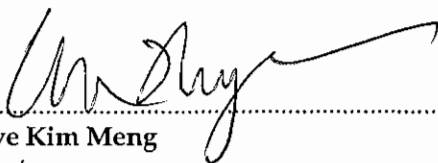
- (a) the financial statements set out on pages 7 to 23 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Company for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Cap. 50 and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors



.....
Law Woo Hock
Director



.....
Thye Kim Meng
Director

27 March 2013

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

S P TAN & CO 
 Certified Public Accountants

**Independent auditors' report to the members of
 Salcon Darco Environmental Pte. Ltd.
 (formerly known as Darco Environmental Pte Ltd)**

Report on the financial statements

We were engaged to audit the financial statements of Salcon Darco Environmental Pte. Ltd. (formerly known as Darco Environmental Pte Ltd) (the "Company"), which comprise the balance sheet as at 31 December 2012, statement of comprehensive income, 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, as set out on pages 7 to 23.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Singapore Standards on Auditing. Because of the matter described in the Basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

We were unable to obtain sufficient evidence to satisfy ourselves that the carrying amount of investments in subsidiaries amounting to \$27,602,946 as stated in Note 4 to the financial statements of the Company for the year ended 31 December 2012 are carried at no more than its recoverable amount as at that date.

Disclaimer of opinion

Because of the significance of the matter described in the Basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.



Creating Value For Businesses

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

Independent auditors' report to the members of Salcon Darco Environmental Pte. Ltd.**Report on the financial statements (cont'd)***Emphasis of matter*

We draw attention to Note 2 to the financial statements. The financial statements of the Company have been prepared on a going concern basis, notwithstanding the net current liabilities as at 31 December 2012 of \$31,371 as the immediate and ultimate holding company of the Company has confirmed its intention to provide the necessary financial support to the Company to continue its operations and meet its liabilities as and when they fall due. Our opinion is not qualified in respect of this matter.

Other Matter

The financial statements of Salcon Darco Environmental Pte. Ltd. for the year ended 31 December 2011 were audited by another auditor whose report dated 14 August 2012, expressed an unmodified opinion on those financial statements.

Report on other legal and regulatory requirements

In our opinion, except for the matter described in the Basis for disclaimer of opinion paragraph, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.



S P Tan & Co
*Public Accountants and
Certified Public Accountants*

(WT/KKS/HKY)

Singapore

27 March 2013

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
Annual Report

Balance Sheet
as at 31 December 2012

	Note	2012 \$	2011 \$
Non-current assets			
Subsidiaries	4	27,602,946	22,634,627
Current assets			
Other receivables	5	-	17,484,037
Prepayment		42,291	-
Cash at bank		1,070	1,309
		43,361	17,485,346
Total assets		<u>27,646,307</u>	<u>40,119,973</u>
Equity			
Share capital	7	25,768,459	200,000
Retained earnings		1,803,116	1,800,863
Total equity		<u>27,571,575</u>	<u>2,000,863</u>
Current liabilities			
Other payables	8	74,732	38,119,110
Total liabilities		<u>74,732</u>	<u>38,119,110</u>
Total equity and liabilities		<u>27,646,307</u>	<u>40,119,973</u>

The accompanying notes form an integral part of these financial statements.

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
Annual Report

Statement of Comprehensive Income
for the year ended 31 December 2012

	Note	2012 \$	2011 \$
Other gains/(losses)			
- net foreign exchange gains/(losses)		23,545	(103,546)
Administrative expenses		(21,125)	(14,985)
Results from operating activities		<u>2,420</u>	<u>(118,531)</u>
Finance costs - bank charges		(167)	(90)
Profit/(Loss) before tax		<u>2,253</u>	<u>(118,621)</u>
Tax expense	11	-	-
Profit/(Loss) for the year		<u>2,253</u>	<u>(118,621)</u>
Other comprehensive income		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		<u>2,253</u>	<u>(118,621)</u>

The accompanying notes form an integral part of these financial statements.

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
Annual Report

Statement of Changes in Equity
for the year ended 31 December 2012

	Note	Share capital \$	Retained earnings \$	Total \$
At 1 January 2011		200,000	1,919,484	2,119,484
Loss for the year		-	(118,621)	(118,621)
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	(118,621)	(118,621)
At 31 December 2011		200,000	1,800,863	2,000,863
Profit for the year		-	2,253	2,253
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	2,253	2,253
<u>Contributions by and distributions to owners</u>				
Issue of ordinary shares	7	25,568,459	-	25,568,459
Total transactions with owners in their capacity as owners		25,568,459	-	25,568,459
At 31 December 2012		<u>25,768,459</u>	<u>1,803,116</u>	<u>27,571,575</u>

The accompanying notes form an integral part of these financial statements.

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
Annual Report

Cash Flow Statement
for the year ended 31 December 2012

	2012	2011
	\$	\$
Operating activities		
Profit/(Loss) for the year/		
Operating cash flows before changes in working capital	2,253	(118,621)
Changes in working capital:		
Other payables	(2,492)	1,240
Net cash flows used in operating activities	<u>(239)</u>	<u>(117,381)</u>
Financing activities		
Non-trade amount owing by a related company	-	6,028
Non-trade amount owing to immediate and ultimate holding company	-	111,269
Net cash flows generated from financing activities	<u>-</u>	<u>117,297</u>
Net decrease in cash at bank	(239)	(84)
Cash at bank at 1 January	1,309	1,393
Cash at bank at 31 December	<u><u>1,070</u></u>	<u><u>1,309</u></u>

The accompanying notes form an integral part of these financial statements.

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
Annual Report

Notes to the Financial Statements
31 December 2012

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. Domicile and activities

Salcon Darco Environmental Pte. Ltd. (formerly known as Darco Environmental Pte Ltd) (the "Company") is a company incorporated in the Republic of Singapore. The address of the Company's registered office is 123 Woodlands Industrial Park E5 Woodlands E-Terrace Singapore 757498.

The principal activities of the Company are those relating to investment holding.

With effect from 1 November 2012, the name of the Company was changed from Darco Environmental Pte Ltd to Salcon Darco Environmental Pte. Ltd..

Formerly, the immediate and ultimate holding company is Darco Water Technologies Limited, a company incorporated in the Republic of Singapore. On 28 July 2012, Salcon Berhad, a company incorporated in Malaysia, acquired 60% equity interest in Salcon Darco Environmental Pte. Ltd. (formerly known as Darco Environmental Pte Ltd). Salcon Berhad thus became the immediate and ultimate holding company of the Company.

2. Going concern

The financial statements of the Company have been prepared on a going concern basis, notwithstanding the net current liabilities as at 31 December 2012 of \$31,371, as the immediate and ultimate holding company of the Company has confirmed its intention to provide the necessary financial support to the Company to continue its operations and meet its liabilities as and when they fall due.

3. Summary of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollars, which is the Company's functional currency.

The preparation of the financial statements in conformity with FRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
Annual Report

Notes to the Financial Statements
31 December 2012

3. Summary of significant accounting policies (cont'd)**(a) Basis of preparation (cont'd)**

Information about significant areas of estimation uncertainties and critical judgements in applying accounting policies that have the significant effects on the amounts recognised in the financial statements are disclosed in Note 16.

Interpretations and amendments to published standards effective in 2012

On 1 January 2012, the Company adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Company's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS. The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Company and had no material effect on the amounts reported for the current or prior financial years.

(b) Subsidiaries

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 exercisable are taken into account.

Investments in subsidiaries are stated in the Company's balance sheet at cost less accumulated impairment losses.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(d) Financial instruments***Non-derivative financial assets***

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
Annual Report

Notes to the Financial Statements
31 December 2012

3. Summary of significant accounting policies (cont'd)

(d) *Financial instruments (cont'd)*

Non-derivative financial assets (cont'd)

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise other receivables and cash at bank.

Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise other payables.

Share capital

Ordinary shares are classified as equity.

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
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Notes to the Financial Statements
31 December 2012

3. Summary of significant accounting policies (cont'd)

(e) *Impairment*

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor will enter bankruptcy.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
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Notes to the Financial Statements
31 December 2012

3. Summary of significant accounting policies (cont'd)**(e) Impairment (cont'd)*****Non-financial assets (cont'd)***

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Finance costs

Bank charges are recognised in profit or loss in the period in which they are incurred.

(g) Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

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

Salcon Darco Environmental Pte. Ltd.
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Notes to the Financial Statements
31 December 2012

3. Summary of significant accounting policies (cont'd)**(g) Tax (cont'd)**

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(h) New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company.

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
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Notes to the Financial Statements
31 December 2012

4. Subsidiaries

	2012 \$	2011 \$
Unquoted equity shares, at cost	27,602,946	22,634,627

Details of subsidiaries are as follows:

Name of subsidiaries	Principal activities/ Country of incorporation	Ownership interest	
		2012 %	2011 %
<u>Held by the Company</u>			
* Globe Industrial Technology Company Limited	Investment holding/ Hong Kong Special Administrative Region	95.58	91.00
* Deqing Darco Producing Water Co., Ltd.	Building, operation and transfer ("BOT") of a waste water treatment plant and the production and supply of tap water/ People's Republic of China	100.00	100.00
<u>Held through Globe Industrial Technology Company Limited</u>			
* Deqing Huanzhong Producing Water Co., Ltd.	Building, operation and transfer ("BOT") of a waste water treatment plant and the production and supply of tap water/ People's Republic of China	95.58	91.00

* Audited by other firm of auditors

On 9 March 2012 and 14 May 2012, the Company allotted additional 113,000 ordinary shares and 2,233 ordinary shares respectively in Globe Industrial Technology Company Limited ("Globe") through capitalisation of amount owing to the Company. As a result of these allotments, the Company's equity interest in Globe increased from 91% to 95.58%.

Consolidated financial statements have not been presented as the Company is a partially-owned subsidiary of Salcon Berhad, a company incorporated in Malaysia, which produces consolidated financial statements available for public use, and its other owners do not object to the Company not presenting consolidated financial statements. The address of Salcon Berhad is at 15th Floor Menara Summit Persiaran Kewajipan USJ1 47600 UEP Subang Jaya Selangor Malaysia.

5. Other receivables

	Note	2012 \$	2011 \$
Amount owing by a related company (non-trade)	6	-	17,484,037
Add:			
Cash at bank		1,070	1,309
Total loans and receivables		1,070	17,485,346

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

Salcon Darco Environmental Pte. Ltd.
(formerly known as Darco Environmental Pte Ltd)
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Notes to the Financial Statements
31 December 2012

6. Amount owing by a related company (non-trade)

Amount owing by a related company is unsecured, non-interest bearing and repayable on demand.

7. Share capital

	2012		2011	
	No. of shares	\$	No. of shares	\$
Fully paid ordinary shares, with no par value:				
At 1 January	200,000	200,000	200,000	200,000
Issue of shares	25,568,459	25,568,459	-	-
At 31 December	<u>25,768,459</u>	<u>25,768,459</u>	<u>200,000</u>	<u>200,000</u>

On 16 March 2012, the Company issued 20,600,000 ordinary shares for a total consideration of \$20,600,000, by way of capitalisation of part of the amount owing to immediate and ultimate holding company. The newly issued shares rank pari passu in all respects with the previously issued shares.

On 16 May 2012, the Company issued 4,968,459 ordinary shares for a total consideration of \$4,968,459, by way of capitalisation of part of the amount owing to immediate and ultimate holding company. The newly issued shares rank pari passu in all respects with the previously issued shares.

All shares rank equally with regard to the Company's residual assets.

All issued shares are fully paid, with no par value.

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.

Capital management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

There were no changes in the Company's approach to capital management during the year.

The capital structure of the Company consists of equity attributable to owners of the Company, comprising share capital and retained earnings.

The Company is not subject to externally imposed capital requirements.

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

Salcon Darco Environmental Pte. Ltd.
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31 December 2012

8. Other payables

	Note	2012 \$	2011 \$
Other payables		4,881	1,240
Accrued operating expenses		13,500	10,000
Amount(s) owing to:			
- immediate and ultimate			
holding company (non-trade)	9	-	38,107,870
- a corporate shareholder (non-trade)	10	56,351	-
		<hr/>	<hr/>
Total other payables/ Total financial liabilities carried at amortised cost		<u>74,732</u>	<u>38,119,110</u>

Other payables are non-interest bearing and have an average term of six months.

9. Amount owing to immediate and ultimate holding company (non-trade)

Amount owing to immediate and ultimate holding company was unsecured, non-interest bearing and payable on demand.

10. Amount owing to a corporate shareholder (non-trade)

Amount owing to a corporate shareholder is unsecured, non-interest bearing and payable on demand.

11. Tax expense*Reconciliation of effective tax rate*

	2012 \$	2011 \$
Profit/(Loss) before tax	<u>2,253</u>	<u>(118,621)</u>
Tax calculated using Singapore tax rate of 17% (2011: 17%)	383	(20,165)
Effects of:		
- non-deductible expenses	3,620	20,165
- tax exempt income	(4,003)	-
	<hr/>	<hr/>
	<u>-</u>	<u>-</u>

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

Salcon Darco Environmental Pte. Ltd.
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12. Related party transactions

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Company and related parties took place at terms agreed between the parties during the financial year:

	2012	2011
	\$	\$
Payments made on behalf and reimbursed by the immediate and ultimate holding company	-	7,717
Payments made on behalf and reimbursed by a related company	-	6,028
Payments made on behalf and reimbursed by a corporate shareholder	56,278	-
	<u>56,278</u>	<u>-</u>

13. Contingent liability

In 2011, an individual claimed, inter alia, an order requiring the Company to buy 10,000 shares (equivalent to 9% equity interest) of Globe Industrial Technology Company Limited ("Globe"), in which the Company was a 91% shareholder, held by the individual; or alternatively, an order requiring all the shares of Globe held by the Company to be sold to the individual, at a price to be agreed or failing which an agreement is to be determined by an independent valuer to be appointed by the Hong Kong Special Administrative Region court; and costs incurred by the individual to be borne by the Company. The case is currently ongoing.

14. Financial risk management

The Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk and foreign currency risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

There has been no change to the Company's exposure to these financial risks or the manner in which it manages and measures the risks.

(a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Company's exposure to credit risk arises primarily from other receivables. For other financial assets (including cash at bank), the Company minimises credit risk by dealing exclusively with high credit rating counterparties.

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

Salcon Darco Environmental Pte. Ltd.
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Notes to the Financial Statements
31 December 2012

14. Financial risk management (cont'd)
(a) Credit risk (cont'd)

At the end of the reporting period, the Company has no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(i) Financial assets that are neither past due nor impaired

Other receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Company. Cash at bank is placed with reputable financial institutions with high credit ratings and no history of default.

(ii) Financial assets that are either past due or impaired

There is no other class of financial assets that is either past due or impaired

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

At the end of the reporting period, the contractual cash flows of the Company's current financial liabilities approximate the carrying amounts and they are expected to be settled within the next twelve months.

(c) Foreign currency risk

The Company has transactional currency exposures arising from transactions that are denominated in a currency other than the functional currency of the Company. The foreign currency in which these transactions are denominated is mainly United States Dollar. The Company monitors its net exposure to this foreign currency to ensure that it remains insignificant.

The summary of quantitative data about the Company's exposure to foreign currency risk as provided to the management of the Company based on its risk management policy was as follows:

	31 December 2012	31 December 2011
	United States Dollar \$	United States Dollar \$
Cash at bank	1,070	1,309
Other payables	(42,364)	(18,420,879)
Net exposure	<u>(41,294)</u>	<u>(18,419,570)</u>

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

Salcon Darco Environmental Pte. Ltd.
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Notes to the Financial Statements
31 December 2012

14. Financial risk management (cont'd)
(c) Foreign currency risk (cont'd)
Sensitivity analysis

A strengthening of the Singapore Dollar, as indicated below, against the United States Dollar at 31 December would have increased/(decreased) equity and profit net of tax by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted transactions. The analysis is performed on the same basis for 2011, as indicated below:

	Equity \$	Profit net of tax \$
31 December 2012		
United States Dollar (10% strengthening)	-	4,129
	<hr/>	<hr/>
	Equity \$	Profit net of tax \$
31 December 2011		
United States Dollar (10% strengthening)	-	1,841,957
	<hr/>	<hr/>

A weakening of the Singapore Dollar against the above currency at 31 December would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

15. Fair value of financial instruments

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Cash at bank and other current financial assets and liabilities

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values due to their short-term nature.

16. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 3. The Company believes the following critical accounting policy involves the most significant judgement and estimate used in the preparation of the financial statements.

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

Salcon Darco Environmental Pte. Ltd.
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16. Critical accounting estimates and judgements (cont'd)**Impairment of investments in subsidiaries**

The Company assesses annually whether investments in subsidiaries have any indication of impairment in accordance with the accounting policy. When there is an indication of impairment, the recoverable amount of the investments in subsidiaries will be determined based on the value-in-use calculation. These calculations involve the use of judgement and estimates. The cost of investments in subsidiaries is disclosed in Note 4 to the financial statements.

17. Comparative information

The financial statements for the year ended 31 December 2011 were audited by another firm of Certified Public Accountants.

18. Authorisation of financial statements

The financial statements were authorised for issue by the Board of Directors on 27 March 2013.

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

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

DEQING DARCO PRODUCING 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 BERNAD (593796-T)

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

AUDITORS' REPORT

毕马威华振沪审字第 1301246 号

The Board of Directors of Deqing Darco Producing Water Co., Ltd.:

We have audited the accompanying financial statements of Deqing Darco Producing Water Co., Ltd. ("the Company") on pages 1 to 18, which comprise the balance sheet as at 31 December 2012, and the income statement and cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

SALCON BERNAD (503796-T)

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

AUDITORS' REPORT (continued)

毕马威华振沪审字第 1301246 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: 28 March 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 BERNAD (593796-T)

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

Deqing Darco Producing Water Co., Ltd.
Balance sheet as at 31 December 2012
(Expressed in Renminbi Yuan)



	Note	2012	2011 Note 18
Assets			
Current assets			
Cash at bank and on hand	5	306,423.18	2,095,354.56
Accounts receivable	6	6,499,185.82	2,013,458.75
Other receivables	7	21,485.40	1,061,721.40
Inventories	8	62,217.50	30,608.50
Payments in advance		<u>17,300.00</u>	<u>405,623.00</u>
Total current assets		<u>6,906,611.90</u>	<u>5,606,766.21</u>
Fixed assets			
Cost		179,110,861.28	25,729,653.29
Less: Accumulated depreciation		<u>(14,138,302.85)</u>	<u>(804,138.85)</u>
Net book value	9	164,972,558.43	24,925,514.44
Construction in progress	10	<u>-</u>	<u>136,973,270.42</u>
Total fixed assets		<u>164,972,558.43</u>	<u>161,898,784.86</u>
Intangible assets			
	11	<u>6,740,082.27</u>	<u>6,889,309.23</u>
Total assets		<u>178,619,252.60</u>	<u>174,394,860.30</u>

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

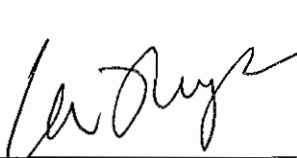
AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR
THE FYE 31 DECEMBER 2012 (Cont'd)


Deqing Darco Producing Water Co., Ltd.
Balance sheet as at 31 December 2012 (continued)
(Expressed in Renminbi Yuan)

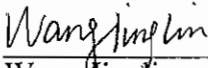


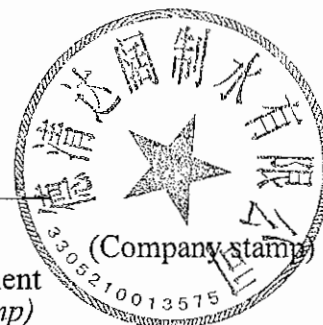
	Note	2012	2011 Note 18
Liabilities and owners' equity			
Current liabilities			
Accounts payable		6,987,624.67	2,477,828.00
Accrued payroll		166,658.39	81,051.49
Taxes payable	4(c)	248,721.94	60,007.08
Other creditors	4(d)	30,241.18	7,293.67
Other payables		37,939,518.95	27,287,000.00
Accrued expenses		209,268.89	484,305.25
Long-term liabilities due within one year	12	<u>8,750,000.00</u>	<u>12,400,000.00</u>
Total current liabilities		<u>54,332,034.02</u>	<u>42,797,485.49</u>
Long-term liabilities			
Long-term loan	13	<u>40,850,000.00</u>	<u>46,500,000.00</u>
Total Liabilities		<u>95,182,034.02</u>	<u>89,297,485.49</u>
Owners' equity			
Paid-in capital	14	87,534,925.32	87,534,925.32
Accumulated losses		<u>(4,097,706.74)</u>	<u>(2,437,550.51)</u>
Total owners' equity		<u>83,437,218.58</u>	<u>85,097,374.81</u>
Total liabilities and owners' equity		<u>178,619,252.60</u>	<u>174,394,860.30</u>

These financial statements have been approved by the Board of Directors of the Company at 28 March 2013.


 Thye Kim Meng
 Legal Representative
 (Signature and stamp)


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


 Wang Jinglin
 The head of the
 accounting department
 (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)

Deqing Darco Producing Water Co.,Ltd.
Income and profit appropriation statement
for the year ended 31 December 2012
(Expressed in Renminbi Yuan)

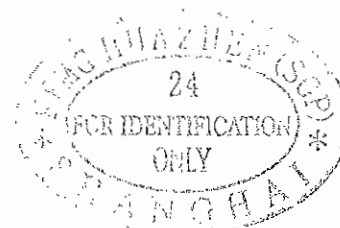


	<i>Note</i>	<i>2012</i>	<i>2011</i> <i>Note 18</i>
Sales from principal activities	<i>15</i>	25,757,975.31	3,471,748.82
Less: Cost of sales from principal activities		(18,480,117.98)	(1,235,671.72)
Business taxes and surcharges	<i>4(a)</i>	<u>(180,305.84)</u>	<u>(24,302.23)</u>
Profit from principal activities		7,097,551.49	2,211,774.87
Less: General and administrative expenses		(2,393,753.09)	(4,554,023.48)
Financial expenses	<i>16</i>	<u>(6,363,954.63)</u>	<u>(159,556.90)</u>
Operating loss		(1,660,156.23)	(2,501,805.51)
Add: Subsidy income		<u>-</u>	<u>64,255.00</u>
Loss before income tax		(1,660,156.23)	(2,437,550.51)
Less: Income tax	<i>4(b)</i>	<u>-</u>	<u>-</u>
Net loss for the year		(1,660,156.23)	(2,437,550.51)
Add: Accumulated losses at the beginning of the year		<u>(2,437,550.51)</u>	<u>-</u>
Accumulated losses carried forward		<u>(4,097,706.74)</u>	<u>(2,437,550.51)</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)

Deqing Darco Producing Water Co., Ltd.
Cash flow statement
for the year ended 31 December 2012
(Expressed in Renminbi Yuan)

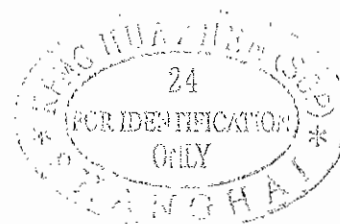


	<i>Notes to the cash flow statement</i>	2012	2011 <i>Note 18</i>
Cash flows from operating activities:			
Cash received from sale of goods		21,272,248.24	64,255.00
Refund of taxes		-	4,725,013.31
Cash received relating to other operating activities		<u>1,153,236.00</u>	<u>-</u>
Sub-total of cash inflows		<u>22,425,484.24</u>	<u>4,789,268.31</u>
Cash paid for goods and services		(4,737,076.43)	(612,705.09)
Cash paid to and for employees		(1,414,760.25)	(1,150,046.39)
Cash paid for all types of taxes		(94,183.82)	(166,406.93)
Cash paid relating to other operating activities		<u>(1,614,682.55)</u>	<u>(1,023,495.85)</u>
Sub-total of cash outflows		<u>(7,860,703.05)</u>	<u>(2,952,654.26)</u>
Net cash inflow from operating activities	<i>i</i>	<u>14,564,781.19</u>	<u>1, 836,614.05</u>
Cash flows from financing activities:			
Cash received relating to other investing activities		<u>16,734.46</u>	<u>3,298.60</u>
Sub-total of cash inflows		<u>16,734.46</u>	<u>3,298.60</u>
Cash paid for acquisition of fixed assets and intangible assets		<u>(11,898,140.90)</u>	<u>(16,734,161.18)</u>
Sub-total of cash outflows		<u>(11,898,140.90)</u>	<u>(16,734,161.18)</u>
Net cash outflow from financing activities		<u>(11,881,406.44)</u>	<u>(16,730,862.58)</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)

Deqing Darco Producing Water Co., Ltd.
Cash flow statement
for the year ended 31 December 2012 (continued)
(Expressed in Renminbi Yuan)



	<i>Notes to the cash flow statement</i>	2012	2011 <i>Note 18</i>
Cash flows from financing activities:			
Cash received from borrowings		<u>63,300,000.00</u>	<u>16,713,000.00</u>
Sub-total of cash inflows		<u>63,300,000.00</u>	<u>16,713,000.00</u>
Cash repayments of borrowings		(63,400,000.00)	-
Cash paid for interest expenses		<u>(4,522,306.13)</u>	<u>(6,482.53)</u>
Sub-total of cash outflows		<u>(67,922,306.13)</u>	<u>(6,482.53)</u>
Net cash outflow from financing activities		<u>(4,622,306.13)</u>	<u>16,706,517.47</u>
Net (decrease)/increase in cash and cash equivalents	<i>ii</i>	<u>(1,938,931.38)</u>	<u>1,812,268.94</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)

Deqing Darco Producing Water Co., Ltd.
Cash flow statement
for the year ended 31 December 2012 (continued)
(Expressed in Renminbi Yuan)



Notes to the cash flow statement

i Reconciliation of net loss to cash flows from operating activities

	2012	2011 Note 18
Net loss	(1,660,156.23)	(2,437,550.51)
Add: Depreciation of fixed assets	13,334,164.00	546,953.35
Amortisation of intangible assets	149,226.96	149,226.96
Amortisation of long-term deferred expenses	-	3,161,199.54
Increase in accrued expenses	110,000.00	-
Financial expenses	6,360,054.26	158,136.48
Increase in gross inventories	(31,609.00)	(30,608.50)
(Increase)/decrease in operating receivables	(3,057,168.07)	140,904.49
(Decrease)/increase in operating payables	<u>(639,730.73)</u>	<u>148,352.24</u>
Net cash inflow from operating activities	<u>14,564,781.19</u>	<u>1,836,614.05</u>

ii Net (decrease)/increase in cash

	2012	2011
Cash at the end of the year	306,423.18	2,095,354.56
Less: Cash with restricted usage	<u>(150,000.00)</u>	<u>-</u>
Closing balance of cash available on demand	156,423.18	2,095,354.56
Less: Opening balance of cash available on demand	<u>(2,095,354.56)</u>	<u>(283,085.62)</u>
Net (decrease)/increase in cash	<u>(1,938,931.38)</u>	<u>1,812,268.94</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)

Deqing Darco Producing Water Co., Ltd.

Notes to the financial statements

(Expressed in Renminbi Yuan)

1 COMPANY STATUS

Deqing Darco Producing Water Co., Ltd.(the Company) is a wholly foreign-owned enterprise established in Deqing County, Zhejiang Province in the People's Republic of China (PRC) by Salcon Darco Environmental Pte. Ltd. (formerly known as Darco Environmental Pte. Ltd., Singapore Darco). The Company obtained an approval certificate Shang Wai Zi Zhe Fu Zi Hu Zi [2006] No. 00222 on 21 November 2006, and a business license Qi Du Zhe Hu Zong Zi No. 002155 on 16 January 2007 issued by Huzhou Administration of Industry and Commerce. The registered capital is USD 15,000,000.

The Company's Board of Directors resolved to decrease the Company's registered capital to USD 11,960,000 on 4 November 2008. The registered capital was decreased from USD 15,000,000 to USD 11,960,000. The Company obtained approval from the People's Government of Zhejiang Province for the change on 31 December 2008. The articles of associate were revised on 4 November 2008 accordingly. The Company also obtained a revised approval certificate Shang Wai Zi Zhe Fu Zi Hu Zi [2006] No. 00222 on 21 November 2006 and a revised business license (Qi Du Zhe Hu Zong Zi No. 002155 (For pre-operation purpose of one year) on 5 August 2009 and 16 April 2010 respectively. The Company also obtained a revised business license (No. 330500400007391 (For formal operation) on 30 July 2012.

The Company's period of operation is 30 years, and its principal activities are producing water centrally and providing sewage treatment operation and services. The Company was established on 13 December 2006, completed the pre-operation work in October 2011 and commenced its operations of providing water in January 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.

The financial statements have been prepared on the basis that the Company will continue to operate throughout the next accounting period until at least 31 December 2013 as a going concern.

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

2 BASIS OF PREPARATION (CONTINUED)

The Company has accumulated losses of RMB 4,097,706.74 and its current liabilities exceeded its current assets by RMB 47,425,422.12 as at 31 December 2012. Since the owners of the Company have undertaken to provide such financial support to the Company as may be necessary to ensure its continuing operation for the year of 2013, the financial statements have been prepared on a going concern basis.

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

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

(b) Basis of preparation and measurement basis

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

(c) Functional currency

The Company's functional currency is the Renminbi.

(d) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the balance sheet date.

Exchange gains and losses on foreign currency translation, except for the exchange gains and losses directly relating to the construction of fixed assets (see note 3(g)), are dealt with in the income statement.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(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. Provision for other receivables is determined based on their specific nature and management's estimate of their collectibility.

(f) Inventories

Inventories include raw materials and low value consumables.

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

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

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

Low value consumables are amortised in two equal instalments when they are first used and when they have been used up.

(g) Fixed assets

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Fixed assets (continued)

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

	<i>Estimated useful life</i>	<i>Estimated rate of residual value</i>	<i>Rate of depreciation</i>
Plant and buildings	20 years	10%	4%
Machinery and equipment	10 years	10%	9%
Electronic and office equipment	5 years	10%	18%
Motor vehicles	5 years	10%	18%
Instrument	5 years	10%	18%

(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:

Land use right	50 years
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(i) Provision for impairment

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(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) Revenue recognition

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

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of the ownership of goods have been transferred to the buyers and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(ii) Interest income

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

(iii) Subsidy income

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

(l) 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.

(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.

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

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 sale of goods include value added tax (VAT), urban maintenance and construction tax, education fee surcharge, local education fee surcharge and water conservancy construction specific fee, etc.

<u>Tax name</u>	<u>Tax basis and applicable rate</u>
VAT	Output VAT is 6% of product sales, according to tax laws, input VAT is not deductible
Urban maintenance and construction tax	5 % of the business tax
Education fee surcharge	3 % of the business tax
Local education fee surcharge	2 % of the business tax
Water conservancy construction specific fee	0.1 % of taxable revenue

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

(b) Income tax

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

The Company endures a tax loss at 31 December 2012, and as a result, didn't accrue income tax.

(c) Taxes payable

	<i>2012</i>	<i>2011</i>
VAT payable	248,557.70	59,948.09
Individual income tax payable	<u>164.24</u>	<u>58.99</u>
Total	<u><u>248,721.94</u></u>	<u><u>60,007.08</u></u>

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)
4 TAXATION AND SURCHARGE (CONTINUED)
(d) Other creditors

	<i>2012</i>	<i>2011</i>
Urban maintenance and construction tax payable	12,427.88	2,997.40
Education fee surcharge payable	7,456.73	1,798.44
Local education fee surcharge payable	4,971.15	1,198.96
water conservancy construction specific fee payable	4,142.63	999.13
Stamp duty payable	<u>1,242.79</u>	<u>299.74</u>
Total	<u>30,241.18</u>	<u>7,293.67</u>

5 CASH AT BANK AND ON HAND

	<i>2012</i>	<i>2011</i>
Cash on hand	12,490.49	9,205.54
Demand deposits	143,932.69	2,086,149.02
Other monetary funds (electricity deposit)	<u>150,000.00</u>	<u>-</u>
Total	<u>306,423.18</u>	<u>2,095,354.56</u>

6 ACCOUNTS RECEIVABLE

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

	<i>2012</i>			<i>2011</i>		
	<i>Percentage of total accounts RMB receivable</i>	<i>Provision for bad and doubtful debts</i>		<i>Percentage of total accounts RMB receivable</i>	<i>Provision for bad and doubtful debts</i>	
Within 1 year	<u>6,499,185.82</u>	<u>100%</u>	<u>-</u>	<u>2,013,458.75</u>	<u>100%</u>	<u>-</u>

7 OTHER RECEIVABLES

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

	<i>2012</i>			<i>2011</i>		
	<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	21,485.40	100%	-	1,049,721.40	99%	-
After 1 year but Within 2 year	-	-	-	12,000.00	1%	-
	<u>21,485.40</u>	<u>100%</u>	<u>-</u>	<u>1,061,721.40</u>	<u>100%</u>	<u>-</u>

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

	2012	2011
Raw materials	<u>62,217.50</u>	<u>30,608.50</u>

All the above inventories are purchased from others.

9 FIXED ASSETS

	<i>Plant and buildings</i>	<i>Machinery and equipment</i>	<i>Instrument</i>	<i>Motor vehicles</i>	<i>Electronic office equipment</i>	<i>Total</i>
Cost						
As at 1 January 2012	-	20,730,836.38	4,429,422.91	441,936.00	127,458.00	25,729,653.29
Additions	-	-	-	-	5,650.00	5,650.00
Transfer from construction in progress	<u>50,061,966.14</u>	<u>102,986,451.85</u>	<u>327,140.00</u>	-	-	<u>153,375,557.99</u>
As at 31 December 2012	<u>50,061,966.14</u>	<u>123,717,288.23</u>	<u>4,756,562.91</u>	<u>441,936.00</u>	<u>133,108.00</u>	<u>179,110,861.28</u>
Accumulated depreciation						
As at 1 January 2012	-	(310,962.52)	(131,806.18)	(323,109.00)	(38,261.15)	(804,138.85)
Charge for the year	<u>(2,061,006.83)</u>	<u>(10,343,210.45)</u>	<u>(841,820.58)</u>	<u>(69,249.60)</u>	<u>(18,876.54)</u>	<u>(13,334,164.00)</u>
As at 31 December 2012	<u>(2,061,006.83)</u>	<u>(10,654,172.97)</u>	<u>(973,626.76)</u>	<u>(392,358.60)</u>	<u>(57,137.69)</u>	<u>(14,138,302.85)</u>
Carrying amount						
As at 31 December 2012	<u>48,000,959.31</u>	<u>113,063,115.26</u>	<u>3,782,936.15</u>	<u>49,577.40</u>	<u>75,970.31</u>	<u>164,972,558.43</u>
As at 1 January 2012	<u>-</u>	<u>20,419,873.86</u>	<u>4,297,616.73</u>	<u>118,827.00</u>	<u>89,196.85</u>	<u>24,925,514.44</u>

10 CONSTRUCTION IN PROGRESS

		Including: Borrowing costs capitalised
As at 1 January 2012	136,973,270.42	5,492,347.08
Additions during the year	16,402,287.57	303,302.28
Transfer to fixed assets during the year	<u>(153,375,557.99)</u>	<u>(5,795,649.36)</u>
As at 31 December 2012	<u>-</u>	<u>-</u>

The capitalisation rate used to determine the borrowing costs to be capitalised was 8.30% (2011: 7.79%).

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

11 INTANGIBLE ASSETS

	<i>Land use rights</i>
Cost	
As at 1 January 2012	7,461,345.91
Additions	<u>-</u>
As at 31 December 2012	<u>7,461,345.91</u>
Accumulated amortisation	
As at 1 January 2012	(572,036.68)
Charge for the year	<u>(149,226.96)</u>
As at 31 December 2012	<u>(721,263.64)</u>
Carrying amount	
As at 31 December 2012	<u>6,740,082.27</u>
As at 1 January 2012	<u>6,889,309.23</u>

12 LONG-TERM LIABILITIES WITHIN ONE YEAR

	2012			2011		
	<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>
UOB Shenzhen branch	-			12,400,000.00	note 13(i)	note 13(ii)
Hangzhou bank Deqing branch	<u>8,750,000.00</u>	note 13(iii)	note 13(iv)	-		
Total	<u>8,750,000.00</u>			<u>12,400,000.00</u>		

13 LONG-TERM LOANS

	2012				2011			
	<i>Principal</i>	<i>Period</i>	<i>Interest rate (p.a.)</i>	<i>Secured/ guaranteed</i>	<i>Principal</i>	<i>Period</i>	<i>Interest rate (p.a.)</i>	<i>Secured/ guaranteed</i>
UOB Shenzhen branch	-				46,500,000.00	2009/8/28 -2013/8/28	(i)	(ii)
Hangzhou bank Deqing branch	<u>40,850,000.00</u>	2012/11/29 -2020/8/28	(iii)	(iv)	-			
Total	<u>40,850,000.00</u>				<u>46,500,000.00</u>			

- (i) The borrowing is going to be due on 28 August 2013 and the Company has repaid all the balances on 29 November 2012. Benchmark lending rate of three to five years by the People's Bank of China floated with 30%. The current year's interest rate is 8.32% (2011: 8.97%).
- (ii) The borrowing is secured by land use right certificate (Deqing Guo Yong (2008) No. 00216192).
- (iii) The borrowing is scheduled to repay by installments. Benchmark lending rate of over five years by the People's Bank of China on the withdrawn date. The current year's interest rate is 6.55%.
- (iv) The borrowing is secured by land use right certificate (Deqing Guo Yong (2008) No. 00216192), property certificate (No. 0011234011237) and pledged by accounts receivables.

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

14 PAID-IN CAPITAL

Registered capital

	<i>2012 & 2011</i>	
	<i>Amount in original currency USD</i>	<i>%</i>
Singapore Darco	<u>11,960,000.00</u>	<u>100%</u>

	<i>2012 & 2011</i>		
	<i>Amount in original currency USD</i>	<i>Amount in RMB equivalent</i>	<i>%</i>
Paid-in capital			
Singapore Darco	<u>11,960,000.00</u>	<u>87,534,925.32</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 the capital verification report.

15 SALES FROM PRINCIPAL ACTIVITIES

	<i>2012</i>	<i>2011</i>
Producing water revenue	<u>25,757,975.31</u>	<u>3,471,748.82</u>

16 FINANCIAL EXPENSES

	<i>2012</i>	<i>2011</i>
Interest expenses	6,376,788.72	161,435.08
Less: Interest income	(16,734.46)	(3,298.60)
Other financial expenses	<u>3,900.37</u>	<u>1,420.42</u>
Total	<u>6,363,954.63</u>	<u>159,556.90</u>

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

17 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties with controlling relationships

	<i>Registered address</i>	<i>Principal activities</i>	<i>Relationship with the Company</i>	<i>Types of legal entity</i>
Singapore Darco	Singapore	Investment holding on drinking water	Investor	Limited liability company

Registered capital of related parties with controlling relationships and its changes

		<i>At the beginning of the year</i>	<i>Increase</i>	<i>At the end of the year</i>
Singapore Darco	<i>HKD</i>	200,000.00	25,568,459.00	25,768,459.00

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

	<i>At the beginning of the year</i>		<i>Increase</i>		<i>At the end of the year</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Singapore Darco	87,534,925.53	100%	-	-	87,534,925.53	100%

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

	<i>Relationship with the Company</i>
Deqing Huanzhong Producing Water Co., Ltd. (Deqing Huanzhong)	Fellow subsidiaries
Darco Water Technology Co., Ltd. (Darco Water)	Investor of parent company

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)
17 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

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

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

	2012	2011
Receipt of borrowings		
- Deqing Huanzhong	8,200,000.00	13,500,000.00
- Darco Water	4,500,000.00	-
Payment of borrowings		
- Deqing Huanzhong	3,500,000.00	-
Payment of interest expenses		
- Deqing Huanzhong	1,427,949.22	811,569.73

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:

	2012	2011
Other payables		
- Deqing Huanzhong	26,939,518.95	20,000,000.00
- Darco Water	4,500,000.00	-

18 COMPARATIVE FIGURES

The comparative figures of 2011 was audited by Huzhou Jiangnan Hua Xin Certified Public Accountants and issued the audit report. In order to meet the requirements of business development, the company has engaged KPMG Huazhen (Special General Partnership) Shanghai Branch to provide audit services for the financial statements of 2012. Certain items in these comparative figures 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)*

德清达阔制水有限公司

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
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Internet 网址 kpmg.com/cn

审计报告

毕马威华振沪审字第 1301246 号

德清达阔制水有限公司董事会:

我们审计了后附的第 1 页至第 18 页的德清达阔制水有限公司(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 年度的利润表和现金流量表以及财务报表附注。

一、管理层对财务报表的责任

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

二、注册会计师的责任

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

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

我们相信,我们获取的审计证据是充分、适当的,为发表审计意见提供了基础。

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

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

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

本分所已获毕马威华振会计师事务所(特殊普通合伙)总所授权执业业务。

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 1301246 号

三、 审计意见

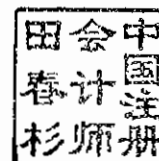
我们认为，贵公司财务报表在所有重大方面按照中华人民共和国财政部颁布的企业会计准则和《企业会计制度》的规定编制，公允反映了贵公司 2012 年 12 月 31 日的财务状况以及 2012 年度的经营成果和现金流量。

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

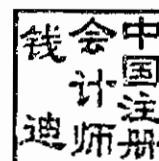


田春杉
田春杉



钱迪

钱迪



二〇一三年三月二十八日

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

德清达阔制水有限公司

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 附注 18
资产			
流动资产			
货币资金	5	306,423.18	2,095,354.56
应收账款	6	6,499,185.82	2,013,458.75
其他应收款	7	21,485.40	1,061,721.40
存货	8	62,217.50	30,608.50
预付账款		<u>17,300.00</u>	<u>155,360.00</u>
流动资产合计		<u>6,906,611.90</u>	<u>5,356,503.21</u>
固定资产			
固定资产原价		179,110,861.28	25,729,653.29
减：累计折旧		<u>(14,138,302.85)</u>	<u>(804,138.85)</u>
固定资产净额	9	164,972,558.43	24,925,514.44
在建工程	10	<u>-</u>	<u>136,973,270.42</u>
固定资产合计		<u>164,972,558.43</u>	<u>161,898,784.86</u>
无形资产			
无形资产	11	<u>6,740,082.27</u>	<u>6,889,309.23</u>
资产总计		<u>178,619,252.60</u>	<u>174,144,597.30</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)

德清达阔制水有限公司
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 附注 18
负债和所有者权益			
流动负债			
应付账款		6,987,624.67	2,227,565.00
应付工资		166,658.39	81,051.49
应交税金	4(c)	248,721.94	60,007.08
其他应付款	4(d)	30,241.18	7,293.67
其他应付款		37,939,518.95	27,287,000.00
预提费用		209,268.89	484,305.25
一年内到期的长期负债	12	<u>8,750,000.00</u>	<u>12,400,000.00</u>
流动负债合计		54,332,034.02	42,547,222.49
长期负债			
长期借款	13	<u>40,850,000.00</u>	<u>46,500,000.00</u>
负债合计		<u>95,182,034.02</u>	<u>89,047,222.49</u>
所有者权益			
实收资本	14	87,534,925.32	87,534,925.32
未弥补亏损		<u>(4,097,706.74)</u>	<u>(2,437,550.51)</u>
所有者权益合计		<u>83,437,218.58</u>	<u>85,097,374.81</u>
负债和所有者权益总计		<u>178,619,252.60</u>	<u>174,144,597.30</u>

此财务报表已于二〇一三年三月二十八日获本公司董事会批准。

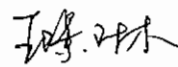
 

戴锦明
法定代表人

(签名和盖章)

魏木生
主管会计工作的
公司负责人

(签名和盖章)



王璟琳
会计机构负责人

(签名和盖章)



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)

德清达阔制水有限公司
利润及利润分配表
2012 年度
(金额单位：人民币元)

	附注	<u>2012 年</u>	<u>2011 年</u> 附注 18
主营业务收入	15	25,757,975.31	3,471,748.82
减： 主营业务成本		(18,480,117.98)	(1,235,671.72)
主营业务税金及附加	4(a)	<u>(180,305.84)</u>	<u>(24,302.23)</u>
主营业务利润		7,097,551.49	2,211,774.87
减： 管理费用		(2,393,753.09)	(4,554,023.48)
财务费用	16	<u>(6,363,954.63)</u>	<u>(159,556.90)</u>
营业亏损		(1,660,156.23)	(2,501,805.51)
加： 补贴收入		<u>-</u>	<u>64,255.00</u>
亏损总额		(1,660,156.23)	(2,437,550.51)
减： 所得税	4(b)	<u>-</u>	<u>-</u>
净亏损		(1,660,156.23)	(2,437,550.51)
加： 年初未弥补亏损		<u>(2,437,550.51)</u>	<u>-</u>
年末未弥补亏损		<u><u>(4,097,706.74)</u></u>	<u><u>(2,437,550.51)</u></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)

德清达阔制水有限公司
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 附注 18
经营活动产生的现金流量:			
销售商品收到的现金		21,272,248.24	64,255.00
收到的税费返还		-	4,725,013.31
收到的其他与经营活动有关的现金		<u>1,153,236.00</u>	<u>-</u>
现金流入小计		22,425,484.24	4,789,268.31
		-----	-----
购买商品和接受劳务所支付的现金		(4,737,076.43)	(612,705.09)
支付给职工以及为职工支付的现金		(1,414,760.25)	(1,150,046.39)
支付的各项税费		(94,183.82)	(166,406.93)
支付的其他与经营活动有关的现金		<u>(1,864,945.55)</u>	<u>(1,023,495.85)</u>
现金流出小计		(8,110,966.05)	(2,952,654.26)
		-----	-----
经营活动产生的现金流量净额	i	<u>14,314,518.19</u>	<u>1,836,614.05</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>16,734.46</u>	<u>3,298.60</u>
现金流入小计		16,734.46	3,298.60
		-----	-----
购建固定资产及无形资产所支付的现金		<u>(11,397,614.90)</u>	<u>(16,734,161.18)</u>
现金流出小计		(11,397,614.90)	(16,734,161.18)
		-----	-----
投资活动使用的现金流量净额		<u>(11,380,880.44)</u>	<u>(16,730,862.58)</u>
		-----	-----

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

德清达阔制水有限公司
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 附注 18
筹资活动产生的现金流量:			
借款所收到的现金		<u>63,300,000.00</u>	<u>16,713,000.00</u>
现金流入小计		<u>63,300,000.00</u>	<u>16,713,000.00</u>
		-----	-----
偿还债务所支付的现金		(63,400,000.00)	-
偿付利息所支付的现金		<u>(4,522,306.13)</u>	<u>(6,482.53)</u>
现金流出小计		<u>(67,922,306.13)</u>	<u>(6,482.53)</u>
		-----	-----
筹资活动(使用)/产生的现金流量净额		<u>(4,622,306.13)</u>	<u>16,706,517.47</u>
		-----	-----
现金净(减少)/增加额	ii	<u>(1,938,931.38)</u>	<u>1,812,268.94</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)

德清达阔制水有限公司
现金流量表(续)
2012年度
(金额单位:人民币元)

	<u>2012年</u>	<u>2011年</u> 附注 18
现金流量表补充说明		
i 将净亏损调节为经营活动的现金流量:		
净亏损	(1,660,156.23)	(2,437,550.51)
加: 固定资产折旧	13,334,164.00	546,953.35
无形资产摊销	149,226.96	149,226.96
长期待摊费用摊销	-	3,161,199.54
预提费用增加	110,000.00	-
财务费用	6,360,054.26	158,136.48
存货的增加	(31,609.00)	(30,608.50)
经营性应收项目的(增加)/减少	(3,307,431.07)	140,904.49
经营性应付项目的(减少)/增加	<u>(639,730.73)</u>	<u>148,352.24</u>
经营活动产生的现金流量净额	<u>14,314,518.19</u>	<u>1,836,614.05</u>
ii 现金净(减少)/增加情况:		
	<u>2012年</u>	<u>2011年</u>
现金的年末余额	306,423.18	2,095,354.56
减: 使用受限制的现金	<u>(150,000.00)</u>	<u>-</u>
可随时变现的现金年末余额	156,423.18	2,095,354.56
减: 可随时变现的现金年初余额	<u>(2,095,354.56)</u>	<u>(283,085.62)</u>
现金净(减少)/增加额	<u>(1,938,931.38)</u>	<u>1,812,268.94</u>

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AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)德清达阔制水有限公司
财务报表附注
(金额单位：人民币元)

1 公司基本情况

德清达阔制水有限公司(以下简称“本公司”)是由新加坡实康达阔环境有限公司(原名为“新加坡达阔环境有限公司”，以下简称“新加坡达阔”)在中华人民共和国浙江省德清县成立的外资企业，于2006年11月21日领取了浙江省人民政府颁发的商外资浙府资湖字[2006]00222号批准证书，并于2007年1月16日取得了湖州市工商行政管理局颁发的企独浙湖总字第002155号企业法人营业执照。本公司原注册资本为1,500万美元。

本公司董事会于2008年11月4日决定将本公司注册资本减少至1,196万美元，即由1,500万美元减少至1,196万美元，并于2008年12月31日获取了浙江省人民政府的批准。本公司于2008年11月4日修改了公司章程，于2008年12月31日获取了更新的商外资浙府资湖字[2006]00222号批准证书，并分别于2009年8月5日和2010年4月16日获取了更新的企独浙湖总字第002155号企业法人营业执照(筹建用一年)，2012年7月30日获取了更新的330500400007391号企业法人营业执照(正式经营用)。

本公司经营期限30年，主要从事集中式供水生产和供应以及污水处理运营和服务。本公司于2006年12月13日正式成立，于2011年10月完成筹建，于2012年1月正式运营供水。

2 编制基础

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

本公司财务报表是在假设本报告期后至2013年12月31日止期间本公司仍然可以持续经营的基础上编制的。

于2012年12月31日，本公司的未弥补亏损为人民币4,097,706.74元，同时，流动负债已超过流动资产人民币47,425,422.12元。鉴于本公司的母公司承诺自本报告日起一年内继续对本公司提供资金支持，以确保本公司能够持续经营，因此本财务报表仍然以持续经营为基础编制。

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

3 主要会计政策

(a) 会计年度

本公司的会计年度自公历1月1日起至12月31日止。

(b) 记账基础和计量原则

本公司的记账基础为权责发生制。除特别声明外，计量原则为历史成本法。

(c) 记账本位币

本公司的记账本位币为人民币。

(d) 外币折算

外币业务按业务发生当日中国人民银行公布的外汇牌价折合为人民币。年末各项货币性外币资产、负债账户按资产负债表日中国人民银行公布的外汇牌价折合为人民币。除与购建固定资产直接有关的汇兑损益(参见附注3(g))外，外币折算差异作为汇兑损益计入当期损益账户。

(e) 坏账准备

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

(f) 存货

存货包括原材料和低值易耗品。

存货以成本与可变现净值之较低者计量。

存货成本包括采购成本、加工成本和其他成本。存货在取得时按实际成本入账。发出存货的成本按加权平均法核算。

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

领用的低值易耗品采用分次摊销法进行核算。

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

3 主要会计政策(续)

(g) 固定资产

固定资产指本公司为生产商品而持有的，使用期限超过1年且单位价值较高的资产。

固定资产以成本减累计折旧及减值准备(参见附注3(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。

本公司对固定资产在预计使用年限和特许经营协议中约定的经营期限两者中较短的期限内按直线法计提折旧，各类固定资产的预计使用年限和预计净残值率分别为：

	预计使用年限	预计净残值率	折旧率
房屋及建筑物	20年	10%	4%
机器设备	10年	10%	9%
仪表仪器	5年	10%	18%
运输工具	5年	10%	18%
电子及办公设备	5年	10%	18%

(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。无形资产的摊销期限为：

土地使用权	50年
-------	-----

(i) 资产减值准备

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

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

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)

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。当期所得税费用按当期应纳税所得额及适用税率计算。

(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) 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) 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。

(iii) 补贴收入

补贴收入根据实际收到的补贴款确认。

(l) 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)

(m) 退休福利

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

(n) 关联方

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

4 税项及附加

- (a) 本公司适用的与产品销售相关的税金及附加包括增值税、城市维护建设税、教育费附加及地方教育费附加和水利建设专项资金等。

税种	计缴标准
增值税	按税法规定计算的销售货物收入的 6% 计算销项税额，不允许抵扣进项税额
城市维护建设税	实际缴纳增值税税费的 5%
教育费附加	实际缴纳增值税税费的 3%
地方教育费附加	实际缴纳增值税税费的 2%
水利建设基金	应税营业收入的 0.1%

主营业务税金及附加，包括城市维护建设税、教育费附加、地方教育费附加及水利建设基金。

(b) 所得税

本公司法定税率为 25%，本公司本年度税率为 25% (2011: 25%)。

由于本公司于 2012 年 12 月 31 日为累计亏损，故未计提所得税。

(c) 应交税金

	2012 年	2011 年
应交增值税	248,557.70	59,948.09
应交个人所得税	<u>164.24</u>	<u>58.99</u>
合计	<u>248,721.94</u>	<u>60,007.08</u>

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

4 税项及附加(续)

(d) 其他应交款

	<u>2012 年</u>	<u>2011 年</u>
应交城市维护建设税	12,427.88	2,997.40
应交教育费附加	7,456.73	1,798.44
应交地方教育费附加	4,971.15	1,198.96
应交水利建设基金	4,142.63	999.13
应交印花税	1,242.79	299.74
合计	<u>30,241.18</u>	<u>7,293.67</u>

5 货币资金

	<u>2012 年</u>	<u>2011 年</u>
现金	12,490.49	9,205.54
银行存款	143,932.69	2,086,149.02
其他货币资金(电费保证金)	150,000.00	-
合计	<u>306,423.18</u>	<u>2,095,354.56</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>6,499,185.82</u>	<u>100%</u>	<u>-</u>	<u>2,013,458.75</u>	<u>100%</u>	<u>-</u>

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

7 其他应收款

其他应收款账龄分析如下:

	2012 年			2011 年		
	金额	占总额比例	坏账准备	金额	占总额比例	坏账准备
一年以内	21,485.40	100%	-	1,049,721.40	99%	-
一年至二年	-	-	-	12,000.00	1%	-
合计	<u>21,485.40</u>	<u>100%</u>	<u>-</u>	<u>1,061,721.40</u>	<u>100%</u>	<u>-</u>

8 存货

	2012 年	2011 年
原材料	<u>62,217.50</u>	<u>30,608.50</u>

以上存货均为购买形成。

9 固定资产

	房屋及建筑物	机器设备	仪表仪器	运输工具	电子及办公设备	合计
成本:						
年初余额	-	20,730,836.38	4,429,422.91	441,936.00	127,458.00	25,729,653.29
本年增加	-	-	-	-	5,650.00	5,650.00
本年在建工程转入	<u>50,061,966.14</u>	<u>102,986,451.85</u>	<u>327,140.00</u>	-	-	<u>153,375,557.99</u>
年末余额	<u>50,061,966.14</u>	<u>123,717,288.23</u>	<u>4,756,562.91</u>	<u>441,936.00</u>	<u>133,108.00</u>	<u>179,110,861.28</u>
累计折旧:						
年初余额	-	(310,962.52)	(131,806.18)	(323,109.00)	(38,261.15)	(804,138.85)
本年计提折旧	<u>(2,061,006.83)</u>	<u>(10,343,210.45)</u>	<u>(841,820.58)</u>	<u>(69,249.60)</u>	<u>(18,876.54)</u>	<u>(13,334,164.00)</u>
年末余额	<u>(2,061,006.83)</u>	<u>(10,654,172.97)</u>	<u>(973,626.76)</u>	<u>(392,358.60)</u>	<u>(57,137.69)</u>	<u>(14,138,302.85)</u>
净额:						
年末余额	<u>48,000,959.31</u>	<u>113,063,115.26</u>	<u>3,782,936.15</u>	<u>49,577.40</u>	<u>75,970.31</u>	<u>164,972,558.43</u>
年初余额	<u>-</u>	<u>20,419,873.86</u>	<u>4,297,616.73</u>	<u>118,827.00</u>	<u>89,196.85</u>	<u>24,925,514.44</u>

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

13 长期借款

	2012年				2011年			
	金额	期限	年利率	抵押/担保	金额	期限	年利率	抵押/担保
大华银行深圳分行	-				46,500,000.00	2009/8/28 -2013/8/28	(i)	(ii)
杭州银行德清分行	40,850,000.00	2012/11/29 -2020/8/28	(iii)	(iv)	-			
合计	<u>40,850,000.00</u>				<u>46,500,000.00</u>			

(i) 该笔借款原定于2013年8月28日到期，已于2012年11月29日全部提前归还。该笔借款以现行的中国人民银行公布的3至5年期贷款基准利率上浮30%。本年执行利率为8.32% (2011: 8.97%)。

(ii) 该笔借款由本公司抵押了土地证(德清国用(2008)第00216192号)。

(iii) 该笔借款根据还款计划分期偿还。该笔借款的利率为实际提款日当日中国人民银行公布的5年期以上贷款基准利率。本年执行利率为6.55%。

(iv) 该笔借款由本公司抵押了土地证(德清国用(2008)第00216192号)、房屋产权证(第0011234011237号)和应收账款质押权。

14 实收资本

	2012年和2011年	
	金额	%
注册资本	美元	
新加坡达阔	<u>11,960,000.00</u>	<u>100%</u>
	2012年和2011年	
	美元	等值人民币
实收资本	原币金额	金额 %
新加坡达阔	<u>11,960,000.00</u>	<u>87,534,925.32</u> <u>100%</u>

在实收资本账户中，实收资本美元换算为人民币时采用的汇率是收到出资当日中国人民银行公布的汇率。

上述实收资本已由会计师事务所验证，并出具了验资报告。

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

15 主营业务收入

	<u>2012 年</u>	<u>2011 年</u>
供水收入	<u>25,757,975.31</u>	<u>3,471,748.82</u>

16 财务费用

	<u>2012 年</u>	<u>2011 年</u>
利息支出	6,376,788.72	161,435.08
减：利息收入	(16,734.46)	(3,298.60)
其他财务费用	<u>3,900.37</u>	<u>1,420.42</u>
合计	<u>6,363,954.63</u>	<u>159,556.90</u>

17 关联方及其交易

(a) 存在控制关系的关联方

	<u>注册地</u>	<u>主营业务</u>	<u>与本公司关系</u>	<u>经济性质或类型</u>
新加坡达阔	新加坡	饮用水资源开发投资	投资方	有限公司

存在控制关系的关联方的注册资本及其变化。

	<u>年初数</u>	<u>本年变更</u>	<u>年末数</u>
新加坡达阔 新加坡币	200,000.00	25,568,459.00	25,768,459.00

存在控制关系的关联方的权益及其变化

	<u>年初数</u>		<u>本年变更</u>		<u>年末数</u>	
	金额	%	金额	%	金额	%
新加坡达阔	87,534,925.53	100%	-	-	87,534,925.53	100%

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

17 关联方及其交易(续)

(b) 不存在控制关系的关联方

与本公司关系

德清环中制水有限公司

(以下简称“德清环中”)

同一集团子公司

新加坡达阔水技术有限公司

(以下简称“新加坡水技术”)

母公司的投资方

(c) 本公司与关联方于本年度进行的交易的金额及年末的往来余额如下:

i) 本公司与关联方之间的重大交易列示如下:

	<u>2012年</u>	<u>2011年</u>
收到借款		
- 德清环中	8,200,000.00	13,500,000.00
- 新加坡水技术	4,500,000.00	-
归还借款		
- 德清环中	3,500,000.00	-
支付利息		
- 德清环中	1,427,949.22	811,569.73

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

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

17 关联方及其交易(续)

(c) 本公司与关联方于本年度进行的交易的金额及年末的往来余额如下(续):

ii) 本公司与关联方于年末的往来余额如下:

	<u>2012 年</u>	<u>2011 年</u>
其他应付款:		
- 德清环中	26,939,518.95	20,000,000.00
- 新加坡水技术	4,500,000.00	-

18 上期比较数字

本公司 2011 年度财务报表经湖州江南华欣会计师事务所审计并出具了审计报告。为配合业务发展需要,本公司聘请毕马威华振会计师事务所(特殊普通合伙)上海分所提供 2012 年度财务报告审计服务。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

Globe Industrial Technology
Company Limited

環中資源科技有限公司

Financial Statements
for the year ended 31 December 2012

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

Report of the directors

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

Principal place of business

Globe Industrial Technology Limited (“the company”) is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Room D, 11/F, 8 Hart Avenue, 8-10 Hart Avenue, Tsim Sha Tsui, Kowloon, Hong Kong.

Principal activity

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

Financial statements

The 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\$300,023 (2011: profits of HK\$6,561,892) 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. During the year, 115,233 ordinary shares of HK\$266.333 each were allotted and issued to Darco Water Technologies Limited by the means of capitalising the amount due to Darco Water Technologies Limited of HK\$30,690,951.

Directors

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

Ooi Cheng Swee	(appointed on 1 December 2012)
Law Woo Hoek	(appointed on 1 December 2012)
Tee Xun Hao	(appointed on 1 December 2012)
Thye Kim Meng	
Yeoh Ah Luan	
Teh Eu Gene	(resigned on 1 December 2012)

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

Directors (continued)

In accordance with the company's articles of association, all directors retire and, being eligible offer themselves for re-election.

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

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

Auditors

KPMG were first appointed as auditors of the company upon the resignation of Simon Chan & Co. A resolution for the appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Director

Hong Kong

30 APR 2013

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



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Independent auditor's report to the shareholders of Globe Industrial Technology Limited (Incorporated in Hong Kong with limited liability)

We have audited the unconsolidated financial statements of Globe Industrial Technology 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.

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

**Independent auditor's report to the shareholders of
Globe Industrial Technology Limited
(Incorporated in Hong Kong with limited liability)**

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

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

Basis of adverse opinion

As explained in note 2(a) to the financial statements, the company has a subsidiary but did not prepare consolidated financial statements for the year ended 31 December 2012 because the directors of the company considered that the preparation of consolidated financial statements would involve expense and delay out of proportion to the value to the members of the company. As disclosed in notes 2(d) and 9 to the financial statements, investment in a subsidiary is stated at cost less any impairment losses. In our opinion, this accounting treatment does not comply with section 124 of the Hong Kong Companies Ordinance and Hong Kong Accounting Standard 27, *Consolidated and separate financial statements*, issued by the Hong Kong Institute of Certified Public Accountants, so far as the preparation of consolidated financial statements is concerned and the effects of such departure are material and pervasive and have not been quantified.

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.

A handwritten signature in black ink, appearing to be 'KPMG' or similar, written over a faint, larger signature.

Certified Public Accountants
8th 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)**

*Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012*

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

	<i>Note</i>	<u>2012</u> <i>HKD</i>	<u>2011</u> <i>HKD</i>
Turnover	4	-	7,223,461
Other revenue	5	3	12
Administrative and operating expenses		<u>(300,026)</u>	<u>(661,581)</u>
(Loss)/profit before taxation	6	(300,023)	6,561,892
Income tax	7(a)	<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>(300,023)</u></u>	<u><u>6,561,892</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)

*Globe Industrial Technology Company 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>Share Premium</i>	<i>Accumulated (losses)/profits</i>	<i>Total</i>
	<i>HKD</i>	<i>HKD</i>	<i>HKD</i>	<i>HKD</i>
	(note 11(b))			
Balance at 31 December 2010 and 1 January 2011	111,120	26,830,483	(17,164,760)	9,776,843
Changes in equity for 2011				
Total comprehensive income for the year	-	-	6,561,892	6,561,892
Balance at 31 December 2011 and 1 January 2012	111,120	26,830,483	(10,602,868)	16,338,735
Changes in equity for 2012				
Incremental of authorised share Capital and allotment of additional new shares	115,233	30,575,118	-	30,690,351
Total comprehensive income for the year	-	-	(300,023)	(300,023)
Balance at 31 December 2012	<u>226,353</u>	<u>57,405,601</u>	<u>(10,902,891)</u>	<u>46,729,063</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)

*Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012*

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

	<u>2012</u> HKD	<u>2011</u> HKD
Operating activities		
(Loss)/profit before taxation	(300,023)	6,561,892
Adjustments for:		
Interest income	<u>(3)</u>	<u>(12)</u>
Operating loss before changes in working capital	(300,026)	6,561,880
Increase in dividend receivable	-	(7,223,461)
Increase in accrued liabilities	18,294	6,594
Decrease in amount due to intermediate holding company	-	(9,400)
Decrease in amount due to a shareholder	(99)	-
Increase in amount due to a related company	<u>238,205</u>	<u>551,413</u>
Net cash used in operating activities	(43,626)	(112,974)
Investing activities		
Investment in a subsidiary	-	(3,188)
Interest received	<u>3</u>	<u>12</u>
Net cash generated from investing activities	3	(3,176)
Net decrease in cash and cash equivalents	(43,623)	(116,150)
Cash and cash equivalents at 1 January	<u>80,659</u>	<u>196,809</u>
Cash and cash equivalents at 31 December	<u><u>37,036</u></u>	<u><u>80,659</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)

*Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012*

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1. Principle activity

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

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

As disclosed in note 9, the company has a subsidiary but group financial statements 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)

*Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012*

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

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

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

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

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

(c) Changes in accounting policies

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

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

(d) Subsidiary

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

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

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

*Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012*

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

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

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

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

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

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

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

*Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012*

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

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

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

*Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012*

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

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

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

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

(h) Cash and cash equivalents

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

(i) Income tax

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

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

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

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

*Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012*

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

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

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

(j) Provisions and contingent liabilities

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

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

(k) Revenue recognition

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

(i) Dividends

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

(ii) Interest income

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

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

Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012

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

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

(m) Related parties

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

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

Globe Industrial Technology Company 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*Impairment of investment in a subsidiary*

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

4. Turnover

The principal activity of the company is investment holding.

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

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
Dividend income from a subsidiary	-	7,223,461

5 Other Revenue

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
Interest income	3	12

6. (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
Auditor's remuneration	22,300	7,000

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

Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012

7. Income tax in the statement of comprehensive income

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

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

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

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
(Loss)/profit before taxation	(300,023)	6,561,892
Notional tax on loss before taxation calculated at 16.5% (2011:16.5%)	(49,504)	1,082,712
Tax effect of non-taxable income		(1,191,873)
Tax effect of non-deductible expenses	49,504	109,161
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.

9. Investment in a subsidiary

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
Capital contribution	39,866,949	39,866,949

The company's partially-owned subsidiary, Deqing Huanzhong Producing Water Co., Limited was set up on 28 September 2002 as a co-operative joint venture company. The company exercise unilateral control over the co-operative joint venture company.

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

*Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012*

9. Investment a in subsidiary (continued)

Particulars of the subsidiary are as follows:

<i>Name</i>	<i>Place of incorporation/ registration and operations</i>	<i>Particulars of paid up capital</i>	<i>Percentage of equity interest held by the company</i>	<i>held by a subsidiary</i>	<i>Principal activities</i>
Deqing Huanzhong Producing Water Company Limited	The People's Republic of China ("PRC")	USD8,939,000	88.32%	-	Management and operation of water production and distribution of water

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

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

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

	<i>Current year</i>	<i>Prior years</i>	<i>Total</i>
Amounts dealt with in the financial statements of the company	-	7,223,461	7,223,461
Amounts not dealt with in the financial statements of the company	<u>8,082,663</u>	<u>8,371,330</u>	<u>16,453,993</u>
Total	<u>8,082,663</u>	<u>15,594,791</u>	<u>23,677,454</u>

10. Amounts due to ultimate holding company, a shareholder, and a related company

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.

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

*Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012*

11. Capital and reserve

(b) Authorised and issued share capital

	<i>At 31 December 2012 and 2011</i>	
	<i>No. of shares</i>	<i>Amount</i>
Authorised:		
Ordinary share of HK\$1 each	<u>226,353</u>	<u>111,120</u>
Issued and fully paid:		
At 1 January	226,353	111,120
Capitalisation	<u>57,405,601</u>	<u>26,830,483</u>
At 31 December	<u>57,631,954</u>	<u>26,941,603</u>

By resolutions passed by shareholders of the Company on 9 March and 14 May of 2012, the authorised share capital of the Company was increased from HK\$111,120 to HK\$226,353 by the issuance of additional 113,000 and 2,233 shares of HK\$1.00 per share respectively. These additional new shares rank pari passu in all respects with the existing shares of the Company.

These 115,233 new additional shares were then allotted to the existing shareholders at HK\$266.333 per share. These total proceeds of HK\$30,690,351 were agreed to offset the amount due to Darco Water Technologies Limited.

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

(c) Capital management

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

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

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

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

Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012

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 dividend receivable and cash at bank. The directors consider the company's exposure to bad debts from dividend receivable is not significant since the subsidiary is creditworthy.

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

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

(b) Liquidity risk

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

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

(c) Fair values

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

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		
Darco Water Technologies Limited (i)	<u>-</u>	<u>30,707,131</u>
Amounts due to a related party company		
Darco Water Technologies Limited (i)	<u>254,985</u>	<u>-</u>

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

Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012

13. Material related party transactions (continued)

	<i>2012</i>	<i>2011</i>
	<i>HKD</i>	<i>HKD</i>
Amounts due to a shareholder		
Fan Ming Chun	-	99

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

- (i) Darco Water Technologies Limited was considered the ultimate controlling party of the company as at 31 December 2011. However, Darco Water Technologies Limited was a minority shareholder of Darco Environment Pte Limited which was the immediate parent of the company as at 31 December 2012. Thus, Darco Water Technologies Limited was considered a related party of the company.

14. Litigation

On 9 February 2011, Fan Ming Chun, one of the shareholders of the company, made a petition in the High Court of Hong Kong against Darco Environment Pte Limited, the immediate parent of the company in relation to the allotment of 71,120 shares of the company to Darco Environment Pte Limited in 2010. Fan Ming Chun claimed an order requiring Darco Environmental Pte Ltd to buy 10,000 shares of the company held by Fan Ming Chun; or alternatively, an order requiring all the shares of the company held by Darco Environment Pte Limited to be sold to Fan Ming Chun, at a price to be agreed or failing agreement to be determined by an independent valuer to be appointed by the Hong Kong court; and costs incurred by Fan Ming Chun to be borne by Darco Environment Pte Limited. The case is currently ongoing.

At 31 December 2012, the directors of the company are of the opinion that the above case is concerning the dispute between shareholders of the company, and hence, it is not required to make any provision of liability in the accounts at this moment.

15. Immediate and ultimate controlling party

At 31 December 2012, the directors consider the immediate parent of the company to be Darco Environment Pte Limited, which is incorporated in Singapore. 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.

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

*Globe Industrial Technology Company Limited
Financial statements for the year ended 31 December 2012*

16. 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, Financial instruments	1 January 2015

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

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

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

**DEQING HUANZHONG PRODUCING
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**

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

AUDITORS' REPORT

毕马威华振沪审字第 1301244 号

The Board of Directors of Deqing Huanzhong Producing Water Co., Ltd.:

We have audited the accompanying financial statements of Deqing Huanzhong Producing 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.

SALCON BERHAD (593796-T)

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

AUDITORS' REPORT (continued)

毕马威华振沪审字第 1301244 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: 28 March 2013

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

SALCON BERHAD (593796-T)

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

Deqing Huanzhong Producing Water Co., Ltd.
Balance sheet as at 31 December 2012
(Expressed in Renminbi Yuan)



	Note	2012	2011 Note 18
Assets			
Current assets			
Cash at bank and on hand	5	6,445,301.25	523,378.92
Accounts receivable	6	1,845,000.00	2,722,065.85
Other receivables	7	28,739,502.94	21,561,413.06
Inventories	8	282,437.89	285,479.16
Payments in advance		<u>6,240.00</u>	<u>-</u>
Total current assets		<u>37,318,482.08</u>	<u>25,092,336.99</u>
Fixed assets			
Cost		68,226,332.53	68,045,332.53
Less: Accumulated depreciation		<u>(31,490,750.71)</u>	<u>(26,712,851.40)</u>
Net book value	9	36,735,581.82	41,332,481.13
Construction in progress	10	<u>450,000.00</u>	<u>-</u>
Total fixed assets		<u>37,185,581.82</u>	<u>41,332,481.13</u>
Intangible assets	11	<u>5,420,591.58</u>	<u>5,774,203.14</u>
Total		<u>79,924,655.48</u>	<u>72,199,021.26</u>

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

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

Deqing Huanzhong Producing Water Co., Ltd.
Balance sheet as at 31 December 2012 (continued)
(Expressed in Renminbi Yuan)



	Note	2012	2011 Note 18
Liabilities and owners' equity			
Current liabilities			
Accounts payable		65,485.30	13,518.20
Accrued payroll		166,601.14	110,566.66
Dividends payable		5,906,442.18	5,906,442.18
Taxes payable	4(c)	920,120.53	1,239,424.38
Other creditors		92,701.29	22,994.44
Other payables		511,193.34	187,640.67
Accrued expenses		<u>100,000.00</u>	<u>-</u>
Total current liabilities		<u>7,762,543.78</u>	<u>7,480,586.53</u>
Owners' equity			
Paid-in capital	12	54,941,820.62	54,941,820.62
Surplus reserve	13	3,591,785.27	2,847,417.57
Retained earnings	14	<u>13,628,505.81</u>	<u>6,929,196.54</u>
Total owners' equity		<u>72,162,111.70</u>	<u>64,718,434.73</u>
Total liabilities and owners' equity		<u>79,924,655.48</u>	<u>72,199,021.26</u>

These financial statements have been approved by the Board of Directors of the Company at 28 March 2013.

Thye Kim Meng
Legal Representative

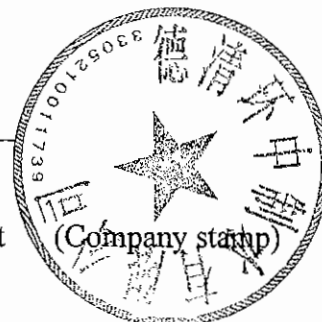
(Signature and stamp)

Mooi Mok Sang
The person in-charge of
the accounting affairs

(Signature and stamp)

Yu Jie
The head of the
accounting department

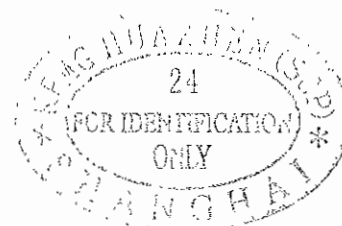
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The notes on pages 7 to 17 form part of these financial statements.

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

Deqing Huanzhong Producing Water Co., Ltd.
Income and profit appropriation statement
for the year ended 31 December 2012
(Expressed in Renminbi Yuan)

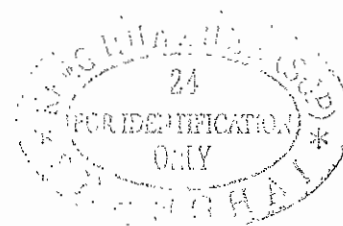


	Note	2012	2011 Note 18
Sales from principal activities	15	21,234,905.70	22,004,307.44
Less: Cost of sales from principal activities		(10,454,414.97)	(10,881,218.67)
Business taxes and surcharges	4(a)	<u>(148,644.27)</u>	<u>(150,797.06)</u>
Profit from principal activities		10,631,846.46	10,972,291.71
Add: Profit from other operations		1,427,949.22	811,569.73
Less: General and administrative expenses		(2,542,059.69)	(1,906,868.36)
Financial expenses		<u>3,025.94</u>	<u>3,440.31</u>
Operating profit		9,520,761.93	9,880,433.39
Add: Subsidy income		414,140.66	420,032.71
Less: Non-operating expenses		<u>(10,000.00)</u>	<u>(10,000.00)</u>
Profit before income tax		9,924,902.59	10,290,466.10
Less: Income tax	4(b)	<u>(2,481,225.62)</u>	<u>(2,591,358.83)</u>
Net profit for the year		7,443,676.97	7,699,107.27
Add: Retained earnings at the beginning of the year		<u>6,929,196.54</u>	<u>6,906,442.18</u>
Profits available for distribution		14,372,873.51	14,605,549.45
Less: Statutory surplus reserve	13	<u>(744,367.70)</u>	<u>(769,910.73)</u>
Profits available for distribution to owners		13,628,505.81	13,835,638.72
Less: Cash profits appropriated to owners		<u>-</u>	<u>(6,906,442.18)</u>
Retained earnings carried forward		<u>13,628,505.81</u>	<u>6,929,196.54</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)

Deqing Huanzhong Producing Water Co., Ltd.
Cash flow statement
for the year ended 31 December 2012
(Expressed in Renminbi Yuan)

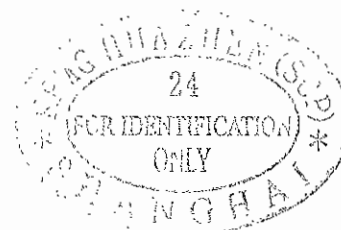


	Note	2012	2011 Note 18
Cash flows from operating activities			
Cash received from sale of goods		22,111,971.55	21,127,241.59
Cash received relating to other operating activities		<u>-</u>	<u>688,999.38</u>
Sub-total of cash inflows		<u>22,111,971.55</u>	<u>21,816,240.97</u>
Cash flows from investing activities:			
Cash paid for goods		(4,907,534.24)	(5,273,933.58)
Cash paid to and for employees		(1,714,762.16)	(1,515,904.32)
Cash paid for all types of taxes		(3,281,078.43)	(2,372,787.23)
Cash paid relating to other operating activities		<u>(1,013,393.24)</u>	<u>(541,651.97)</u>
Sub-total of cash outflows		<u>(10,916,768.07)</u>	<u>(9,704,277.10)</u>
Net cash inflow from operating activities	<i>i</i>	<u>11,195,203.48</u>	<u>12,111,963.87</u>
Cash flows from financing activities:			
Cash received relating to other investing activities		<u>5,751.75</u>	<u>8,522.80</u>
Sub-total of cash inflows		<u>5,751.75</u>	<u>8,522.80</u>
Cash flows from investing activities:			
Cash paid for acquisition of fixed assets and intangible assets		(579,032.90)	(254,254.80)
Cash paid for acquisition of investments		<u>(4,700,000.00)</u>	<u>(13,500,000.00)</u>
Sub-total of cash outflows		<u>(5,279,032.90)</u>	<u>(13,754,254.80)</u>
Net cash outflow from investing activities		<u>(5,273,281.15)</u>	<u>(13,754,732.00)</u>

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

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

Deqing Huanzhong Producing Water Co., Ltd.
Cash flow statement
for the year ended 31 December 2012 (continued)
(Expressed in Renminbi Yuan)



	<i>Note</i>	2012	2011 <i>Note 18</i>
Cash flows from financing activities:			
Cash paid for dividends or profits distribution		-	(1,000,000.00)
Sub-total of cash outflows		-	(1,000,000.00)
Net cash outflow from financing activities		-	(1,000,000.00)
Net increase/(decrease) in cash and cash equivalents	<i>ii</i>	<u>5,921,922.33</u>	<u>(2,633,768.13)</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)

Deqing Huanzhong Producing 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 Note 18
Net profit	7,443,676.97	7,699,107.27
Add: Depreciation of fixed assets	4,777,899.31	4,773,213.89
Amortisation of intangible assets	353,611.56	353,611.56
Increase in accrued expenses	100,000.00	-
Financial expenses	(5,751.75)	(8,522.80)
Gains arising from investments	(1,427,949.22)	(811,569.73)
Decrease in gross inventories	3,041.27	76,824.17
Increase in gross operating receivables	(179,314.81)	(608,099.18)
Increase in operating payables		
Others	<u>129,990.15</u>	<u>637,398.69</u>
Net cash inflow from operating activities	<u>11,195,203.48</u>	<u>12,111,963.87</u>

ii Net increase in cash and cash equivalents

	2012	2011
Cash at the end of the year	6,445,301.25	523,378.92
Less: Cash at the beginning of the year	<u>(523,378.92)</u>	<u>(3,157,147.05)</u>
Net increase/(decrease) in cash and cash equivalents	<u>5,921,922.33</u>	<u>(2,633,768.13)</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)

Deqing Huanzhong Producing Water Co., Ltd.**Notes to the financial statements***(Expressed in Renminbi Yuan)***1 COMPANY STATUS**

Deqing Huanzhong Producing Water Co., Ltd.(the Company) is a co-operative joint venture established in Deqing County, Zhejiang Province in the People's Republic of China (PRC) by Deqing Water Co., Ltd registered in China (Deqing water) and Globe Industrial Technology Company registered in Hong Kong (HK Globe). The Company obtained an approval certificate Shang Wai Zi Zhe Fu Zi Hu Zi [2002] No. 00542 on 28 September 2002, and a business license Qi He Zhe Hu Zong Zi No. 001041 on 28 September 2002 issued by Huzhou Administration of Industry and Commerce. The Company obtained an updated business license of No. 330500400006876 on 19 April 2010. The registered capital is USD 8,939,000, and Deqing Water accounts for 11.68% while HK Globe accounts for 88.32%.

The Company's period of operation is 25.5 years, and its principal activities are producing water centrally and providing sewage treatment operation and services. The Company was established on 28 September 2002 and commenced its operation of providing water in April 2006.

2 BASIS OF PREPARATION

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

The principal accounting policies adopted in the preparation of the financial statements are in conformity with Accounting Standards for Business Enterprises-Basic Standard issued in 2006, specific accounting standards issued before 2006 and the Accounting Regulations for Business Enterprises, all issued by the Ministry of Finance of the PRC (MOF). The accounting policies comply with the legal and reporting requirements of the relevant government authorities.

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.

AUDITED FINANCIAL STATEMENTS OF TARGET COMPANIES AND ITS SUBSIDIARIES FOR THE FYE 31 DECEMBER 2012 (Cont'd)**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(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 gain and losses directly relating to the construction of fixed assets (see note 3(g)), are dealt with in the income statement.

(e) Provision for bad and doubtful debts

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

(f) Inventories

Inventories include raw materials and low value consumables.

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

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

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

Low value consumables are amortised in two equal instalments when they are first used and when they have been used up.

(g) Fixed assets

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(g) Fixed assets (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.

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

	Estimated useful life	Estimated rate of residual value	Rate of depreciation
Plant and buildings	20 years	10%	4.5%
Machinery and equipment	10 years	10%	9%
Office and other equipment	5 years	10%	18%
Motor vehicles	5 years	10%	18%

(h) Lease

A lease can be classified as a finance lease or an operating lease. An operating lease is a lease other than a finance lease. Rental payments under operating leases are charged as expenses on a straight-line basis over the lease term.

(i) Intangible assets

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

Land use right	22 years
----------------	----------

(j) Provision for impairment

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

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

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) Revenue recognition

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

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of the ownership of goods have been transferred to the buyers and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(ii) Interest income

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

(iii) Subsidy income

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Retirement benefits

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

(n) Related parties

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

4 TAXATION AND SURCHARGE

- (a) The types of tax and surcharge applicable to the Company's sale of goods and other revenue include value added tax (VAT), business tax, urban maintenance and construction tax, education fee surcharge, local education fee surcharge and water conservancy construction specific fee, etc.

<u>Tax name</u>	<u>Tax basis and applicable rate</u>
VAT	Output VAT is 6% of product sales, according to tax laws, input VAT is not deductible
Business tax	5% of the interest income
Urban maintenance and construction tax	5 % of the VAT and business tax
Education fee surcharge	3 % of the VAT and business tax
Local education fee surcharge	2 % of the VAT and business tax
Water conservancy construction specific fee	0.1% of taxable revenue

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

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

4 TAXATION AND SURCHARGE (CONTINUED)

(b) Income tax

Income tax in the income statement represents:

	<i>2012</i>	<i>2011</i>
Provision for income tax for the year	2,481,225.62	2,588,379.14
Under provision for income tax in respect of preceding year	<u>-</u>	<u>2,979.69</u>
Total	<u>2,481,225.62</u>	<u>2,591,358.83</u>

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

(c) Taxes payable

	<i>2012</i>	<i>2011</i>
VAT payable	104,433.96	154,079.20
Business tax payable	-	40,578.49
Income tax payable	815,551.47	1,044,766.69
Individual income tax payable	<u>135.10</u>	<u>-</u>
Total	<u>920,120.53</u>	<u>1,239,424.38</u>

5 CASH AT BANK AND ON HAND

	<i>2012</i>	<i>2011</i>
Cash on hand	801.26	46,521.63
Cash at bank	<u>6,444,499.99</u>	<u>476,857.29</u>
Total	<u>6,445,301.25</u>	<u>523,378.92</u>

6 ACCOUNTS RECEIVABLE

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

	<i>2012</i>		<i>2011</i>	
	<i>Percentage of total accounts RMB receivable</i>	<i>Provision for bad and doubtful debts</i>	<i>Percentage of total accounts RMB receivable</i>	<i>Provision for bad and doubtful debts</i>
Within 1 year	<u>1,845,000.00</u>	<u>100%</u>	<u>2,722,065.85</u>	<u>100%</u>

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

7 OTHER RECEIVABLES

	2012		Provision for bad and doubtful debts	2011		Provision for bad and doubtful debts
	RMB	Percentage of total accounts receivable		RMB	Percentage of total accounts receivable	
Within 1 year	7,178,089.88	24.98%	-	21,544,903.06	99.92%	-
After 1 year but within 2 years	21,544,903.06	74.97%	-	-	0%	-
After 2 year but within 3 years	-	0%	-	-	0%	-
After 3 years	16,510.00	0.05%	-	16,510.00	0.08%	-
Total	<u>28,739,502.94</u>	<u>100%</u>	<u>-</u>	<u>21,561,413.06</u>	<u>100%</u>	<u>-</u>

The balance of other receivables over one year is due from related parties and includes the deposits and the management considers no need to provide bad debt provision. The Company lent the fund to Deqing Darco Producing Water Co., Ltd. totalling RMB 28,200,000 in 2011 and 2012 and received the payment of RMB 3,500,000 in 2012. The interest rate of 2012 is 5.6% (2011: 6.31%).

8 INVENTORY

	2012	2011
Raw materials	<u>282,437.89</u>	<u>285,479.16</u>
All the above inventories are purchased from others.		
Cost of inventories charged to costs and expenses in the income statement	<u>414,614.32</u>	<u>411,173.50</u>

9 FIXED ASSETS

	Plant and buildings	Machinery and equipment	Electric and office equipment	Motor vehicles	Total
Cost					
As at 1 January 2012	29,742,581.48	37,686,831.05	255,656.00	360,264.00	68,045,332.53
Additions	108,000.00	70,400.00	2,600.00	-	181,000.00
As at 31 December 2012	<u>29,850,581.48</u>	<u>37,757,231.05</u>	<u>258,256.00</u>	<u>360,264.00</u>	<u>68,226,332.53</u>
Accumulated depreciation					
As at 1 January 2012	(7,438,188.48)	(18,760,045.62)	(215,122.65)	(299,494.65)	(26,712,851.40)
Charge for the year	(1,342,936.99)	(3,407,515.74)	(4,607.10)	(22,839.48)	(4,777,899.31)
As at 31 December 2012	<u>(8,781,125.47)</u>	<u>(22,167,561.36)</u>	<u>(219,729.75)</u>	<u>(322,334.13)</u>	<u>(31,490,750.71)</u>
Carrying amount					
As at 31 December 2012	<u>21,069,456.01</u>	<u>15,589,669.69</u>	<u>38,526.25</u>	<u>37,929.87</u>	<u>36,735,581.82</u>
As at 31 December 2011	<u>22,304,393.00</u>	<u>18,926,785.43</u>	<u>40,533.25</u>	<u>60,769.35</u>	<u>41,332,481.13</u>

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

10 CONSTRUCTION IN PROGRESS

		Including: Borrowing costs <u>capitalised</u>
As at 1 January 2012	-	-
Additions during the year	<u>450,000.00</u>	<u>-</u>
As at 31 December 2012	<u><u>450,000.00</u></u>	<u><u>-</u></u>

11 INTANGIBLE ASSETS

	<i>Land use rights</i>
Cost	
As at 1 January 2012	7,779,454.10
Additions	<u>-</u>
As at 31 December 2012	<u>7,779,454.10</u>
Accumulated amortisation	
As at 1 January 2012	(2,005,250.96)
Charge for the year	<u>(353,611.56)</u>
As at 31 December 2012	<u>(2,358,862.52)</u>
Carrying amount	
As at 31 December 2012	<u><u>5,420,591.58</u></u>
As at 1 January 2012	<u><u>5,774,203.14</u></u>

12 PAID-IN CAPITAL

Registered capital

	<u>2012 & 2011</u>	
	<i>Amount in original currency USD</i>	%
HK Globe	7,894,000.00	88.3%
Deqing Water	<u>1,045,000.00</u>	<u>11.7%</u>
Total	<u><u>8,939,000.00</u></u>	<u><u>100%</u></u>

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

12 PAID-IN CAPITAL (CONTINUED)

Paid-in capital

Paid-in capital	2012 & 2011		%
	<i>Amount in original currency USD</i>	<i>Amount in RMB equivalent</i>	
HK Globe	7,894,000.00	65,326,718.12	88.3%
Deqing Water	1,045,000.00	8,630,000.00	11.7%
Withdrawn capital in advance by HK Globe	<u>(2,788,589.51)</u>	<u>(19,014,897.50)</u>	
Total	<u>6,150,410.49</u>	<u>54,941,820.62</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.

Deqing Tianqin Certified Public Accountants have verified the above capital contributions, and issued the capital verification report of De Tian Kuai Yan (2005) No.276 on 31 October 2005.

According to the cooperation agreement and approved by Department of Finance of Zhejiang Province, the foreign investor is permitted to withdraw the investment capital in advance. Until 31 December 2012, the accumulated capital withdrawn by HK Globe is RMB 19,014,897.50, amounting to USD 2,788,589.51 at the exchange rate prevailing at the date of the capital withdrawn as quoted by the People's Bank of China.

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

13 SURPLUS RESERVES

	<i>General Reserve fund</i>
As at 1 January 2012	2,847,417.57
Profit appropriation (note 14)	<u>744,367.70</u>
As at 31 December 2012	<u><u>3,591,785.27</u></u>

14 PROFIT APPROPRIATION

In accordance with the Articles of Association, the company made appropriation to statutory surplus reserve fund based on 10% of net profit.

15 SALES FROM PRINCIPAL ACTIVITIES

	<i>2012</i>	<i>2011</i>
Producing water revenue	<u>21,234,905.70</u>	<u>22,004,307.44</u>

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>
HK Globe	HK	Investment holding	Investor	Limited liability company

Registered capital of related parties with controlling relationships and its changes

	<i>At the beginning of the year</i>	<i>Increase</i>	<i>At the end of the year</i>
HK Globe HKD	111,120.00	115,233.00	226,353.00

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

	<i>At the beginning of the year</i>		<i>Increase</i>		<i>At the end of the year</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
HK Globe	65,326,718.12	88.3%	-	0%	65,326,718.12	88.3%
Less: Withdrawn capital in advance	<u>(19,014,897.50)</u>				<u>(19,014,897.50)</u>	
Total	<u>46,311,820.62</u>				<u>46,311,820.62</u>	

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

16 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

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

*Relationship with the Company*Deqing Darco Producing Water Company Limited
(Deqing Darco)

Fellow subsidiaries

- (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
Sales of goods		
- Deqing Water	21,234,905.70	22,004,307.44
Lease payments		
- Deqing Water	1,400,000.00	1,600,000.00
Borrowings		
- Deqing Darco	8,200,000.00	1,350,000.00
Return of borrowings		
- Deqing Darco	3,500,000.00	-
Interest income		
- Deqing Darco	1,427,949.22	811,569.73

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:

	2012	2011
Accounts receivable		
- Deqing Water	1,845,000.00	2,722,065.85
Other receivables		
- Deqing Water	1,333,333.33	733,333.33
- Deqing Darco	26,939,518.95	20,811,569.73
Other payables		
- Deqing Water	148,333.34	161,666.67

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

17 COMMITMENTS

(a) Operating lease commitments

As at balance sheet date, the future minimum lease payments under non-cancellable operating leases in respect of the leasing of fixed assets were payable as follows:

	2012	2011
Within 1 year	1,400,000.00	1,400,000.00
After 1 year but within 2 years	1,400,000.00	1,400,000.00
After 2 years but within 3 years	1,400,000.00	1,400,000.00
After 3 years	<u>7,666,666.67</u>	<u>9,066,666.67</u>
Total	<u>11,866,666.67</u>	<u>13,266,666.67</u>

18 COMPARATIVE FIGURES

The comparative figures of 2011 was audited by Deqing Tianqin Certified Public Accountants and issued the audit report. In order to meet the requirements of business development, the company has engaged KPMG Huazhen (Special General Partnership) Shanghai Branch to provide audit services for the financial statements of 2012. Certain items in these comparative figures 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)*

德清环中制水有限公司

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

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 Internet 网址 kpmg.com/cn

审计报告

毕马威华振沪审字第 1301244 号

德清环中制水有限公司董事会:

我们审计了后附的第 1 页至第 17 页的德清环中制水有限公司(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 年度的利润表及利润分配表和现金流量表以及财务报表附注。

一、管理层对财务报表的责任

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

二、注册会计师的责任

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

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

我们相信,我们获取的审计证据是充分、适当的,为发表审计意见提供了基础。

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

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

毕马威华振会计师事务所(特殊普通合伙) - 中国特殊普通合伙制会计师事务所,是与瑞士实体 - 毕马威国际合作组织(“毕马威国际”)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 1301244 号

三、 审计意见

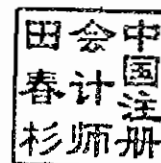
我们认为，贵公司财务报表在所有重大方面按照中华人民共和国财政部颁布的企业会计准则和《企业会计制度》的规定编制，公允反映了贵公司 2012 年 12 月 31 日的财务状况以及 2012 年度的经营成果和现金流量。

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

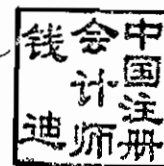
中国 上海



田春杉
田春杉



钱迪
钱迪



二〇一三年三月二十八日

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

德清环中制水有限公司
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 附注 18
资产			
流动资产			
货币资金	5	6,445,301.25	523,378.92
应收账款	6	1,845,000.00	2,722,065.85
其他应收款	7	28,739,502.94	21,561,413.06
存货	8	282,437.89	285,479.16
预付账款		<u>6,240.00</u>	-
流动资产合计		<u>37,318,482.08</u>	<u>25,092,336.99</u>
固定资产			
固定资产原价		68,226,332.53	68,045,332.53
减: 累计折旧		<u>(31,490,750.71)</u>	<u>(26,712,851.40)</u>
固定资产净额	9	36,735,581.82	41,332,481.13
在建工程	10	<u>450,000.00</u>	-
固定资产合计		<u>37,185,581.82</u>	<u>41,332,481.13</u>
无形资产	11	<u>5,420,591.58</u>	<u>5,774,203.14</u>
资产总计		<u>79,924,655.48</u>	<u>72,199,021.26</u>

刊载于第7页至第17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)

德清环中制水有限公司
资产负债表(续)
2012年12月31日
(金额单位:人民币元)

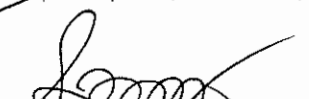
	附注	2012年	2011年
			附注 18
负债和所有者权益			
流动负债			
应付账款		65,485.30	13,518.20
应付工资		166,601.14	110,566.66
应付利润		5,906,442.18	5,906,442.18
应交税金	4(c)	920,120.53	1,239,424.38
其他应交款		92,701.29	22,994.44
其他应付款		511,193.34	187,640.67
预提费用		100,000.00	-
流动负债合计		7,762,543.78	7,480,586.53
所有者权益			
实收资本	12	54,941,820.62	54,941,820.62
盈余公积	13	3,591,785.27	2,847,417.57
未分配利润	14	13,628,505.81	6,929,196.54
所有者权益合计		72,162,111.70	64,718,434.73
负债和所有者权益总计		79,924,655.48	72,199,021.26

此财务报表已于二〇一三年三月二十八日获本公司董事会批准。



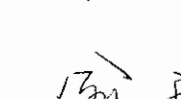
戴锦明
法定代表人

(签名和盖章)



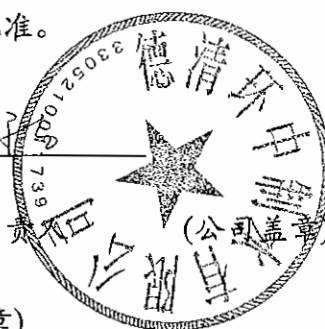
魏木生
主管会计工作的
公司负责人

(签名和盖章)



俞洁
会计机构负责人

(签名和盖章)



刊载于第7页至第17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)

德清环中制水有限公司
 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 附注 18
主营业务收入	15	21,234,905.70	22,004,307.44
减: 主营业务成本		(10,454,414.97)	(10,881,218.67)
主营业务税金及附加	4(a)	<u>(148,644.27)</u>	<u>(150,797.06)</u>
主营业务利润		10,631,846.46	10,972,291.71
加: 其他业务利润		1,427,949.22	811,569.73
减: 管理费用		(2,542,059.69)	(1,906,868.36)
财务费用		<u>3,025.94</u>	<u>3,440.31</u>
营业利润		9,520,761.93	9,880,433.39
加: 补贴收入		414,140.66	420,032.71
减: 营业外支出		<u>(10,000.00)</u>	<u>(10,000.00)</u>
利润总额		9,924,902.59	10,290,466.10
减: 所得税	4(b)	<u>(2,481,225.62)</u>	<u>(2,591,358.83)</u>
净利润		7,443,676.97	7,699,107.27
加: 年初未分配利润		<u>6,929,196.54</u>	<u>6,906,442.18</u>
可供分配的利润		14,372,873.51	14,605,549.45
减: 提取法定盈余公积	13	<u>(744,367.70)</u>	<u>(769,910.73)</u>
可供股东分配的利润		13,628,505.81	13,835,638.72
减: 分配予股东的现金股利		<u>-</u>	<u>(6,906,442.18)</u>
年末未分配利润		<u>13,628,505.81</u>	<u>6,929,196.54</u>

刊载于第 7 页至第 17 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)

德清环中制水有限公司

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 附注 18
经营活动产生的现金流量:			
销售商品收到的现金		22,111,971.55	21,127,241.59
收到的其他与经营活动有关的现金		-	688,999.38
现金流入小计		22,111,971.55	21,816,240.97
购买商品所支付的现金		(4,907,534.24)	(5,273,933.58)
支付给职工以及为职工支付的现金		(1,714,762.16)	(1,515,904.32)
支付的各项税费		(3,281,078.43)	(2,372,787.23)
支付的其他与经营活动有关的现金		(1,013,393.24)	(541,651.97)
现金流出小计		(10,916,768.07)	(9,704,277.10)
经营活动产生的现金流量净额	i	11,195,203.48	12,111,963.87
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		5,751.75	8,522.80
现金流入小计		5,751.75	8,522.80
购建固定资产及无形资产所支付的现金		(579,032.90)	(254,254.80)
投资所支付的现金		(4,700,000.00)	(13,500,000.00)
现金流出小计		(5,279,032.90)	(13,754,254.80)
投资活动使用的现金流量净额		(5,273,281.15)	(13,745,732.00)

刊载于第 7 页至第 17 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)

德清环中制水有限公司
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 附注 18
筹资活动产生的现金流量:			
分配股利所支付的现金		-	(1,000,000.00)
现金流出小计		-	(1,000,000.00)
		-----	-----
筹资活动使用的现金流量净额		-	(1,000,000.00)
		-----	-----
现金净增加/(减少)额	ii	<u>5,921,922.33</u>	<u>(2,633,768.13)</u>

刊载于第 7 页至第 17 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)

德清环中制水有限公司
现金流量表(续)
2012 年度
(金额单位: 人民币元)

	<u>2012 年</u>	<u>2011 年</u> 附注 18
现金流量表补充说明		
i 将净利润调节为经营活动的现金流量:		
净利润	7,443,676.97	7,699,107.27
加: 固定资产折旧	4,777,899.31	4,773,213.89
无形资产摊销	353,611.56	353,611.56
预提费用增加	100,000.00	-
财务费用	(5,751.75)	(8,522.80)
投资收益	(1,427,949.22)	(811,569.73)
存货的减少	3,041.27	76,824.17
经营性应收项目的增加	(179,314.81)	(608,099.18)
经营性应付项目的增加	<u>129,990.15</u>	<u>637,398.69</u>
经营活动产生的现金流量净额	<u>11,195,203.48</u>	<u>12,111,963.87</u>
ii 现金及现金等价物净减少情况:		
	<u>2012 年</u>	<u>2011 年</u>
现金的年末余额	6,445,301.25	523,378.92
减: 现金的年初余额	<u>(523,378.92)</u>	<u>(3,157,147.05)</u>
现金及现金等价物净增加/(减少)额	<u>5,921,922.33</u>	<u>(2,633,768.13)</u>

刊载于第 7 页至第 17 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)

德清环中制水有限公司

财务报表附注

(金额单位：人民币元)

1 公司基本情况

德清环中制水有限公司(以下简称“本公司”)是由香港环中资源科技有限公司(以下简称“香港环中”)和德清县水务有限公司(以下简称“德清水务”)在中华人民共和国浙江省德清县成立的中外合作企业，于2002年9月28日领取了浙江省人民政府颁发的商外资浙府资湖字[2002]00542号批准证书，并于2002年9月28日取得了湖州市工商行政管理局颁发的企合浙湖总字第001041号企业法人营业执照。本公司于2010年4月19日领取了更新的330500400006876号营业执照。本公司注册资本为893.9万美元，其中德清水务占注册资本的11.68%，香港环中占注册资本的88.32%。

本公司经营期限25.5年，主要从事自来水生产和供应。本公司于2002年9月28日正式成立，于2006年4月正式运营供水。

2 编制基础

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

3 主要会计政策**(a) 会计年度**

本公司的会计年度自公历1月1日起至12月31日止。

(b) 记账基础和计量原则

本公司的记账基础为权责发生制。除特别声明外，计量原则为历史成本法。

(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) 外币折算

外币业务按业务发生当日中国人民银行公布的外汇牌价折合为人民币。年末各项货币性外币资产、负债账户按资产负债表日中国人民银行公布的外汇牌价折合为人民币。除与购建固定资产直接有关的汇兑损益(参见附注 3(g))外,外币折算差异作为汇兑损益计入当期损益账户。

(e) 坏账准备

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

(f) 存货

存货包括原材料和低值易耗品。

存货以成本与可变现净值之较低者计量。

存货成本包括采购成本、加工成本和其他成本。存货在取得时按实际成本入账。发出存货的成本按加权平均法核算。

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

领用的低值易耗品采用分次摊销法进行核算。

(g) 固定资产

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

固定资产以成本减累计折旧及减值准备(参见附注 3(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。

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(续)

本公司对固定资产在预计使用年限和特许经营协议中约定的经营期限两者中较短的期限内按直线法计提折旧，各类固定资产的预计使用年限和预计净残值率分别为：

	预计使用年限	预计净残值率	折旧率
厂房及建筑物	20 年	10%	4.5%
机器设备	10 年	10%	9%
办公及其他设备	5 年	10%	18%
运输工具	5 年	10%	18%

(h) 租赁

租赁分为融资租赁和经营租赁。经营租赁是指除融资租赁以外的其他租赁。经营租赁的租金在租赁期内按直线法确认为费用。

(i) 无形资产

无形资产以成本减累计摊销及减值准备(参见附注 3(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。无形资产的摊销期限为：

土地使用权	22 年
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(j) 资产减值准备

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

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

本公司按单项项目计算资产减值损失，并将减值损失计入当期损益。

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

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) 所得税

所得税按应付税款法核算。当期所得税费用按当期应纳税所得额及适用税率计算。

(l) 收入确认

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

(i) 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) 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。

(iii) 补贴收入

补贴收入根据实际收到的补贴款确认。

(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) 本公司适用的与产品销售及其他收入有关的税金及附加包括增值税、营业税、城市维护建设税、教育费附加、地方教育费附加及水利建设专项资金等。

税种	计缴标准
增值税	按税法规定计算的销售货物收入的 6% 计算销项税额, 不允许抵扣进项税额。
营业税	利息收入的 5%
城市维护建设税	实际缴纳增值税和营业税税费的 5%
教育费附加	实际缴纳增值税和营业税税费的 3%
地方教育费附加	实际缴纳增值税和营业税税费的 2%
水利建设基金	应税营业收入的 0.1%

主营业务税金及附加, 包括城市维护建设税、教育费附加、地方教育费附加及水利建设基金。

- (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	2,481,225.62	2,588,379.14
上年度少提所得税	-	2,979.69
合计	<u>2,481,225.62</u>	<u>2,591,358.83</u>

本公司本年度按法定税率 25% 执行 (2011: 25%)。

- (c) 应交税金

	2012 年	2011 年
应交增值税	104,433.96	154,079.20
应交营业税	-	40,578.49
应交所得税	815,551.47	1,044,766.69
应交个人所得税	<u>135.10</u>	<u>-</u>
合计	<u>920,120.53</u>	<u>1,239,424.38</u>

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

5 货币资金

	2012 年	2011 年
现金	801.26	46,521.63
银行存款	<u>6,444,499.99</u>	<u>476,857.29</u>
合计	<u>6,445,301.25</u>	<u>523,378.92</u>

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	<u>1,845,000.00</u>	<u>100%</u>	-	<u>2,722,065.85</u>	<u>100%</u>	-

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	7,178,089.88	24.98%	-	21,544,903.06	99.92%	-
一年至二年	21,544,903.06	74.97%	-	-	0%	-
二年至三年	-	0%	-	-	0%	-
三年以上	<u>16,510.00</u>	<u>0.05%</u>	-	<u>16,510.00</u>	<u>0.08%</u>	-
合计	<u>28,739,502.94</u>	<u>100%</u>	-	<u>21,561,413.06</u>	<u>100%</u>	-

一年以上的其他应收款为应收关联方款项和押金, 管理层认为无需计提减值准备。本公司分别于 2011 年和 2012 年借予德清达阔制水有限公司合计人民币 2,820 万元, 于 2012 年收到还款人民币 350 万元, 2012 年借款利率为 5.6%(2011 年: 6.31%)。

8 存货

	2012 年	2011 年
原材料	<u>282,437.89</u>	<u>285,479.16</u>
以上存货均为购买形成。		
于成本和费用中确认的存货成本	<u>414,614.32</u>	<u>411,173.50</u>

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

9 固定资产

	厂房及建筑物	机器设备	办公及 其他设备	运输工具	合计
成本:					
年初余额	29,742,581.48	37,686,831.05	255,656.00	360,264.00	68,045,332.53
本年增加	<u>108,000.00</u>	<u>70,400.00</u>	<u>2,600.00</u>	-	<u>181,000.00</u>
年末余额	<u>29,850,581.48</u>	<u>37,757,231.05</u>	<u>258,256.00</u>	<u>360,264.00</u>	<u>68,226,332.53</u>
累计折旧:					
年初余额	(7,438,188.48)	(18,760,045.62)	(215,122.65)	(299,494.65)	(26,712,851.40)
本年计提折旧	<u>(1,342,936.99)</u>	<u>(3,407,515.74)</u>	<u>(4,607.10)</u>	<u>(22,839.48)</u>	<u>(4,777,899.31)</u>
年末余额	<u>(8,781,125.47)</u>	<u>(22,167,561.36)</u>	<u>(219,729.75)</u>	<u>(322,334.13)</u>	<u>(31,490,750.71)</u>
净额:					
年末余额	<u>21,069,456.01</u>	<u>15,589,669.69</u>	<u>38,526.25</u>	<u>37,929.87</u>	<u>36,735,581.82</u>
年初余额	<u>22,304,393.00</u>	<u>18,926,785.43</u>	<u>40,533.35</u>	<u>60,769.35</u>	<u>41,332,481.13</u>

10 在建工程

		其中: 借款费用 资本化金额
年初余额	-	-
本年增加	<u>450,000.00</u>	-
年末余额	<u>450,000.00</u>	-

11 无形资产

	土地使用权
成本:	
年初余额	7,779,454.10
本年增加	<u>-</u>
年末余额	<u>7,779,454.10</u>
累计摊销:	
年初余额	(2,005,250.96)
本年增加	<u>(353,611.56)</u>
年末余额	<u>(2,358,862.52)</u>
净额:	
年末余额	<u>5,420,591.58</u>
年初余额	<u>5,774,203.14</u>

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

12 实收资本

注册资本	2012 年和 2011 年		%
	金额	美元	
香港环中	7,894,000.00		88.3%
德清水务	1,045,000.00		11.7%
合计	<u>8,939,000.00</u>		<u>100%</u>

实收资本	2012 年和 2011 年		%
	美元 原币金额	等值人民币 金额	
香港环中	7,894,000.00	65,326,718.12	88.3%
德清水务	1,045,000.00	8,630,000.00	11.7%
香港环中先行回收资本	<u>(2,788,589.51)</u>	<u>(19,014,897.50)</u>	
合计	<u>6,150,410.49</u>	<u>54,941,820.62</u>	

在实收资本账户中，实收资本美元换算为人民币时采用的汇率是收到出资当日中国人民银行公布的汇率。

上述实收资本已由德清天勤会计师事务所验证，并于 2005 年 10 月 31 日出具了德天会验(2005)第 276 号验资报告。

根据合作双方合作协议和合同，并经过浙江省财政厅批准，外方可先行收回投资款，截止 2012 年 12 月 31 日香港环中已累计先行回收投资款人民币 19,014,897.50 元，按汇出日美元对人民币中间价折合美元 2,788,589.51 元。

13 盈余公积

	附注	法定盈余公积
年初余额		2,847,417.57
利润分配	14	<u>744,367.70</u>
年末余额		<u>3,591,785.27</u>

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

14 利润分配

本公司按公司章程规定根据净利润的10%提取法定盈余公积。

15 主营业务收入

	<u>2012年</u>	<u>2011年</u>
供水收入	<u>21,234,905.70</u>	<u>22,004,307.44</u>

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>
香港环中	香港	投资控股	投资方	有限公司

存在控制关系的关联方的注册资本及其变化。

	<u>年初数</u>	<u>本年变更</u>	<u>年末数</u>
香港环中 港币	111,120.00	115,233.00	226,353.00

存在控制关系的关联方的权益及其变化

	<u>年初数</u>		<u>本年变更</u>		<u>年末数</u>	
	金额	%	金额	%	金额	%
香港环中	65,326,718.12	88.3%	-	0%	65,326,718.12	88.3%
减：先行回收资本	<u>(19,014,897.50)</u>				<u>(19,014,897.50)</u>	
合计	<u>46,311,820.62</u>				<u>46,311,820.62</u>	

(b) 不存在控制关系的关联方

	<u>与本公司关系</u>
德清水务	中方投资方
德清达阔制水有限公司 (以下简称“达阔制水”)	同一集团子公司

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(续)

(c) 本公司与关联方于本年度进行的交易的金额及年末的往来余额如下:

i) 本公司与关联方之间的重大交易列示如下:

	<u>2012年</u>	<u>2011年</u>
销售商品		
- 德清水务	21,234,905.70	22,004,307.44
租赁		
- 德清水务	1,400,000.00	1,600,000.00
提供借款		
- 达阔制水	8,200,000.00	1,350,000.00
收回借款		
- 达阔制水	3,500,000.00	-
利息收入		
- 达阔制水	1,427,949.22	811,569.73

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

ii) 本公司与关联方于年末的往来余额如下:

	<u>2012年</u>	<u>2011年</u>
应收账款		
- 德清水务	1,845,000.00	2,722,065.85
其他应收款		
- 德清水务	1,333,333.33	733,333.33
- 达阔制水	26,939,518.95	20,811,569.73
其他应付款		
- 德清水务	148,333.34	161,666.67

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

17 承担

经营租赁承担

根据不可撤销的有关固定资产经营租赁协议，本公司于资产负债表日应付的最低租赁付款额如下：

	<u>2012 年</u>	<u>2011 年</u>
一年以内	1,400,000.00	1,400,000.00
一年以上至两年	1,400,000.00	1,400,000.00
两年以上至三年	1,400,000.00	1,400,000.00
三年以上	<u>7,666,666.67</u>	<u>9,066,666.67</u>
合计	<u>11,866,666.67</u>	<u>13,266,666.67</u>

18 上期比较数字

本公司 2011 年度财务报表经德清天勤会计师事务所审计并出具了审计报告。为配合业务发展需要，本公司聘请毕马威华振会计师事务所(特殊普通合伙)上海分所提供 2012 年度财务报告审计服务。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。