

**SALCON LINYI (HK) LIMITED**  
**REPORT OF THE DIRECTORS**  
**AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**



Chartered Accountants  
Certified Public Accountants

**REPORT OF THE DIRECTORS**

The directors present their report together with the audited financial statements of Salcon Linyi (HK) Limited (hereinafter referred to as the "Company") for the year ended 31 December 2009.

**Principal activity**

The principal activity of the Company is investment holding. The principal activity of the subsidiary of the Company is set out in Note 9 to the financial statements.

**Financial statements**

The results of the Company for the year are set out in the statement of comprehensive income on Page 5.

The state of affairs of the Company as at 31 December 2009 is set out in the statement of financial position on Page 6.

The cash flow of the Company for the year is set out in the statement of cash flows on Page 8.

**Dividends**

The directors do not recommend a payment of dividend nor transfer of any amount to reserves for the year (2008: Nil).

**Share capital**

There were no movements in either the Company's registered or issued share capital during the year (2008: Nil).

**Reserves**

Details of the movements in reserves of the Company during the year are set out in the statement of changes in equity on Page 7.

**Directors**

The directors in office during the year and up to the date of this report are:

Mr. Goh Eng Toon  
Mr. How See Hock  
Mr. Loh Boon Sue

In accordance with Article 79 of the Company's Articles of Association, all directors in office at the end of the year retire and, being eligible, offer themselves for re-election.

**REPORT OF THE DIRECTORS (CONTINUED)****Directors' interests in contracts**

The directors' interests in contracts are set out in Notes 10 and 13 to the financial statements. Apart from the foregoing, no contracts of significance in relation to the Company's business to which the Company, its ultimate holding company, its subsidiary or any of its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

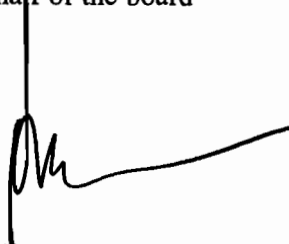
**Directors' rights to acquire shares or debentures**

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

**Auditors**

Messrs HLB Hodgson Impey Cheng retire and, being eligible, offer themselves for re-appointment.

On behalf of the board



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Director

Hong Kong, 8 March 2010

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Chartered Accountants  
Certified Public Accountants



**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDER OF  
SALCON LINYI (HK) LIMITED**

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(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Salcon Linyi (HK) Limited (the "Company") set out on pages 5 to 26, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion 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. Except as described in the basis for qualified opinion paragraph, 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 as to 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 the true 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 the directors, as well as evaluating the overall presentation of the financial statements.

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

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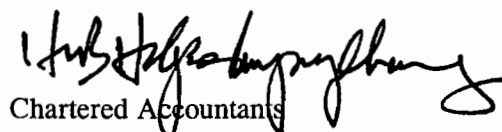
**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDER OF  
SALCON LINYI (HK) LIMITED (CONTINUED)** \_\_\_\_\_ 4  
(incorporated in Hong Kong with limited liability)

**Basis for qualified opinion**

Included in the statement of financial position as at 31 December 2009 is the investment cost of subsidiary of HK\$39,102,927. As stated in Note 3 in the financial statements, consolidated financial statements have not been prepared to include the results of the subsidiary for the year ended 31 December 2009. This does not comply with Section 124 of the Hong Kong Companies Ordinance and Hong Kong Accounting Standard No. 27 "Consolidated and Separate Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants. The non-consolidation of the subsidiary would affect the net assets of the Company as at 31 December 2009, its loss for the year then ended, and the related disclosures in the financial statements. It is not practicable to quantify the effects of this non-compliance.

**Qualified opinion arising from disagreement about accounting treatment**

In our opinion, except for the effect on the financial statements of the disagreement in accounting treatment described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2009 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

  
Chartered Accountants  
Certified Public Accountants

Hong Kong, 8 March 2010  
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**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2009 (in HK Dollars)	Notes	2009	2008
<b>Turnover</b>		-	-
<b>Other revenue</b>	6	12	419
<b>Administrative and operating expenses</b>		<u>(116,032)</u>	<u>(119,105)</u>
<b>Loss before taxation</b>	7	(116,020)	(118,686)
<b>Taxation</b>	8	<u>-</u>	<u>-</u>
<b>Loss for the year</b>		(116,020)	(118,686)
<b>Other comprehensive income for the year</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive loss for the year</b>		(116,020)	(118,686)
<b>Loss attributable to equity holder of the Company</b>		<u>(116,020)</u>	<u>(118,686)</u>
<b>Total comprehensive loss attributable to equity holder of the Company</b>		<u>(116,020)</u>	<u>(118,686)</u>

All of the Company's operations are classed as continuing.

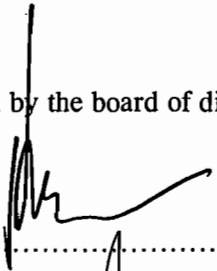
The accompanying notes form an integral part of these financial statements.

SALCON LINYI (HK) LIMITED \_\_\_\_\_ 6

**STATEMENT OF FINANCIAL POSITION**

At 31 December 2009 (in HK Dollars)	Notes	2009	2008
<b>Non-current asset</b>			
Investment in a subsidiary	9	39,102,927	39,102,927
<b>Current asset</b>			
Cash and bank balances		75,730	75,973
<b>Less: Current liabilities</b>			
Accruals		19,500	19,500
Amount due to ultimate holding company	10	34,508,860	34,487,055
Amounts due to fellow subsidiaries	10	5,241,788	5,147,816
		39,770,148	39,654,371
<b>Net current liabilities</b>		<b>(39,694,418)</b>	<b>(39,578,398)</b>
<b>Total assets less current liabilities</b>		<b>(591,491)</b>	<b>(475,471)</b>
<b>Capital and reserves attributable to equity holder of the Company</b>			
Share capital	11	1	1
Reserves	12	(591,492)	(475,472)
<b>Total equity</b>		<b>(591,491)</b>	<b>(475,471)</b>

Approved by the board of directors on 8 March 2010

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

SALCON LINYI (HK) LIMITED \_\_\_\_\_ 7

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2009 (in HK Dollars)

	<u>Share capital</u>	<u>Exchange reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
At 1 January 2008	1	(282,182)	(74,604)	(356,785)
Loss for the year	-	-	(118,686)	(118,686)
At 31 December 2008 and 1 January 2009	1	(282,182)	(193,290)	(475,471)
Loss for the year	-	-	(116,020)	(116,020)
<b>At 31 December 2009</b>	<b>1</b>	<b>(282,182)</b>	<b>(309,310)</b>	<b>(591,491)</b>

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



SALCON LINYI (HK) LIMITED \_\_\_\_\_ 8

**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2009 (in HK Dollars)	<b>2009</b>	2008
<b>OPERATING ACTIVITIES</b>		
Loss before taxation	(116,020)	(118,686)
Adjustment for:		
Bank interest income	(12)	(419)
Operating loss before working capital changes	(116,032)	(119,105)
Increase in accruals	-	4,800
Increase/(decrease) in amount due to ultimate holding company	21,805	(444)
Increase in amounts due to fellow subsidiaries	93,972	113,985
<b>Net cash used in operating activities</b>	<b>(255)</b>	<b>(764)</b>
<b>FINANCING ACTIVITY</b>		
Bank interest income	12	419
<b>Net cash generated from financing activity</b>	<b>12</b>	<b>419</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(243)</b>	<b>(345)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>75,973</b>	<b>76,318</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>75,730</b>	<b>75,973</b>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	75,730	75,973

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2009 (in HK Dollars)

**1. GENERAL**

The Company is incorporated in Hong Kong as an exempted company with limited liability. The registered office of the Company is located at 31/F, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activity of its subsidiary is management and operation of water production and distribution of water in Linyi City, Weifang Municipality, Shandong Province, the People's Republic of China ("the PRC").

The directors of the Company consider that its ultimate holding company is Salcon Berhad, a company incorporated in Malaysia and its shares are listed on Bursa Malaysia Securities Berhad.

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")**

In the current year, the Company has applied, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2009. A summary of the new HKFRSs are set out as below:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment - Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009 (in HK Dollars)

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

HKAS 1 (Revised) “Presentation of Financial Statements” has introduced a number of terminology changes, including revised titles for the financial statements, and has resulted in a number of changes in presentation and disclosure.

Except for HKAS 1 (Revised) as disclosed above, the directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Company.

The Company has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 <sup>2</sup>
HKFRS (Amendments)	Improvements to HKFRSs issued in 2009 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>6</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>4</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>2</sup>
HKFRS 1 (Revised)	Additional Exemptions for First-time Adopters <sup>3</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>3</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets) <sup>7</sup>
HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement <sup>6</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>2</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013

The Company is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that these new and revised HKFRSs are unlikely to have a significant impact on the Company’s results of operations and financial position.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with HKFRSs (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance except for the non-compliance with Section 124 of the Hong Kong Companies Ordinance and HKAS 27 “Consolidated and Separate Financial Statements” relating to preparation of consolidated financial statements for the Company and its subsidiary.

The preparation of financial statements in conformity with HKFRSs requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

A summary of significant accounting policies followed by the Company in the preparation of the financial statements is set out below:

**(a) Basis of preparation**

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

The financial statements have been prepared on a going concern basis. The Company had net current liabilities of \$39,694,418 (2008: \$39,578,398) and accumulated losses of \$309,310 (2008: \$193,290) as at 31 December 2009 and its continuance in business as a going concern is dependent upon the continuing financial support from its ultimate holding company. The financial statements have been prepared on a going concern basis as the ultimate holding company has confirmed to provide continuing financial support to the Company to enable it to continue as a going concern and to settle its liabilities as and when they fall due.

**(b) Co-operative joint ventures**

Co-operative joint ventures represent Sino-foreign joint ventures registered in the PRC in respect of which the venturers’ profit-sharing ratios and share of entitlements to net assets upon the expiration of the joint ventures periods may not be the same as their capital contribution ratios but are as defined in the respective joint ventures agreement.

A co-operative joint venture is accounted for as a subsidiary when the Company can exercise unilateral control over the co-operative joint venture. Otherwise the co-operative joint venture is accounted for as a joint venture or an associate, depending on whether the Company is able to exercise a joint control or simply a significant influence over the co-operative joint venture respectively.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Subsidiary**

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefit from its activities. Investment in subsidiary is stated at cost less any impairment losses. The result of the subsidiary is accounted for by the Company on the basis of dividends received and receivable.

The registered office of the Company's ultimate holding company, Salcon Berhad, which will publish consolidated financial statements is located at 15/F., Menara Summit, Persiaran Kewajipan, USJ 1 47600 UEP Subang Jaya, Selangor Darul Ehsan, Malaysia.

**(d) Turnover**

There was no turnover during the year.

**(e) Foreign currencies**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"), the financial statements are presented in Hong Kong Dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the statement of comprehensive income.

**(f) Revenue recognition**

Interest income is recognised on a time-apportioned basis on the principal outstanding and at the rate applicable.

**(g) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) Taxation (continued)**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference arises from goodwill (or negative goodwill) or from the initial recognition that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**(h) Provisions**

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value at the end of the reporting period of the expenditures expected to be required to settle the obligation.

**(i) Financial instruments**

Financial assets and financial liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statement of comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Financial instruments (continued)***Financial assets*

The Company's major financial assets are cash and bank balances which fall within the category of loans and receivables and the accounting policies adopted are set out below:

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss, of which interest income is included in net gains or losses.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

*Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

*Impairment of financial assets (continued)*

For all other financial assets, objective evidence of impairment could include:

- (i) significant financial difficulty of the issuer or counterparty; or
- (ii) default or delinquency in interest or principal payments; or
- (iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Financial instruments (continued)*****Financial assets (continued)***

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Financial instruments (continued)*****Financial liabilities and equity***

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at fair value through profit or loss, of which the interest expense is included in net gains or losses.

***Financial liabilities***

The Company's financial liabilities including accruals, amount due to an ultimate holding company and amount due to fellow subsidiaries are initially measured at fair value and subsequently measured at amortised cost using effective interest method.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the statement of comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Financial instruments (continued)*****Derecognition (continued)***

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the statement of comprehensive income.

**(j) Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and on hand, demand deposits and short term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

**(k) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(l) Related party transactions**

A party is considered to be related to the Company if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) control, is controlled by, or is under common control with, the Company; (ii) has an interest in the Company that gives it significant influence over the Company; or (iii) has joint control over the Company;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Company or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Company, or of any entity that is a related party of the Company.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**4. FINANCIAL INSTRUMENTS****4.1 Categories of financial instruments**

	<u>2009</u>	<u>2008</u>
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	75,730	75,973
<b>Financial liabilities</b>		
Amortised cost	39,770,148	39,654,371

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**4. FINANCIAL INSTRUMENTS (CONTINUED)****4.2 Financial risk management objectives and policies**

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and foreign exchange risk), credit risk and liquidity risk. The management reviews and agrees policies for managing each of the risks and they are summarised below.

Market risk

The Company's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

There has been no change to the Company's exposure to market risk or the manner in which it manages and measures the risk.

*Interest rate risk management*

The Company has no borrowings at variable interest rate and at fixed rate that expose the Company to cash flow interest rate risk and fair value interest rate risk respectively.

*Foreign exchange risk management*

The Company has transactional currency exposures. Such exposures arise from transactions with ultimate holding company and fellow subsidiaries of the Company in currencies other than the Company's functional currency. The transactions with ultimate holding company and fellow subsidiaries are denominated in Ringgit Malaysia ("RM") and United States dollars ("USD") whilst almost all of costs are denominated in the Company's functional currency.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:-

	<b>Liabilities</b>		<b>Assets</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
RM	<b>5,074,964</b>	5,013,146	<b>4,658,827</b>	4,658,827
USD	<b>34,508,860</b>	34,487,055	<b>34,516,130</b>	34,444,100

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**4. FINANCIAL INSTRUMENTS (CONTINUED)****4.2 Financial risk management objectives and policies (continued)***Sensitivity analysis on foreign exchange risk management*

The Company is mainly exposed to the effects of fluctuation in RM and USD.

The following table details the Company sensitivity to a 5% increase and decrease in the Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where the Hong Kong dollars weaken 5% against the relevant currency. For a 5% strengthening of the Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

	Impact of RM		Impact of USD	
	2009	2008	2009	2008
Profit or loss (Note)	20,807	17,716	364	2,148

Note:

This is mainly attributable to the exposure outstanding on the receivables and payables at the year end.

The Company sensitivity to foreign exchange had increased during the current year mainly due to the increase in amounts due to ultimate holding company and fellow subsidiaries during the year.

Credit risk

The Company has no significant concentrations of credit risk.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009 (in HK Dollars)

## 4. FINANCIAL INSTRUMENTS (CONTINUED)

## 4.2 Financial risk management objectives and policies (continued)

Liquidity risk

Advances from ultimate holding company and fellow subsidiaries are the general source of funds to finance the operation of the Company. The Company regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following table details the Company's remaining contractual maturity for its financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial liabilities, the table reflects the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows.

	Within 1 year HK\$	Over 1 year HK\$	Total undiscounted cash flows HK\$	Total carrying amount HK\$
<b>At 31 December 2009</b>				
<b>Non-derivative financial liabilities</b>				
Accruals	(19,500)	-	(19,500)	(19,500)
Amount due to ultimate holding company	(34,508,860)	-	(34,508,860)	(34,508,860)
Amounts due to fellow subsidiaries	(5,241,788)	-	(5,241,788)	(5,241,788)
	<b>(39,770,148)</b>	<b>-</b>	<b>(39,770,148)</b>	<b>(39,770,148)</b>
<b>At 31 December 2008</b>				
<b>Non-derivative financial liabilities</b>				
Accruals	(19,500)	-	(19,500)	(19,500)
Amount due to ultimate holding company	(34,487,055)	-	(34,487,055)	(34,487,055)
Amounts due to fellow subsidiaries	(5,147,816)	-	(5,147,816)	(5,147,816)
	<b>(39,654,371)</b>	<b>-</b>	<b>(39,654,371)</b>	<b>(39,654,371)</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**4. FINANCIAL INSTRUMENTS (CONTINUED)****4.2 Financial risk management objectives and policies (continued)****Fair value of financial instruments**

The fair value of financial assets and financial liabilities are determined as follows:

- (i) the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and trade on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- (ii) the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance in generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

**5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

Estimates and judgments 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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There were no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**6. OTHER REVENUE**

	<u>2009</u>	<u>2008</u>
Bank interest income	12	419

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**7. LOSS FROM OPERATIONS**

	<u>2009</u>	<u>2008</u>
Loss from operations is stated at after charging:		
Auditors' remuneration	15,500	15,500
Directors' remuneration		
- fees	-	-
- other emoluments	-	-
Exchange loss	82,812	69,165
	<u>                    </u>	<u>                    </u>

**8. TAXATION**Current taxation

No provision for Hong Kong profits tax has been made as the Company has no assessable profits for the year (2008: Nil).

The tax effect for the year can be reconciled to loss before taxation per the statement of comprehensive income as follows:

	<u>2009</u>		<u>2008</u>	
Loss before taxation	(116,020)		(118,686)	
	<u>                    </u>		<u>                    </u>	
Tax at Hong Kong profits tax rate of 16.5% (2008: 16.5%)	(19,143)	(16.5%)	(19,583)	(16.5%)
Tax effect of income not subject to tax and expenses not deductible for tax	19,143	16.5%	19,583	16.5%
	<u>                    </u>		<u>                    </u>	
Tax effect for the year	-	-	-	-
	<u>                    </u>		<u>                    </u>	

Deferred taxation

No provision for deferred taxation has been made as the Company had no material temporary differences between the tax bases and carrying amounts of assets and liabilities in the financial statements.



SALCON LINYI (HK) LIMITED \_\_\_\_\_ 24

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**9. INVESTMENT IN A SUBSIDIARY**

	<u>2009</u>	<u>2008</u>
Unlisted shares, at cost	34,444,100	34,444,100
Cost directly attributable to investment	<u>4,658,827</u>	<u>4,658,827</u>
	<u>39,102,927</u>	<u>39,102,927</u>

At 31 December 2009, the Company had investment in the following subsidiary:-

<u>Name of subsidiary</u>	<u>Principal place of incorporation and operation</u>	<u>Principal activities</u>	<u>Registered capital</u>	<u>Percentage of interest held</u>
Linyi Salcon Water Company Limited	The PRC	Management and operation of water production and distribution of water	US\$7,400,000	60% (direct)

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

**10. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES**

The amounts due to ultimate holding company/fellow subsidiaries are unsecured, interest-free and repayable on demand.

**11. SHARE CAPITAL**

	<u>2009</u>	<u>2008</u>
Authorised:		
10,000 ordinary shares of HK\$1 each	10,000	10,000
Issued and fully paid:		
1 ordinary share of HK\$1	1	1

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**12. RESERVES**

	<b>Exchange reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
At 1 January 2008	(282,182)	(74,604)	(356,786)
Loss for the year	-	(118,686)	(118,686)
At 31 December 2008 and 1 January 2009	(282,182)	(193,290)	(475,472)
Loss for the year	-	(116,020)	(116,020)
<b>At 31 December 2009</b>	<b>(282,182)</b>	<b>(309,310)</b>	<b>(591,492)</b>

**13. MATERIAL RELATED PARTY TRANSACTIONS**

During the year ended 31 December 2009, no compensation of any kind was paid to the Company's directors who were key management personnel of the Company.

Saved as disclosed in Note 10 to the financial statements, there was no other material related party transaction during the year.

**14. CAPITAL RISK MANAGEMENT**

The Company's primary objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholder and benefits for other stakeholders.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes judgments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Company monitors its capital structure on the basis of gearing ratio which is calculated at total borrowings over total equity ratio. For this purpose the Company defines total borrowings which include interest-bearing borrowings, less cash and cash equivalents.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**14. CAPITAL RISK MANAGEMENT (CONTINUED)**

As the Company had no borrowing during the year, therefore no adjustment had been placed by the Company in order to maintain or adjust the capital structure.

There was no change in the Company's approach to capital management during the year.

**15. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 8 March 2010.

- End of Notes -

SALCON LINYI (HK) LIMITED 27

**DETAILED STATEMENT OF COMPREHENSIVE INCOME**  
(For Management Use Only)

For the year ended 31 December 2009 (in HK Dollars)	2009	2008
<b>Turnover</b>	-	-
<b>Other revenue</b>		
Bank interest income	12	419
<b>Administrative and operating expenses</b>		
Audit fee	(15,500)	(15,500)
Bank charges	(596)	(310)
Business registration fee	(574)	(2,600)
Exchange loss	(82,812)	(69,165)
Legal and professional fees	(14,100)	(29,000)
Printing, postage and travelling	(2,450)	(2,530)
	(116,032)	(119,105)
<b>Loss before taxation</b>	(116,020)	(118,686)
<b>Taxation</b>	-	-
<b>Loss for the year</b>	(116,020)	(118,686)
<b>Other comprehensive loss for the year</b>	-	-
<b>Total comprehensive loss for the year</b>	(116,020)	(118,686)

## 2.0 INFORMATION ON LINYI WATER

### 2.1 DATE AND PLACE OF INCORPORATION

Linyi Water was incorporated in Lanshan District, Linyi City, Shandong Province, PRC on 7 November 2005.

### 2.2 BRIEF HISTORY AND BUSINESS

Salcon Water (HK) Limited, a wholly-owned subsidiary company 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. The total investment of Salcon Water (HK) Limited and Linyi Municipality Company was approximately USD3.71 million and USD2.47 million cash representing 60% and 40% respectively of the total registered share capital of Linyi Water. On 6 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, China (“**Linyi City Government**”) on a TOT basis whereby the Linyi City Government granted to Linyi Water the right on the design, construction, operation and maintenance of water supply engineering works and collection of charges from the consumers within the concession area (i.e. Linyi City, Hedong and Luo Zhuang) within the concession period of 30 years from the effective date of the agreement (i.e. from 1 January 2006 to 31 December 2035). The plant which is located on a land size of 40,135 m<sup>2</sup> at Dong Bei Yuan Residential Committee, Lanshan District with a designed capacity of 150 mld commenced operations since 1997.

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;
  - (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;
  - (vii) 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;

- 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;
- (viii) 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 China 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;
- (b) Upon expiry of the concession right as stipulated in the agreement, Linyi Water shall transfer with no consideration 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.

The initial funding of the water supply project works is the initial advancement via equity (in cash) injection made at the start of the joint venture by the Linyi City Government and Salcon Water (HK) Limited. There is no further funding required for the concession.

### 2.2.1 Daily production capacity and production output

The daily production capacity and production output of Linyi Water for the past three-(3) FYE 31 December 2009 are as follows:

<b>FYE 31 December</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Production/Designed capacity (mld)	150.0	150.0	150.0
Production output (mld)	79.8	77.7	82.1

The principal market of Linyi Water for the supply of water is Linyi City, Shandong Province, China. The sectors of which water is sold to as at 10 December 2010 are as follows:

Sectors	Number of users/customers	Percentage (%)
Domestic water sales	27,333	89.12
Industrial water sales	28	0.09
Public unit water sales	387	1.26
Business water sales	2,913	9.50
Special purpose water sales	8	0.03
<b>Total</b>	<b>30,669</b>	<b>100.00</b>

#### 2.2.2 Details of assets owned

The net book values of the major assets owned by Linyi Water based on the audited financial statements of Linyi Water as at 31 December 2009 are as follows:

Details	NBV as at 31 December 2009 RMB
House and buildings	42,015,087
Pipeline	47,839,005
Machinery and equipment	11,505,711
Motor vehicle	1,164,971
Electronic equipment	549,129

#### 2.3 REGISTERED AND PAID-IN CAPITAL

The registered and paid-in capital of Linyi Water is RMB59,999,964 as at 10 December 2010.

#### 2.4 SUBSTANTIAL SHAREHOLDERS

The particulars of the substantial shareholders of Linyi Water and their direct and indirect shareholdings in Linyi Water as at 10 December 2010 are as follows:

Name	Nationality / Country of Incorporation	Shareholdings in Linyi Water as at 10 December 2010			
		Direct		Indirect	
		RMB	%	RMB	%
Linyi	Hong Kong	35,999,964	60	-	-
Linyi Municipality Company	China	24,000,000	40	-	-
Salcon	Malaysia	-	-	35,999,964	60

## 2.5 DIRECTORS

The particulars of the directors of Linyi Water as at 10 December 2010 are as follows:

<b>Directors</b>	<b>Designation</b>	<b>Nationality</b>
How See Hock	Director	Malaysian
Xu Li Hua	Director	Chinese
Tey Thiam Huat	Director	Malaysian
Loh Boon Sue	Director	Malaysian
Zhang Song	Director	Chinese
Zhang Xing Ye	Director	Chinese
Sun Chao	Director	Chinese

None of the directors of Linyi Water have any, direct or indirect, shareholdings in Linyi Water.

## 2.6 LIST OF SUBSIDIARY AND ASSOCIATED COMPANIES

Details of the subsidiary company of Linyi Water are as follows:

<b>Subsidiary company</b>	<b>Date/Place of incorporation</b>	<b>Effective equity interest</b>	<b>Registered capital</b>	<b>Principal activities</b>
		<b>%</b>	<b>RMB</b>	
Linyi Runcheng Water	3 July 1993/ PRC	100	120,000	Installation of urban water pipelines

Linyi Water does not have any associated companies.

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## 2.7 FINANCIAL INFORMATION

### 2.7.1 Summary financial information

The summary consolidated financial information of the Linyi Water and its subsidiary (i.e. Linyi Runcheng Water) based on the consolidated audited financial statements for the past three (3) FYE 31 December 2009 and the consolidated unaudited financial results for the nine (9) months FPE 30 September 2010 are summarised as follows:

	← FYE 31 December 2007	FYE 31 December 2008	FYE 31 December 2009	9 months FPE 30 September 2010
	← Audited →			Unaudited
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	32,319	36,257	45,591	38,670
PBT	344	3,247	1,486	900
PAT	85	3,103	1,346	794
PATMI	85	3,103	1,346	794
Gross EPS/(LPS) (RMB)	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable
Net EPS/(LPS) (RMB)	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable
Paid-in capital	60,000	60,000	60,000	60,000
Shareholders' funds	56,985	60,279	61,655	62,449
NA	56,985	60,279	61,655	62,449
NA per share (RMB)	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable
Current ratio (times)	5.20	5.45	3.01	0.69
Total borrowings (all interest-bearing debts)	101,752	89,621	82,422	36,197
Gearing ratio (times)	1.79	1.49	1.34	0.58

*Note:*

(1) The paid-in capital of companies incorporated in China is not represented by number of shares.

### 2.7.2 Commentary on past performance

#### FYE 31 December 2007 ("FYE 2007")

In FYE 2007, Linyi Water and its subsidiary achieved revenue of RMB32.32 million, which was 16.01% higher than the revenue of RMB27.86 million recorded in the FYE 31 December 2006. Linyi Water and its subsidiary recorded higher PAT of RMB85,000 for the FYE 2007 as compared with LAT of RMB2.84 million in the FYE 31 December 2006. The increase in the revenue and PAT was mainly due to the increase in the production output of the water supply.

#### FYE 31 December 2008 ("FYE 2008")

In FYE 2008, Linyi Water and its subsidiary achieved revenue of RMB36.26 million, which was approximately 12.19% higher than the revenue of RMB32.32 million recorded in FYE 2007. The improvement was mainly due to an increase in the average tariff price of the water supply. Linyi Water and its subsidiary registered a PAT of RMB3.10 million in FYE 2008, which translates into an increase of more than 100% from the PAT registered in the previous financial year of RMB85,000. The increase of the PAT was due to the increase in the average tariff price of the water supply and non-operating income from the gain on disposal of land.

**FYE 31 December 2009 (“FYE 2009”)**

In FYE 2009, Linyi Water and its subsidiary achieved revenue of RMB45.59 million, which was approximately 25.73% higher than the revenue of RMB36.26 million recorded in FYE 2008, as a result of the increase in the output of water supply. This has resulted in a higher operating profit of Linyi Water and its subsidiary for the FYE 2009 as compared to FYE 2008. However, Linyi Water and its subsidiary recorded a lower PAT of RMB1.35 million for the FYE 2009 as compared to a PAT of RMB3.10 million for the FYE 2008 mainly due to lesser non-operating income being recognised during the FYE 2009 by RMB5.64 million (as compared to FYE 2008).

**Nine (9) months period ended 30 September 2010 (“FPE Sept 2010”)**

In FPE Sept 2010, Linyi Water achieved revenue of RMB38.67 million and PAT of RMB0.79 million. This represents an improvement of 21.30% and 150.32% respectively from the preceding year corresponding period where Linyi Water recorded revenue of RMB31.88 million and LAT of RMB1.57 million. The improvement was mainly attributed to the higher output of water supply.

**2.7.3 Accounting policies adopted**

There are no specific accounting policies adopted which are peculiar to Linyi Water and its subsidiary because of the nature of Linyi Water and its subsidiary’s business and/or the industry they are involved in.

**2.7.4 Audit qualification**

The financial results of Linyi Water and its subsidiary for the past three (3) FYE 31 December 2009 were not subject to any audit qualification.

**2.7.5 Audited financial statements of Linyi Water for the FYE 31 December 2009**

The audited financial statements of Linyi Water and its subsidiary for the FYE 31 December 2009 are reproduced in the ensuing pages.

(Please take note that the paging and/or reference made in the Report of Auditors is made in relation to the paging and reference as contained in the audited financial statements of Linyi Water and its subsidiaries for the FYE 31 December 2009.)

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**Report of Auditors**

**LINYI SALCON WATER COMPANY LIMITED**

## **Report of Auditors**

### **To the shareholders of Linyi Salcon Water Company Limited,**

We have audited the accompanying consolidated financial statements of Linyi Salcon Water Company Limited (the “Company”), including the balance sheet as of December 31, 2009 and the related consolidated statements of income, cash flow statements for the years ended at 2009 and notes to the financial statement.

### **Management’s responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these with Financial Reporting Standards (“FRSs”) issued by the Malaysian Accounting Standards Board (“MASB”), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor’s responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor's 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 auditor considers 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.

#### **Auditor's opinion**

In our opinion, the accompanying financial statements are properly drawn up in accordance with Financial Reporting Standards ("FRSs") issued by the Malaysian Accounting Standards Board ("MASB"), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965, so as to give a true and fair view of the state of affairs of the Company's financial position and consolidated financial position on December 31, 2009 and the results and consolidated results of the Company operations of the year 2009 and cash flows of 2009.

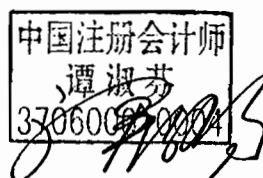
#### **Emphasized matters**

We remind the users of the financial statements that the Company's information shows that since the Company is incorporated and effective from January 1, 2006, some documents of the received and utilized the assets and liabilities are being processed, the detail list and other information can not be acquired, and the Company's investment to Linyi Runcheng Water Supply Project Company received by the shareholders can not yet been changed by the pertaining industrial and commercial registration; the land located in the middle of Linyi city Jiefang Rd

transferred from Linyi Water Treatment Company has reversed back as the original recorded value in the year of 2008 and offset the land amortization of for the year of 2006 and 2007 when the Company changed into joint venture.

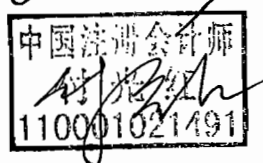
Beijing Yongtuo CPAs Co., Ltd

CPA



Shandong, China

CPA



January 16, 2010

**BALANCE SHEET**

As of December 31 2009

Enterprise name:Linyi Salcon Water Co.,Ltd.

Monetary unit:CNY

ITEM	Parent amount	Consolidated amount
<b>Current Assets</b>		
Cash On hand & at bank	27,846,743.36	30,929,453.84
Shor-term investment		
account receivable	1,310,899.13	2,155,601.73
dividend receivable		
Interest receivable		
Receivables under specific fund		
other account receivable	1,720,780.95	1,725,780.95
prepayments	595,066.36	705,422.52
Advances to suppliers		
Inventories	1,585,752.96	2,130,837.73
prepaid expense		
<b>Total Current Assets</b>	<b>33,059,242.76</b>	<b>37,647,096.77</b>
Longt-term investment	120,000.00	
<b>Total long-term investment</b>	<b>120,000.00</b>	
<b>Fixed Assets</b>		
Fixed assets-cost	120,276,818.42	121,175,044.41
Less: Accumulated Depreciation	17,898,924.56	18,101,141.39
Fixed assets-net Value	102,377,893.86	103,073,903.02
Fixed assets not value	102,377,893.86	103,073,903.02
Construction in progress	1,838,462.09	1,838,462.09
<b>Total Fixed Assets</b>	<b>104,216,355.95</b>	<b>104,912,365.11</b>
<b>Intangible Assets &amp; Other Assets</b>		
Intangible assets	40,739.25	40,739.25
long-term prepaid expenses		
Other long-term differed asset	14,001,632.80	14,001,632.80
expenses	14,042,372.05	14,042,372.05
<b>Total Assets</b>	<b>151,437,970.76</b>	<b>156,601,833.93</b>

**BALANCE SHEET**

As of December 31 2009

Enterprise name:Linyi Salcon Water Co.,Ltd.

Monetary unit:CNY

ITEM	Parent amount	Consolidated amount
<b>Current Liabilities</b>		
Accounts payable	1,551,911.07	4,299,490.49
Pre-received account	105,537.14	2,131,649.08
welfare expense payable		
Taxes payable	654,408.50	958,894.25
Other fund payable		
Others payables	6,148,559.54	5,133,863.12
withdraw in advance		
<b>Current Liabilities Total</b>	<b>8,460,416.25</b>	<b>12,523,896.94</b>
<b>Long-Term Liabilities</b>		
Long Term Loans	36,197,203.00	36,197,203.00
Long term payable	46,225,275.34	46,225,275.34
payables under specific fund		
<b>Long-Term Liabilities Total</b>	<b>82,422,478.34</b>	<b>82,422,478.34</b>
<b>Deferred taxes</b>		
Deferred taxes credits		
<b>Total liabilities</b>	<b>90,882,894.59</b>	<b>94,946,375.28</b>
<b>Owner' Equity</b>		
capital stock	59,999,964.00	59,999,964.00
Paid-in capital	59,999,964.00	59,999,964.00
capital surplus	-117,660.00	-117,660.00
surplus	67,277.22	166,466.35
Undistributed profits	605,494.95	1,606,688.30
<b>Total Owner' Equity</b>	<b>60,555,076.17</b>	<b>61,655,458.65</b>
<b>Total Liabilities &amp; Owner' Equity</b>	<b>151,437,970.76</b>	<b>156,601,833.93</b>



## INCOME STATEMENT

For the year of 2009

Enterprise name: Linyi Salcon Water Co., Ltd.

Monetary unit: CNY

ITEM	Parent amount	Consolidated amount
Income from main operation	30,974,617.59	45,591,400.31
less: Costs of main operation	22,322,099.57	34,969,480.85
less: main operation tax and additional expenses		491,309.48
<b>profits on sales</b>	<b>8,652,518.02</b>	<b>10,130,609.98</b>
Income from other operations	1,015,094.48	1,015,094.48
less: operating expense		
less: General and administrative expenses	8,284,342.63	8,987,764.81
less: Financial expenses	579,304.65	571,894.41
<b>Operating profit</b>	<b>803,965.22</b>	<b>1,586,045.24</b>
investment income	0.00	0.00
subsidies income		
Non-operating income	284.91	2,935.64
less: Non-operating expenses	98,976.15	102,976.15
<b>Total profit before tax</b>	<b>705,273.98</b>	<b>1,486,004.73</b>
less: Income tax		139,621.54
<b>Net profit</b>	<b>705,273.98</b>	<b>1,346,383.19</b>

## Cash Flows Statement

For the year of 2009

Enterprise name:Linyi Salcon Water Co.,Ltd.

Monetary unit:CNY

ITEM	Line	Parent amount	Consolidated amount
<b>Cash Flow From Operating Activities</b>			
cash received from sales of good&services	1	36,487,124.25	52,109,851.50
cash received from tax return	2		
cash received from other operating activities	3	475,096.39	482,216.36
<b>Sub-total of cash inflows</b>	4	36,962,220.64	52,592,067.86
cash paid for goods & services	5	18,503,910.08	27,533,930.73
cash paid to staff & paid on behalf of staff	6	11,492,619.71	14,495,881.63
taxes payment	7	3,090,758.63	3,951,147.55
Other cash paid relating to operating activities	8	2,391,907.49	2,847,770.87
<b>Sub-total of cash outflows</b>	9	35,479,195.91	48,828,730.78
<b>Net cash flows from operating activities</b>	10	1,483,024.73	3,763,337.07
<b>Cash Flow From Investing Activities</b>			
Proceed from disposal of assets.intangible assets and other long-term assets	11		
cash received from investment income	12		
net cash received from disposal of fixed assets,intangible assets and other long-term assets	13	46,000.00	52,862.00
cash received from other investing activities	14		
<b>Sub-total of cash inflows</b>		46,000.00	52,862.00
cash paid to acquired fixed assets.intangible assets and other long-term assets	15	2,287,397.83	2,709,394.89
cash paid to invest	16		
cash paid to other activities relating to investment	17		
<b>Sub-total of cash outflows</b>	18	2,287,397.83	2,709,394.89
<b>Net cash flows from investing activities</b>	19	-2,241,397.83	-2,656,532.89
<b>Cash Flow From Financing Activities</b>			
CAsh Flow From drawing on capital	20		
CAsh Flow From borrowings	21		
cash received from other financialing activities	22		
<b>Sub-total of cash inflows</b>			
Loans payable	23		
cash payment of interest expenses and dividends	24	1,051,941.35	1,051,941.35
other cash payment relating to financial activities	25		
<b>Sub-total of cash outflows</b>	26	1,051,941.35	1,051,941.35
<b>Net cash flows from financing activities</b>	27	-1,051,941.35	-1,051,941.35
effect of foreign exchange rate changes on cash	28		
<b>Net increase in Cash &amp; Cash Equivalent</b>	29	-1,810,314.45	54,862.83

## Cash Flows Statement

For the year of 2009

Enterprise name:Linyi Salcon Water Co.,Ltd.

Monetary unit:CNY

supplemental informations	Line	Parent amount	Consolidated amount
<b>Reconciliation of net profit to cash flows from operating activities</b>			
<b>Net profit</b>	30	705,273.98	1,346,383.19
add:provision for loss on realization of fixed assets	31		
depreciation of fixed assets	32	5,074,906.41	5,164,197.88
amortization of intangible assets	33	581,641.31	581,641.31
amortization of long-term prepaid expenses	34		
decrease of prepaid expenses(less:increase)	35		
increase of accrued expenses(less:decrease)	36		
losses on disposal of fixed assets,intangible assets and other long-term assets	37	98,976.15	92,114.15
loosese on scrapping of fixed assets	38		
financial expenses	39	1,051,941.35	1,051,941.35
losses on investments(less:gain)	40		
deferred tax credit(less:debit)	41		
decrease of inventories(less:increase)	42	-466,761.29	-971,781.90
decrease of operating receivables(less:increase)	43	-2,770,885.74	-3,658,407.92
increase of operating payables(less:decrease)	44	-2,792,067.44	157,249.01
others	45		
<b>Net cash flows from operating activities</b>	46	1,483,024.73	3,763,337.07
<b>other investment &amp;financial activities not relating to cash inflows/outflows</b>			
debit convert into capital	47		
convertible bond due in 1 year	48		
fixed assets under leasehold	49		
<b>Net Increase in Cash &amp; Cash Equivalentts</b>			
<b>cash at the end of the period</b>	50	27,846,743.36	30,929,453.84
<b>Less: cash at the beginning of the period</b>	51	29,657,057.81	30,874,591.01
<b>add:cash equivalentts at the end of periods</b>	52		
<b>less: cash equivalent at the beginning of the period</b>	53		
<b>Net Increase in Cash &amp; Cash Equivalentts</b>	54	-1,810,314.45	54,862.83

## Notes to the Financial Statements

### Part one

#### Main introduction of the company

Linyi Salcon Water Company Limited (hereafter as the company) was incorporated in Lanshan district, Linyi city, Shandong province, PRC on November 7, 2005. Its shareholders are Salcon Linyi (HK) Company Limited and Linyi Water Supply Company, and the equity proportion is 60% and 40% respectively. The register and paid-in capital is RMB60 million, the legal representative is Mr. How See Hock. Its main operation scope list as: construct and maintain water reticulation system, sale water made in accordance with the state drink water standard, serve the customers, install and maintain water pipeline.

Linyi Water Supply Equipment Installation Company changed its name to Linyi Runcheng Water Supply Project Company on April 22, 2008. Linyi Runcheng Water Supply Project Company is a wholly-owned subsidiary transferred from Linyi Water Supply Company in 2006, which was incorporated on July 3, 1993. Its address is Yimeng Road No.6-6, Lanshan District, the legal representative is LU Zhaozeng, the registered number is 371300018011977, and the registered capital is RMB120 thousand Yuan. Its main operation scope is: urban water supply pipelines, equipment, installation of water-saving appliances, water supply equipment maintenance. As of the December 31, 2009, the audit deadline, it has yet to apply for registration of equity changes.

### Part two

#### Principal accounting policies and accounting assessments

## **1 Basis of accounting**

The financial statements of the Group (consolidated its sole subsidiary) and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with Financial Reporting Standards (“FRSs”) issued by the Malaysian Accounting Standards Board (“MASB”), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965.

## **2 Basis of consolidation**

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

A subsidiary is excluded from consolidation when either control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the period are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group's financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate. Intra group transactions and balances and the resulting unrealized profits are eliminated on consolidation. Unrealized losses resulting from intra group transactions are also eliminated unless cost cannot be recovered.

## Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the total recognized gains and losses of associates on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealized profits arising on transactions between the Group and its associates who are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the Group's interests in the associates. Unrealized losses on such transactions are also eliminated partially unless cost cannot be recovered.

Goodwill on acquisition is calculated based on the fair value of net assets acquired.

### **3 Joint venture**

A joint venture is a contractual agreement whereby the Group and other parties have joint control over an economic activity.

In respect of its interest in jointly controlled entities, the Group uses the equity method to account for its interest.

Unrealized profits or losses arising from transactions between the Group and its joint venturers are recognized only to the extent of that portion of the gain or loss which is attributable to the interests of the other venturers. Unrealized losses are recognized in full when the transaction provides evidence of a reduction in the net realizable value of current assets or an impairment loss.

### **4 Property, plant and equipment**

#### (1) Owned assets:

Property, plant and equipment are stated at cost/valuation less accumulated depreciation.

The Group revalues its property comprising land and building every 5 years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Surpluses arising from revaluation are dealt with in the property revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a

previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment loss if any.

#### (2) Assets under hire purchase

Property, plant and equipment financed by hire purchase agreements are capitalized at cost. The interest element is charged to income statement over the period of the agreement and accounted for on a sum-of-digits method.

#### (3) Depreciation

Freehold land is not amortized. Leasehold properties are amortized in equal installments over the period of the respective leases which range from ten to ninety-nine years, while freehold buildings are depreciated on a straight line basis over 50 years. The straight line method is used to write off the cost of other assets over the term of their estimated useful lives at the following principal annual rates:

Categories	Useful year at least	Annual depreciation rate	Residual percent of book value	Remark
House and building	30	3.17%	5%	
Pipeline and water reticulation	30	3.17%	5%	
Equipment & machines	10	9.5%	5%	
Motor vehicle	8	11.88%	5%	
Office and electronic equipment	5-10	19%-9.5%	5%	

### 5 Investments

Long term investments other than in subsidiaries and associates, are stated at cost. An allowance is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

Long term investments in subsidiaries and associates are stated at cost in the Group

and in the Company, less impairment loss where applicable.

## **6 Intangible asset**

### **Goodwill**

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated amortization and accumulated impairment losses.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associates.

## **7 Inventories**

Inventories consist of spares and supplies, are stated at the lower of cost and net realizable value with weighted average cost being the main basis for cost. Cost is the aggregate cost of purchase and other costs incurred in bringing the inventories to their present location and condition.

## **8 Trade and other receivables**

Trade and other receivables are stated at cost less allowance for doubtful debts.

## **9 Amount due from contract customers**

Amount due from contract customers on construction contracts is stated at cost plus attributable profits less foreseeable losses and less progress billings. Cost includes all direct construction costs and other related costs. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is shown in trade and other payables as amount due to contract customers.

## **10 Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances and deposits with banks. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

## **11 Impairment**

The carrying amount of the Group's and of the Company's assets, other than inventories, assets arising from construction contracts and financial assets (other than investments in subsidiaries, associates and joint ventures), are reviewed at each



balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognized in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, 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 amortization, if no impairment loss had been recognized. The reversal is recognized in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

## **12 Liabilities**

Borrowings and trade and other payables are stated at cost.

## **13 Income tax**

Tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any

adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognized for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

#### **14 Foreign currency transactions**

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement.

#### **15 Revenue**

##### **(1) Good sold**

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

##### **(2) Construction contracts**

Revenue from fixed price construction contracts is recognized on the percentage of completion method, measured by reference to surveys of work performed.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that is probable will be recoverable and contract costs are recognized as an expense in the period in which they are incurred.

An expected loss on a contract is recognized immediately in the income statement.

**(3) Dividend income**

Dividend income is recognized when the right to receive payment is established.

**(4) Interest income**

Interest income is recognized in the income statement as it accrues, taking into account the effective yield on the assets.

**16 Financing costs**

Financing costs comprise interest payable on borrowings.

All interest and other costs incurred in connection with borrowings are expensed as incurred.

**17 Affiliated company**

An affiliated company is a company which has interest of not less than 20% but not more than 50% in the equity of the Company.

**Part three****Notes to the controlled subsidiary**

Enterprise	Legal representative	register capital	Paid-in capital	Operation scope	Investment amount	Equity proportion	
						directly	indirectly
Linyi Runcheng Water Supply Project Company	LU Zhaozeng	120 thousand	120 thousand	Urban water supply pipelines, equipment, installation of water-saving appliances, water supply equipment maintenance	120 thousand	100	

Note: Its financial statements are consolidated in 'the company's consolidated financial statements and listed in parent amount.

**Part Four****Notes to main accounts (Consolidated amounts)****1. Cash in hand and at bank**

Categories	2009-12-31	2008-12-31
Cash in hand	1,740.55	1,394.40
Cash at bank	30,927,713.29	30,873,196.61
Total	30,929,453.84	30,874,591.01

## 2. Inventories

Categories	2009-12-31	2008-12-31
Raw Materials	19,244,00.91	977,920.01
Consumable Assets	206,436.82	181,135.82
<b>Total</b>	<b>2,130,837.73</b>	<b>1,159,055.83</b>

## 3. Fixed assets and accumulated depreciations

## Fixed assets book value

Categories	2009-12-31	2008-12-31
House and buildings	48,055,054.96	47,952,731.73
Pipeline	53,596,317.48	48,894,495.63
E&M	17,037,713.86	15,960,765.61
Motor vehicle	1,562,119.34	1,605,367.38
Electronic equipment	923,838.77	822,751.77
<b>Total</b>	<b>121,175,044.41</b>	<b>115,236,112.12</b>

## Accumulated depreciations

Categories	2009-12-31	2008-12-31
House and buildings	6,039,968.12	4,460,077.22
Pipeline	5,757,312.45	4,180,232.16
E&M	5,532,002.98	3,859,250.78
Motor vehicle	397,148.14	383,615.65
Electronic equipment	374,709.70	221,433.06
<b>Total</b>	<b>18,101,141.39</b>	<b>13,104,608.88</b>
<b>Net book value</b>	<b>103,073,903.02</b>	<b>102,131,503.24</b>

## 4. Construction in progress

## APPENDIX IV

	2009-12-31	2008-12-31
Zhuqiu Rd Project	-	2,000.00
Nanfang Nondrinking Water Project	492,662.51	206,018.51
Mengshan Dadao Rd Shuhe Rriver Project	-	377,201.57
Beiyuan Rd Passing Rd Tube Project	-	58,850.58
Tools Factory Meters Reformation Project	-	110,200.67
Hongda Rd Tube Installation Project	-	94,575.77
Qijiazhuang Water Plant Project	-	12,070.00
Railway Station Tube Installation Project	-	46,883.17
Jucai Rd Tube Installation Project	2,304.00	
Jinyi Rd and Bayi Rd Water Supply Tube Project	-	
Haiguan Rd(Zhongqiu Rd-Zhuqiu RD) Tube Project	123,382.92	
the fire hydrant project	92,171.40	
Shuitian Rd Tube Installation Project	-	
Southern of the railway Tube Installation Project	-	
the fire hydrant regulation project	2,156.00	
BOP project	452,061.57	
Lanshan Rd Tube Project	85,145.39	
Shuhe, technology school bathroom	6,800.00	
No.2 Sunk Basin reformation Project	136,178.62	
Zhongqiu Rd Tube Project	1,022.00	
Qiyang Rd Tube Project	298,733.01	
Yizhou Rd North Part Supply and Sale School Project	3,817.75	
Tongda Rd Bridge Reformation Project	8,347.52	
Mengshan Dadao Rd and Shuitian Rd Project	-	
Fenghuang Cheng Tube Project	-	
Linxi Liu Lu Rd Sourthern Part Project	8,090.64	
Yimeng Rd DN400 Main Tube Project	85.88	
Lanshan Rd Eastern Part Tube Project	-	
No.1 Sunk Basin Project	14,260.00	
Jin Liu Rd Tube Project	111,242.88	
Total	1,838,462.09	907,800.27

## 5. Intangible assets

Categories	2009-12-31	2008-12-31
software	40,739.25	79,885.21
<b>Total</b>	<b>40,739.25</b>	<b>79,885.21</b>

## 6. Other long-term deferred asset

Categories	2009-12-31	2008-12-31
Charge of using land	14,001,632.80	14,058,340.15
<b>Total</b>	<b>14,001,632.80</b>	<b>14,058,340.15</b>

## 7. Tax payable

Categories	2009-12-31	2008-12-31
VAT payable	182,274.80	145,251.19
Business tax payable	248,166.68	781,281.51
Property tax payable	16,311.75	
Individual income tax	3,202.97	-13,543.70
City construction and main	20,319.39	13,236.03
Stamp Duty		9,708.87
Corporation income tax	98,113.62	143,270.62
Land-use tax	390,505.04	
<b>Total</b>	<b>958,894.25</b>	<b>1,079,204.52</b>

## 8. Paid-in capital

Investor	2009-12-31	Proportion of equity
Salcon Linyi (HK) Limited Company	35,999,964.00	60%
Linyi Water Supply Company	24,000,000.00	40%
<b>Total</b>	<b>59,999,964.00</b>	<b>100%</b>

**Notes to main accounts (Parent amount)****1. Cash in hand and at bank**

Categories	2009-12-31	2008-12-31
Cash in hand	1,546.37	1,252.15
Cash at bank	27,845,196.99	29,655,805.66
<b>Total</b>	<b>27,846,743.36</b>	<b>29,657,057.81</b>

**2. Inventories**

Categories	2009-12-31	2008-12-31
Raw Materials	1,429,141.30	977,920.01
Consumable assets	156,611.66	141,071.66
<b>Total</b>	<b>1,585,752.96</b>	<b>1,118,991.67</b>

**3. Fixed assets and accumulated depreciations**

Fixed assets book value

**Accumulated depreciations**

Categories	2008-12-31	Increase	Decrease	2009-12-31
House and buildings	4,460,077.22	1,579,890.90		6,039,968.12
Pipeline	4,192,166.67	1,556,920.14		5,749,086.81
E&M	3,792,090.13	1,654,163.95	4,191.68	5,442,062.40
Motor vehicle	253,780.36	147,511.80	54,885.71	346,406.45
Electronic equipment	184,981.15	136,419.62		321,400.77
<b>Total</b>	<b>12,883,095.54</b>	<b>5,074,906.41</b>	<b>59,077.39</b>	<b>17,898,924.56</b>
Net book value	101,767,718.49			102,377,893.86

**4. Construction in progress**

## APPENDIX IV

	2008-12-31	Increase	Decrease	2009-12-31
Zhuqiu Rd Project	2,000.00	88,981.90	90,981.90	-
Nanfang Nondrinking Water Project	206,018.51	286,644.00	-	492,662.51
Mengshan Dadao Rd Shuhe Rriver Project	373,082.57	-	373,082.57	-
Beiyuan Rd Passing Rd Tube Project	59,238.74	-	59,238.74	-
Tools Factory Meters Reformation Project	110,200.67	-	110,200.67	-
Hongda Rd Tube Installation Project	94,575.77	-	94,575.77	-
Qijiazhuang Water Plant Project	12,070.00	-	12,070.00	-
Railway Station Tube Installation Project	46,883.17	2,004.55	48,887.72	-
Jucai Rd Tube Installation Project		2,304.00	-	2,304.00
Jinyi Rd and Bayi Rd Water Supply Tube Project		47,433.12	47,433.12	-
Haiguan Rd(Zhongqiu Rd-Zhuqiu RD) Tube Project		128,256.41	4,873.49	123,382.92
the fire hydrant project		92,171.40	-	92,171.40
Shuitian Rd Tube Installation Project		401,991.76	401,991.76	-
Southern of the railway Tube Installation Project		370,160.95	370,160.95	-
the fire hydrant regulation project		2,156.00	-	2,156.00
BOP project		2,209,634.91	1,757,573.34	452,061.57
Lanshan Rd Tube Project		85,145.39	-	85,145.39
Shuhe, technology school bathroom		6,800.00	-	6,800.00
No.2 Sunk Basin reformation Project		574,689.15	438,510.53	136,178.62
Zhongqiu Rd Tube Project		1,022.00	-	1,022.00
Qiyang Rd Tube Project		298,733.01	-	298,733.01
Yizhou Rd North Part Supply and Sale School Project		431,871.30	428,053.55	3,817.75
Tongda Rd Bridge Reformation Project		8,347.52	-	8,347.52
Mengshan Dadao Rd and Shuitian Rd Project		3,379.42	3,379.42	-
Fenghuang Cheng Tube Project		112,160.02	112,160.02	-
Linxi Liu Lu Rd Sourthern Part Project		8,090.64	-	8,090.64
Yimeng Rd DN400 Main Tube Project		85.88	-	85.88
Lanshan Rd Eastern Part Tube Project		17,529.72	17,529.72	-
No.1 Sunk Basin Project		14,260.00	-	14,260.00
Jin Liu Rd Tube Project		111,242.88	-	111,242.88
<b>Total</b>	<b>904,069.43</b>	<b>5,305,095.93</b>	<b>4,370,703.27</b>	<b>1,838,462.09</b>



**5. Intangible assets**

Categories	2009-12-31	2008-12-31
software	40,739.25	79,885.21
<b>Total</b>	<b>40,739.25</b>	<b>79,885.21</b>

**6. Other long-term deferred asset**

Categories	2009-12-31	2008-12-31
Charge of using land	14,001,632.80	14,058,340.15
<b>Total</b>	<b>14,001,632.80</b>	<b>14,058,340.15</b>

**7. Tax payable**

	2008-12-31	Increase	Decrease	2009-12-31
VAT	145,251.19	1,963,578.82	1,926,692.46	182,137.55
Sales taxes	592,194.97	159,856.15	688,605.61	63,445.51
Property Taxes	-	91,596.48	75,284.73	16,311.75
Stamp Duty	9,708.87		9,708.87	-
Individual Income Tax	-15,980.87	57,303.16	39,313.64	2,008.65
Land use Tax		732,268.16	341,763.12	
<b>Total</b>	<b>731,174.16</b>	<b>3,004,602.77</b>	<b>3,081,368.43</b>	<b>654,408.50</b>

**8. Paid-in capital**

Investor	2008-12-31	Proportion	Increase	2009-12-31	Proportion of equity
Salcon Linyi (HK) Limited Company	35,999,964.00			35,999,964.00	60%
Linyi Water Supply Company	24,000,000.00			24,000,000.00	40%
<b>Total</b>	<b>59,999,964.00</b>			<b>59,999,964.00</b>	<b>100%</b>

**Part five****Contingencies**

To the date of 31 December 2009, no such events are to be disclosed in the notes to the financial statements.

**Part six**

**Committed events**

To the date of 31 December 2009, no such committed events to be disclosed in the notes to the financial statements.

Linyi Salcon Water Company Limited

January 16, 2010

### 3.0 INFORMATION ON LINYI RUNCHENG WATER

#### 3.1 DATE AND PLACE OF INCORPORATION

Linyi Water Supply Equipment Installation Company was incorporated in Lanshan District, Linyi City, Shandong Province, PRC on 3 July 1993 and subsequently changed its name to Linyi Runcheng Water on 22 April 2008.

#### 3.2 BRIEF HISTORY AND BUSINESS

Linyi Runcheng Water's main operation scope is the installation of urban water supply pipelines and equipments, installation of water saving appliances, and maintenance of water supply equipments. Linyi Runcheng Water had since July 1993 started its business/operations. The principal market of Linyi Runcheng Water is Linyi City, Shandong Province, China and its customers are similar to Linyi Water since Linyi Runcheng Water installs pipelines for Linyi Water's customers.

##### 3.2.1 Annual production capacity and production output

There is no annual production capacity and production output as the principal activity of Linyi Runcheng Water revolves around the business of installing urban water supply pipelines, equipments, water saving appliances and maintaining water supply pipelines.

##### 3.2.2 Details of assets owned

As at 31 December 2009, Linyi Runcheng Water does not have any major assets due to the nature of its principal activities.

### 3.3 REGISTERED AND PAID-IN CAPITAL

The registered and paid-in capital of Linyi Runcheng Water is RMB120,000 as at 10 December 2010.

### 3.4 SUBSTANTIAL SHAREHOLDERS

Linyi Runcheng Water is a wholly-owned subsidiary of Linyi Water (a company incorporated in PRC).

### 3.5 LEGAL REPRESENTATIVE

The particulars of the legal representative of Linyi Runcheng Water as at 10 December 2010 are as follows:

Name	Designation	Nationality
Xu Li Hua	Legal representative <sup>(1)</sup>	Chinese

*Note:*

(1) *The consideration paid by Linyi for the concessions are for both Linyi Water and Linyi Runcheng Water as agreed with the Linyi City Government during the takeover of Linyi Water and Linyi Runcheng Water. However, as at to-date, the Linyi City Government has yet to issue the amended legal ownership documents. As such, Linyi Runcheng Water does not have any Directors as the transfer of the legal ownership is still in the process as at to-date.*

The legal representative of Linyi Runcheng Water does not have any, direct or indirect, shareholdings in Linyi Runcheng Water.

**3.6 LIST OF SUBSIDIARY AND ASSOCIATED COMPANIES**

Linyi Runcheng Water does not have any subsidiary or associated companies.

**3.7 FINANCIAL INFORMATION**

There are no separate audited financial statements for Linyi Runcheng Water as its financial results for the past three (3) FYE 31 December 2009 have been consolidated into the financial results of Linyi Water.

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**1.0 INFORMATION ON ZHEJIANG****1.1 DATE AND PLACE OF INCORPORATION**

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

**1.2 BRIEF HISTORY AND BUSINESS**

Zhejiang is an investment holding company since incorporation whilst the principal activities of its subsidiary are as further detailed in Section 1.6 herein.

**1.3 SHARE CAPITAL**

Zhejiang's authorised and issued and paid-up share capital as at 10 December 2010 are as follows:

<b>Type</b>	<b>No. of share(s)</b>	<b>Par Value (HKD)</b>	<b>Total (HKD)</b>
<b>Authorised</b>			
Ordinary shares	10,000	1.00	10,000
<b>Issued and paid-up</b>			
Ordinary shares	1	1.00	1.00

For the purpose of the Proposed Internal Restructuring, the authorised share capital of Zhejiang will be increased to HKD300 million of HKD1.00 each. Upon completion of the Proposed Internal Restructuring, the issued and fully paid-up share capital of Zhejiang will increase to 61.83 million ordinary shares of HKD1.00 each.

**1.4 SUBSTANTIAL SHAREHOLDERS**

Zhejiang is a wholly-owned subsidiary of Salcon prior to the Proposed Internal Restructuring. Upon completion of the Proposed Internal Restructuring, the immediate and ultimate holding company of Zhejiang is Salcon Asia and Salcon respectively.

**1.5 DIRECTORS**

The particulars of the directors of Zhejiang as at 3 January 2011 are as follows:

<b>Name</b>	<b>Designation</b>	<b>Nationality</b>
Dato' Seri Goh Eng Toon	Director	Malaysian
Loh Boon Sue	Director	Malaysian

None of the directors of Zhejiang have any, direct or indirect, shareholdings in Zhejiang.

*[The rest of this page has been intentionally left blank]*

## 1.6 LIST OF SUBSIDIARY AND ASSOCIATED COMPANIES

Details of the subsidiary company of Zhejiang are as follows:

Subsidiary company	Date/Place of incorporation	Effective equity interest %	Registered capital USD	Principal activities
Haining Water	28 September 2006/ PRC	60	13,550,000	Management and operation of water production

Zhejiang does not have any associated companies.

## 1.7 DETAILS OF BUSINESS/ ASSETS OWNED

Save and except for the business and assets owned by its subsidiary, Zhejiang does not directly own any business/ assets.

## 1.8 FINANCIAL INFORMATION

### 1.8.1 Summary financial information

The summary financial information of Zhejiang based on the audited financial statements for the past three (3) FYE 31 December 2009 and the unaudited financial results for the nine (9) months FPE 30 September 2010 are summarised as follows:

	FYE 31 December 2007	FYE 31 December 2008	FYE 31 December 2009	9 months FPE 30 September 2010
	← Audited →			Unaudited
	HKD'000	HKD'000	HKD'000	HKD'000
Turnover	-	-	-	-
PBT/(LBT)	(37)	(58)	3,523	6,081
PAT/(LAT)	(37)	(58)	3,523	6,081
PATMI/(LATMI)	(37)	(58)	3,523	6,081
Gross EPS/(LPS) (HKD'000)	(37)	(58)	3,523	6,081
Net EPS/(LPS) (HKD'000)	(37)	(58)	3,523	6,081
Paid-up capital	1	1	1	1
Shareholders' funds	(79)	(137)	3,386	9,466
NA/(NL)	(79)	(137)	3,386	9,466
NA/(NL) per share (HKD'000)	(79)	(137)	3,386	9,466
Current ratio (times)	0.0009	0.0009	0.0008	0.10
Total borrowings (all interest-bearing debts)	-	-	-	-
Gearing ratio (times)	-	-	-	-

**1.8.2 Commentary on past performance**

Zhejiang is an investment holding company and has been recording losses since incorporation till FYE 31 December 2008 due to administrative and operating expenses incurred such as legal and professional fees, audit and other statutory fees. However, Zhejiang has since recorded profits for the FYE 31 December 2009 and nine (9) months FPE 30 September 2010 mainly from the dividend received from its 60%-owned subsidiary, Haining Water whereby Phase I of Haining Water's concession was already operational in the said financial year/period.

**1.8.3 Accounting policies adopted**

There are no specific accounting policies adopted which are peculiar to Zhejiang because of the nature of Zhejiang's business and/or the industry it is involved in.

**1.8.4 Audit qualification**

The financial results of Zhejiang for the past three (3) FYE 31 December 2009 were subject to an audit qualification. The basis for the audit qualification was due to a non-compliance with Section 124 of the Hong Kong Companies Ordinance and Hong Kong Accounting Standard 27 – "Consolidated and Separate Financial Statements" whereby there is a requirement to consolidate the accounts of Zhejiang with its subsidiary. The non-compliance is only in regard to the fact that no consolidated financial statements had been prepared to include the results of its subsidiary. Nevertheless, the auditors are of the opinion (except for the audit qualification) that the financial statements give a true and fair view of the state of affairs of Zhejiang and that it has been prepared in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Companies Ordinance.

In Malaysia, paragraph 10(a) of the FRS 127 – Consolidated and Separate Financial Statements exempts a parent from presenting consolidated financial statements of which the parent is itself a wholly-owned subsidiary. As such, no consolidated financial statements have been prepared by Zhejiang for the past three (3) FYE 31 December 2009 to include the results of its subsidiaries. The financial statements of Zhejiang for the FYE 31 December 2010 will not be prepared on a consolidated basis based on the reason mentioned above.

**1.8.5 Audited financial statements of Zhejiang for the FYE 31 December 2009**

The audited financial statements of Zhejiang for the FYE 31 December 2009 are reproduced in the ensuing pages.

(Please take note that the paging and/or reference made in the Independent Auditors' Report is made in relation to the paging and reference as contained in the audited financial statements of Zhejiang for the FYE 31 December 2009.)

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**SALCON ZHEJIANG (HK) LIMITED**  
**REPORT OF THE DIRECTORS**  
**AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**



**國 衛 會 計 師 事 務 所**  
**Hodgson Impey Cheng**

Chartered Accountants  
Certified Public Accountants



**REPORT OF THE DIRECTORS**

The directors present their report together with the audited financial statements of Salcon Zhejiang (HK) Limited (hereinafter referred to as the "Company") for the year ended 31 December 2009.

**Principal activity**

The principal activity of the Company is investment holding. The principal activity of the subsidiary of the Company is set out in Note 9 to the financial statements.

**Financial statements**

The results of the Company for the year are set out in the statement of comprehensive income on Page 5.

The state of affairs of the Company as at 31 December 2009 is set out in the statement of financial position on Page 6.

The cash flow of the Company for the year is set out in the statement of cash flows on Page 8.

**Dividends**

The directors do not recommend a payment of dividend nor transfer of any amount to reserves for the year (2008: Nil).

**Share capital**

There were no movements in either the Company's registered or issued share capital during the year (2008: Nil).

**Reserves**

Details of the movements in reserves of the Company during the year are set out in the statement of changes in equity on Page 7.

**Directors**

The directors in office during the year and up to the date of this report are:

Mr. Goh Eng Toon  
Mr. How See Hock  
Mr. Loh Boon Sue

In accordance with Article 79 of the Company's Articles of Association, all directors in office at the end of the year retire and, being eligible, offer themselves for re-election.

**REPORT OF THE DIRECTORS (CONTINUED)****Directors' interests in contracts**

The directors' interests in contracts are set out in Notes 10 and 13 to the financial statements. Apart from the foregoing, no contracts of significance in relation to the Company's business to which the Company, its ultimate holding company, its subsidiary or any of its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

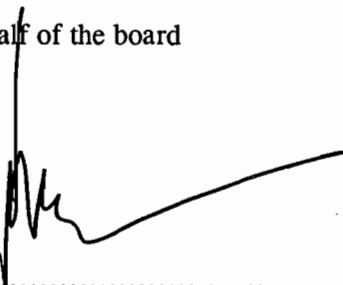
**Directors' rights to acquire shares or debentures**

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

**Auditors**

Messrs HLB Hodgson Impey Cheng retire and, being eligible, offer themselves for re-appointment.

On behalf of the board



.....

Director

Hong Kong, 8 March 2010

.....



Chartered Accountants  
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDER OF  
SALCON ZHEJIANG (HK) LIMITED**

3

(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Salcon Zhejiang (HK) Limited (the "Company") set out on pages 5 to 25, which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion 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. Except as described in the basis for qualified opinion paragraph, 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 as to 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 the true 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 the directors, as well as evaluating the overall presentation of the financial statements.

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

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Chartered Accountants  
Certified Public Accountants



**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDER OF  
SALCON ZHEJIANG (HK) LIMITED (CONTINUED)** \_\_\_\_\_ 4  
(incorporated in Hong Kong with limited liability)

**Basis for qualified opinion**

Included in the statement of financial position as at 31 December 2009 is the investment cost of a subsidiary of HK\$71,259,817. As stated in Note 3 in the financial statements, consolidated financial statements have not been prepared to include the results 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" issued by the Hong Kong Institute of Certified Public Accountants. The non-consolidation of this subsidiary would affect the net assets of the Company as at 31 December 2009, its profit for the year then ended, and the related disclosures in the financial statements. It is not practicable to quantify the effects of this non-compliance.

**Qualified opinion arising from disagreement about accounting treatment**

In our opinion, except for the effect on the financial statements of the disagreement in accounting treatment described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2009 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Chartered Accountants  
Certified Public Accountants

Hong Kong, 8 March 2010  
.....

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SALCON ZHEJIANG (HK) LIMITED \_\_\_\_\_ 5

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2009 (in HK Dollars)	Notes	2009	2008
<b>Turnover</b>		-	-
<b>Other revenue</b>	6	3,700,391	299
<b>Administrative and operating expenses</b>		<u>(177,817)</u>	<u>(58,333)</u>
<b>Profit/(loss) before taxation</b>	7	3,522,574	(58,034)
<b>Taxation</b>	8	<u>-</u>	<u>-</u>
<b>Profit/(loss) for the year</b>		3,522,574	(58,034)
<b>Other comprehensive income for the year</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive income/(loss) for the year</b>		<u>3,522,574</u>	<u>(58,034)</u>
<b>Profit/(loss) attributable to equity holder of the Company</b>		<u>3,522,574</u>	<u>(58,034)</u>
<b>Total comprehensive income/(loss) attributable to equity holder of the Company</b>		<u>3,522,574</u>	<u>(58,034)</u>

All of the Company's operations are classed as continuing.


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

SALCON ZHEJIANG (HK) LIMITED \_\_\_\_\_ 6

**STATEMENT OF FINANCIAL POSITION**

At 31 December 2009 (in HK Dollars)	Notes	2009	2008
<b>Non-current asset</b>			
Investment in a subsidiary	9	71,259,817	62,702,328
<b>Current asset</b>			
Cash and bank balances		54,969	55,780
<b>Less: Current liabilities</b>			
Accruals		19,500	19,500
Amount due to an ultimate holding company	10	54,523,999	54,489,547
Amounts due to fellow subsidiaries	10	13,385,732	8,386,080
		67,929,231	62,895,127
<b>Net current liabilities</b>		<b>(67,874,262)</b>	<b>(62,839,347)</b>
<b>Total assets less current liabilities</b>		<b>3,385,555</b>	<b>(137,019)</b>
<b>Capital and reserve attributable to equity holder of the Company</b>			
Share capital	11	1	1
Retained profit/(accumulated losses)	12	3,385,554	(137,020)
<b>Total equity</b>		<b>3,385,555</b>	<b>(137,019)</b>

Approved by the board of directors on 8 March 2010

 )  
 ..... )  
 ..... ) Directors  
 ..... )  
 ..... )

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

SALCON ZHEJIANG (HK) LIMITED \_\_\_\_\_ 7

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2009 (in HK Dollars)

	<u>Share capital</u>	<u>Retained profit/ (accumulated losses)</u>	<u>Total</u>
At 1 January 2008	1	(78,986)	(78,985)
Loss for the year	-	(58,034)	(58,034)
At 31 December 2008 and 1 January 2009	1	(137,020)	(137,019)
Profit for the year	-	3,522,574	3,522,574
<b>At 31 December 2009</b>	<b>1</b>	<b>3,385,554</b>	<b>3,385,555</b>

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

SALCON ZHEJIANG (HK) LIMITED \_\_\_\_\_ 8

**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2009 (in HK Dollars)	2009	2008
<b>OPERATING ACTIVITIES</b>		
Profit/(loss) before taxation	3,522,574	(58,034)
Adjustments for:		
Dividend income	(3,700,382)	-
Bank interest income	(9)	(299)
Operating loss before working capital changes	(177,817)	(58,333)
Increase in accruals	-	4,800
Increase/(decrease) in amount due to ultimate holding company	34,452	(14,502)
Increase in amounts due to fellow subsidiaries	4,999,652	67,403
<b>Net cash generated from/(used in) operating activities</b>	<b>4,856,287</b>	<b>(632)</b>
<b>INVESTING ACTIVITIES</b>		
Dividend received	3,700,382	-
Investment in a subsidiary	(8,557,489)	-
<b>Net cash used in investing activities</b>	<b>(4,857,107)</b>	<b>-</b>
<b>FINANCING ACTIVITY</b>		
Bank interest income	9	299
<b>Net cash generated from financing activity</b>	<b>9</b>	<b>299</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(811)</b>	<b>(333)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>55,780</b>	<b>56,113</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>54,969</b>	<b>55,780</b>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	54,969	55,780

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



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2009 (in HK Dollars)

**1. GENERAL**

The Company is incorporated in Hong Kong as an exempted company with limited liability. The registered office of the Company is located at 31/F, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activity of its subsidiary is management and operation of water production and distribution of water in Zhejiang City, Weifang Municipality, Shandong Province, the People's Republic of China ("the PRC").

The directors of the Company consider that its ultimate holding company is Salcon Berhad, a company incorporated in Malaysia and its shares are listed on Bursa Malaysia Securities Berhad.

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")**

In the current year, the Company has applied, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2009. A summary of the new HKFRSs are set out as below:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment - Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)**

HKAS 1 (Revised) “Presentation of Financial Statements” has introduced a number of terminology changes, including revised titles for the financial statements, and has resulted in a number of changes in presentation and disclosure.

Except for HKAS 1 (Revised) as disclosed above, the directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Company.

The Company has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 <sup>2</sup>
HKFRS (Amendments)	Improvements to HKFRSs issued in 2009 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>6</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>4</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>2</sup>
HKFRS 1 (Revised)	Additional Exemptions for First-time Adopters <sup>3</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>3</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets) <sup>7</sup>
HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement <sup>6</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>2</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013

The Company is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that these new and revised HKFRSs are unlikely to have a significant impact on the Company’s results of operations and financial position.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with HKFRSs (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance except for the non-compliance with Section 124 of the Hong Kong Companies Ordinance and HKAS 27 “Consolidated and Separate Financial Statements” relating to preparation of consolidated financial statements for the Company and its subsidiary.

The preparation of financial statements in conformity with HKFRSs requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

A summary of significant accounting policies followed by the Company in the preparation of the financial statements is set out below:

**(a) Basis of preparation**

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

The financial statements have been prepared on a going concern basis. The Company had net current liabilities of \$67,874,262 (2008: \$62,839,347) as at 31 December 2009 and its continuance in business as a going concern is dependent upon the continuing financial support from its ultimate holding company. The financial statements have been prepared on a going concern basis as the ultimate holding company has confirmed to provide continuing financial support to the Company to enable it to continue as a going concern and to settle its liabilities as and when they fall due.

**(b) Co-operative joint ventures**

Co-operative joint ventures represent Sino-foreign joint ventures registered in the PRC in respect of which the venturers’ profit-sharing ratios and share of entitlements to net assets upon the expiration of the joint ventures periods may not be the same as their capital contribution ratios but are as defined in the respective joint ventures agreement.

A co-operative joint venture is accounted for as a subsidiary when the Company can exercise unilateral control over the co-operative joint venture. Otherwise the co-operative joint venture is accounted for as a joint venture or an associate, depending on whether the Company is able to exercise a joint control or simply a significant influence over the co-operative joint venture respectively.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Subsidiary**

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefit from its activities. Investment in subsidiary is stated at cost less any impairment losses. The result of the subsidiary is accounted for by the Company on the basis of dividends received and receivable.

The registered office of the Company's ultimate holding company, Salcon Berhad, which will publish consolidated financial statements is located at 15/F., Menara Summit, Persiaran Kewajipan, USJ 1 47600 UEP Subang Jaya, Selangor Darul Ehsan, Malaysia.

**(d) Turnover**

There was no turnover during the year.

**(e) Foreign currencies**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"), the financial statements are presented in Hong Kong Dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the date of the reporting period are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the statement of comprehensive income.

**(f) Revenue recognition**

Interest income is recognised on a time-apportioned basis on the principal outstanding and at the rate applicable.

**(g) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) Taxation (continued)**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference arises from goodwill (or negative goodwill) or from the initial recognition that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the date of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**(h) Provisions**

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the date of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value at the date of the reporting period of the expenditures expected to be required to settle the obligation.

**(i) Financial instruments**

Financial assets and financial liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statement of comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in US Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Financial instruments (continued)***Financial assets*

The Company's major financial assets are cash and bank balances which fall within the category of loans and receivables and the accounting policies adopted are set out below:

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss, of which interest income is included in net gains or losses.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the date of each reporting period subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

*Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the date of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- (i) significant financial difficulty of the issuer or counterparty; or

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in US Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Financial instruments (continued)***Financial assets (continued)**Impairment of financial assets (continued)*

- (ii) default or delinquency in interest or principal payments; or
- (iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2009 (in US Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Financial instruments (continued)***Financial liabilities and equity*

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at fair value through profit or loss, of which the interest expense is included in net gains or losses.

*Financial liabilities*

The Company's financial liabilities including accruals, amount due to ultimate holding company and amounts due to fellow subsidiaries are initially measured at fair value and subsequently at amortised cost using effective interest method.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the statement of comprehensive income.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the statement of comprehensive income.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in US Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and on hand, demand deposits and short term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

**(k) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**(l) Related party transactions**

A party is considered to be related to the Company if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) control, is controlled by, or is under common control with, the Company; (ii) has an interest in the Company that gives it significant influence over the Company; or (iii) has joint control over the Company;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Company or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(l) Related party transactions (continued)**

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Company, or of any entity that is a related party of the Company.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**4. FINANCIAL INSTRUMENTS****4.1 Categories of financial instruments**

	<u>2009</u>	<u>2008</u>
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	54,969	55,780
<b>Financial liabilities</b>		
Amortised cost	67,929,231	62,895,127

**4.2 Financial risk management objectives and policies**

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and foreign exchange risk), credit risk and liquidity risk. The management reviews and agrees policies for managing each of the risks and they are summarised below.

Market risk

The Company's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

There has been no change to the Company's exposure to market risk or the manner in which it manages and measures the risk.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**4. FINANCIAL INSTRUMENTS (CONTINUED)****4.2 Financial risk management objectives and policies (continued)**Market risk (continued)*Interest rate risk management*

The Company has no borrowings at variable interest rate and at fixed rate that expose the Company to cash flow interest rate risk and fair value interest rate risk respectively.

*Foreign exchange risk management*

The Company has transactional currency exposures. Such exposures arise from transactions with ultimate holding company and fellow subsidiaries of the Company in currencies other than the Company's functional currency. The transactions with ultimate holding company and fellow subsidiaries are denominated in Ringgit Malaysia ("RM") and United States dollars ("USD") whilst almost all of costs are denominated in the Company's functional currency.

The carrying amounts of the Company's foreign currency denominated monetary liabilities at the date of the reporting period are as follows:-

	<b>Liabilities</b>	
	2009	2008
RM	8,365,441	8,264,825
USD	59,383,431	54,489,547

*Sensitivity analysis on foreign exchange risk management*

The Company is mainly exposed to the effects of fluctuation in RM and USD.

The following table details the Company sensitivity to a 5% increase and decrease in the Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where the Hong Kong dollars weaken 5% against the relevant currency. For a 5% strengthening of the Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**4. FINANCIAL INSTRUMENTS (CONTINUED)****4.2 Financial risk management objectives and policies (continued)***Foreign exchange risk management (continued)*

	<b>Impact of RM</b>		<b>Impact of USD</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Profit or loss (Note)	<b>418,272</b>	413,241	<b>2,969,172</b>	2,724,477

Note:

This is mainly attributable to the exposure outstanding on the payables at the year end.

The Company sensitivity to foreign exchange had increased during the current year mainly due to the increase in amounts due to ultimate holding company and fellow subsidiaries during the year.

Credit risk

The Company has no significant concentrations of credit risk.

Liquidity risk

Advances from ultimate holding company and fellow subsidiaries are the general source of funds to finance the operation of the Company. The Company regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following table details the Company's remaining contractual maturity for its financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial liabilities, the table reflects the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**4. FINANCIAL INSTRUMENTS (CONTINUED)****4.2 Financial risk management objectives and policies (continued)**

	Within 1 year HK\$	Over 1 year HK\$	Total undiscounted cash flows HK\$	Total carrying amount HK\$
<b>At 31 December 2009</b>				
<b>Non-derivative financial liabilities</b>				
Accruals	(19,500)	-	(19,500)	(19,500)
Amount due to ultimate holding company	(54,523,999)	-	(54,523,999)	(54,523,999)
Amounts due to fellow subsidiaries	(13,385,732)	-	(13,385,732)	(13,385,732)
	<b>(67,929,231)</b>	<b>-</b>	<b>(67,929,231)</b>	<b>(67,929,231)</b>
<b>At 31 December 2008</b>				
<b>Non-derivative financial liabilities</b>				
Accruals	(19,500)	-	(19,500)	(19,500)
Amount due to ultimate holding company	(54,489,547)	-	(54,489,547)	(54,489,547)
Amounts due to fellow subsidiaries	(8,386,080)	-	(8,386,080)	(8,386,080)
	<b>(62,895,127)</b>	<b>-</b>	<b>(62,895,127)</b>	<b>(62,895,127)</b>

**Fair value of financial instruments**

The fair value of financial assets and financial liabilities are determined as follows:

- (i) the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and trade on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- (ii) the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance in generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

Estimates and judgments 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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There were no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**6. OTHER REVENUE**

	<u>2009</u>	<u>2008</u>
Bank interest income	9	299
Dividend income	<u>3,700,382</u>	-
	<u>3,700,391</u>	<u>299</u>

**7. PROFIT/(LOSS) FROM OPERATIONS**

	<u>2009</u>	<u>2008</u>
Profit/(loss) from operations is stated at after charging:		
Auditors' remuneration	15,500	15,500
Directors' remuneration		
- fees	-	-
- other emoluments	-	-
Exchange loss	<u>137,832</u>	<u>8,296</u>

**8. TAXATION**Current taxation

No provision for Hong Kong profits tax has been made as the Company has no assessable profits for the year (2008: Nil).

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**8. TAXATION (CONTINUED)**Current taxation (continued)

The tax effect for the year can be reconciled to profit/(loss) before taxation per the statement of comprehensive income as follows:

	<u>2009</u>		<u>2008</u>	
Profit/(loss) before taxation	3,522,574		(58,034)	
Tax at Hong Kong profits tax rate of 16.5% (2008: 16.5%)	581,225	16.5%	(9,575)	(16.5%)
Tax effect of income not subject to tax and expenses not deductible for tax	(581,225)	(16.5%)	9,575	16.5%
Tax effect for the year	-	-	-	-

Deferred taxation

No provision for deferred taxation has been made as the Company had no material temporary differences between the tax bases and carrying amounts of assets and liabilities in the financial statements.

**9. INVESTMENT IN A SUBSIDIARY**

	<u>2009</u>	<u>2008</u>
Unlisted shares, at cost	63,022,789	54,465,300
Cost directly attributable to investment	8,237,028	8,237,028
	<u>71,259,817</u>	<u>62,702,328</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**9. INVESTMENT IN A SUBSIDIARY (CONTINUED)**

At 31 December 2009, the Company had investment in the following subsidiary:-

<u>Name of subsidiary</u>	<u>Principal place of incorporation and operation</u>	<u>Principal activities</u>	<u>Registered capital</u>	<u>Percentage of interest held</u>
Haining Salcon Water Company Limited	The PRC	Management and operation of water production and distribution of water	US\$13,550,000	60% (direct)

Haining Salcon Water Company Limited ("Haining Salcon") was set up on 31 August 2006 as a co-operative joint venture company. The Company can exercise unilateral control over the co-operative joint venture company. On 9 June 2009, the Company further injected US\$1,104,000 (approximately HK\$8,557,489) into Haining Salcon.

**10. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES**

The amounts due to ultimate holding company/fellow subsidiaries are unsecured, interest-free and repayable on demand.

**11. SHARE CAPITAL**

	<u>2009</u>	<u>2008</u>
Authorised:		
10,000 ordinary shares of HK\$1 each	10,000	10,000
Issued and fully paid:		
1 ordinary share of HK\$1	1	1

**12. RETAINED EARNING/(ACCUMULATED LOSSES)**

At 1 January 2008	(78,986)
Loss for the year	(58,034)
At 31 December 2008 and 1 January 2009	(137,020)
Profit for the year	3,522,574
At 31 December 2009	3,385,554



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**13. MATERIAL RELATED PARTY TRANSACTIONS**

During the year ended 31 December 2009, no compensation of any kind was paid to the Company's directors who were key management personnel of the Company.

Saved as disclosed in Note 10 to the financial statements, there was no other material related party transaction during the year.

**14. CAPITAL RISK MANAGEMENT**

The Company's primary objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholder and benefits for other stakeholders.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes judgments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Company monitors its capital structure on the basis of gearing ratio which is calculated at total borrowings over total equity ratio. For this purpose the Company defines total borrowings which include interest-bearing, less cash and cash equivalents.

As the Company had no borrowing during the year, therefore no adjustment had been placed by the Company in order to maintain or adjust the capital structure.

There was no change in the Company's approach to capital management during the year.

**15. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 8 March 2010.

- End of Notes -

SALCON ZHEJIANG (HK) LIMITED \_\_\_\_\_ 26

**DETAILED STATEMENT OF COMPREHENSIVE INCOME**

(For Management Use Only)

For the year ended 31 December 2009 (in HK Dollars)	2009	2008
<b>Turnover</b>	-	-
<b>Other revenue</b>		
Bank interest income	9	299
Dividend income	3,700,382	-
	3,700,391	299
<b>Administrative and operating expenses</b>		
Audit fee	(15,500)	(15,500)
Bank charges	(480)	(457)
Business registration fee	(2,555)	(450)
Exchange loss	(137,832)	(8,296)
Legal and professional fees	(19,100)	(31,500)
Printing, postage and travelling	(2,350)	(2,130)
	(177,817)	(58,333)
<b>Profit/(loss) before taxation</b>	3,522,574	(58,034)
<b>Taxation</b>	-	-
<b>Profit/(loss) for the year</b>	3,522,574	(58,034)
<b>Other comprehensive income for the year</b>	-	-
<b>Total comprehensive income/(loss) for the year</b>	3,522,574	(58,034)

## 2.0 INFORMATION ON HAINING WATER

### 2.1 DATE AND PLACE OF INCORPORATION

Haining Water was incorporated in Haining County, Jiaxing City, Zhejiang Province, PRC on 28 September 2006.

### 2.2 BRIEF HISTORY AND BUSINESS

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. The investment of Zhejiang was USD6.75 million cash representing 60% of the total registered share capital of Haining Water. Subsequently, Zhejiang increased its investment in Haining Water to USD8.13 million (representing 60% of the total registered share capital of Haining Water). 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 China (“**Haining City Construction**”) of 30 years concession rights on a BOT basis to Haining Water 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 plant with each plant capacity of 150 MLD per day (total 300 MLD per day) have been fully completed and have commenced operations in November 2007 and June 2010 respectively. Both the Phase I and Phase II of the water plant are located on a total land size of 119,394 m<sup>2</sup> at East Shuangxi Bridge, Shuangxi Community, Haichang St, Haining.

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 China; and
  - (iii) Haining Water has priority for the newly built water supply facilities;
- (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 protect the completeness of the concession right; and
- (c) 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.

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 works is the initial advancement via equity injection made at the start of the joint venture by Haining City Water Investment Ltd. Group (in the form of assets and cash) and Zhejiang (in the form of cash). As for the project financing, Haining Water obtained loan from a financial institution whereby corporate guarantee has been extended by Salcon and Haining City Water Investment Ltd. Group.

### 2.2.1 Daily production capacity and production output

The daily production capacity and production output of Haining Water for the past three (3) FYE 31 December 2009 are as follows:

<b>FYE 31 December</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Production/Designed capacity (mld)	150.0	150.0	150.0
Production output (mld)	68.6	114.3	125.0

The principal market of Haining Water for the supply of water is Haining County, Zhejiang Province, China.

### 2.2.2 Details of assets owned

The net book values of the major assets owned by Haining Water based on the audited financial statements of Haining Water as at 31 December 2009 are as follows:

<b>Details</b>	<b>NBV as at 31 December 2009</b>
	<b>RMB</b>
House and buildings	102,829,784
Machinery and equipment	39,448,507
Motor vehicle	887,631
Electronic equipment	159,133

### 2.3 REGISTERED AND PAID-IN CAPITAL

The registered and paid-in capital of Haining Water is USD13,550,000 as at 10 December 2010.

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## 2.4 SUBSTANTIAL SHAREHOLDERS

The particulars of the substantial shareholders of Haining Water and their direct and indirect shareholdings in Haining Water as at 10 December 2010 are as follows:

Name	Nationality / Country of Incorporation	Shareholdings in Haining Water as at 10 December 2010			
		Direct		Indirect	
		USD	%	USD	%
Zhejiang	Hong Kong	8,130,000	60	-	-
Haining City Water Investment Group Company Limited	China	5,420,000	40	-	-
Salcon	Malaysia	-	-	8,130,000	60

## 2.5 DIRECTORS

The particulars of the directors of Haining Water as at 10 December 2010 are as follows:

Directors	Designation	Nationality
How See Hock	Director	Malaysian
Zhu Jian Qiang	Director	Chinese
Tey Thiam Huat	Director	Malaysian
Loh Boon Sue	Director	Malaysian
Zhang Song	Director	Chinese
Zhang Ming Lian	Director	Chinese
Yang Xi Fan	Director	Chinese

None of the directors of Haining Water have any, direct or indirect, shareholdings in Haining Water.

## 2.6 LIST OF SUBSIDIARY AND ASSOCIATED COMPANIES

Haining Water does not have any subsidiary or associated companies.

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## 2.7 FINANCIAL INFORMATION

### 2.7.1 Summary financial information

The summary financial information of Haining Water based on the audited financial statements for the past three (3) FYE 31 December 2009 and the unaudited financial results for the nine (9) months FPE 30 September 2010 are summarised as follows:

	FYE 31 December 2007	FYE 31 December 2008	FYE 31 December 2009	9 months FPE 30 September 2010
	← Audited →			Unaudited
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	13,945	44,125	46,431	42,316
PBT/(LBT)	(580)	7,427	12,163	13,140
PAT/(LAT)	(580)	7,427	12,163	13,140
PATMI/(LATMI)	(580)	7,427	12,163	13,140
Gross EPS/(LPS) (RMB)	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable
Net EPS/(LPS) (RMB)	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable
Paid-up capital (RMB'000)	92,745	92,745	105,314	105,314
Shareholders' funds	91,630	99,057	118,074	120,278
NA	91,630	99,057	118,074	120,278
NA per share (RMB)	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable	<sup>(1)</sup> Not applicable
Current ratio (times)	0.31	6.01	0.90	1.12
Total borrowings (all interest-bearing debts)	84,000	95,000	107,000	123,000
Gearing ratio (times)	0.92	0.96	0.91	1.02

Note:

(1) The paid-in capital of companies incorporated in China is not represented by number of shares.

### 2.7.2 Commentary on past performance

#### FYE 31 December 2007 ("FYE 2007")

In FYE 2007, Haining Water achieved revenue of RMB13.95 million, which was 38.89% higher than the annualised revenue of approximately RMB10.04 million for the FYE 31 December 2006. Haining Water recorded a lower LAT of RMB0.58 million for the FYE 2007 as compared with the annualised LAT of RMB2.16 million in the FPE 31 December 2006. The increase in the revenue and lower LAT was mainly due to the increase in the output of water supply.

#### FYE 31 December 2008 ("FYE 2008")

In FYE 2008, Haining Water achieved revenue of RMB44.13 million, which was approximately 216.34% higher than the revenue of RMB13.95 million recorded in FYE 2007. The improvement was mainly due to an increase in the output of water supply. In tandem with the increase in revenue, Haining Water registered a PAT of RMB7.43 million in FYE 2008 as compared to a LAT of RMB0.58 million for the FYE 2007.

**FYE 31 December 2009 (“FYE 2009”)**

In FYE 2009, Haining Water achieved revenue of RMB46.43 million, which was approximately 5.12% higher than the revenue of RMB44.13 million recorded in FYE 2008, as a result of the steady increase in the output of water supply. Haining Water registered a PAT of RMB12.16 million in FYE 2009 as compared with PAT of RMB7.43 million in FYE 2008 mainly due to cost efficiency achieved during the year.

**Nine (9) months period ended 30 September 2010 (“FPE Sept 2010”)**

In FPE Sept 2010, Haining Water achieved revenue of RMB42.32 million and PAT of RMB13.14 million. This represents an improvement of 21.61% and 37.45% respectively from the preceding year corresponding period where Haining Water recorded revenue of RMB34.80 million and PAT of RMB9.56 million. The improvement was mainly attributed to the higher output of water supply which has been steadily increasing over the past financial years under review.

**2.7.3 Accounting policies adopted**

There are no specific accounting policies adopted which are peculiar to Haining Water because of the nature of Haining Water’s business and/or the industry it is involved in.

**2.7.4 Audit qualification**

The financial results of Haining Water for the past three (3) FYE 31 December 2009 were not subject to any audit qualification.

**2.7.5 Audited financial statements of Haining Water for the FYE 31 December 2009**

The audited financial statements of Haining Water for the FYE 31 December 2009 are reproduced in the ensuing pages.

(Please take note that the paging and/or reference made in the Report of Auditors is made in relation to the paging and reference as contained in the audited financial statements of Haining Water for the FYE 31 December 2009.)

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**Report of Auditors**

**HAINING SALCON WATER COMPANY LIMITED**



## **Report of Auditors**

### **To the shareholders of Haining Salcon Water Company Limited,**

We have audited the accompanying financial statements of Haining Salcon Water Company Limited (the “Company”), including the balance sheet as of December 31, 2009 and the related statements of income, cash flow statements for the years ended at 2009 and notes to the financial statement.

### **Management’s responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these with Financial Reporting Standards (“FRSs”) issued by the Malaysian Accounting Standards Board (“MASB”), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor’s responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor’s 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 auditor considers 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.

#### Auditor's opinion

In our opinion, the accompanying financial statements are properly drawn up in accordance with Financial Reporting Standards ("FRSs") issued by the Malaysian Accounting Standards Board ("MASB"), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965, so as to give a true and fair view of the state of affairs of the "Company" at December 31, 2009 and the results of the company operations of the year 2009 and cash flows of 2009.

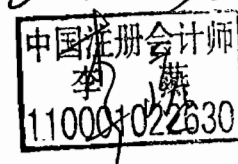
Beijing Yongtuo CPAs Co., Ltd

CPA



Shandong, China

CPA



January 10, 2010

**Balance Sheet**  
As of December 31 2009

Enterprise:Haining Salcon Water CO., LTD		Monetary Unit:CNY
Item	B/F	C/F
<b>Current Assets</b>		
Cash On hand & at bank	10,033,541.26	46,769,719.15
Account receivable	4,554,221.95	4,387,239.65
Other account receivable	4,467,537.96	184,692.39
Prepayments	167,089.55	4,359,916.40
Inventories	3,252,135.83	2,417,661.77
Prepaid expense	-	-
<b>Total Current Assets</b>	<b>22,474,526.55</b>	<b>58,119,229.36</b>
<b>Fixed Assets</b>		
Fixed assets-cost	159,550,197.17	162,112,837.61
Less: Accumulated Depreciation	10,418,656.09	18,787,782.38
Fixed Assets-net Value	149,131,541.08	143,325,055.23
Construction in progress	1,335,647.20	30,601,491.37
<b>Total Fixed Assets</b>	<b>150,467,188.28</b>	<b>173,926,546.60</b>
<b>Intangible Assets &amp; Other Assets</b>		
Intangible assets	13,104.80	19,699.96
long-term prepaid expense		
other long-term assets	24,843,756.54	29,289,918.83
<b>Total intangible assets and long-term prepaid expenses</b>	<b>24,856,861.34</b>	<b>29,309,618.79</b>
<b>Total Assets</b>	<b>197,798,576.17</b>	<b>261,355,394.75</b>

**Balance Sheet**  
As of December 31 2009

Enterprise:Haining Salcon Water CO., LTD

Monetary Unit:CNY

Item	B/F	C/F
<b>Current Liabilities</b>		
Short-term loan	-	-
Accounts payable	1,627,517.01	2,802,943.55
Advanced received	-	-
Accrued payroll	100,000.00	-
Welfare expense payable	-	-
Taxes payable	519,255.72	227,558.50
Other payable		
Other accrued payable	1,494,867.09	33,250,643.70
Withdraw in advance	-	-
long-term liability due to in 1 year		28,000,000.00
other current liability		-
<b>Current Liabilities Total</b>	<b>3,741,639.82</b>	<b>64,281,145.75</b>
<b>Long-Term Liabilities</b>		
Long Term Loans	95,000,000.00	79,000,000.00
Long term payable	-	-
<b>Long-Term Liabilities Total</b>	<b>95,000,000.00</b>	<b>79,000,000.00</b>
<b>Deferred taxes</b>		
Deferred taxes credits		
<b>Total liabilities</b>	<b>98,741,639.82</b>	<b>143,281,145.75</b>
<b>Owner' Equity</b>		
Capital paid	92,745,428.09	105,314,130.21
Capital surplus	-	-
Surplus	631,150.82	1,847,467.62
Undistributed profits	5,680,357.44	10,912,651.17
<b>Total Owner' Equity</b>	<b>99,056,936.35</b>	<b>118,074,249.00</b>
<b>Total Liabilities &amp; Owner' Equity</b>	<b>197,798,576.17</b>	<b>261,355,394.75</b>

## Income Statement

For the year of 2009

Enterprise:Haining Salcon Water CO., LTD	Monetary Unit:CNY	
Item	Current year cumulative amount	Last year cumulative amount
Income from main operation	46,431,243.77	44,125,392.48
Less:Costs of main operation	23,589,071.50	24,633,946.60
Less:main operation tax and additional expenses	77,811.57	52,428.84
<b>Profits on sales</b>	<b>22,764,360.70</b>	<b>19,439,017.04</b>
Income from other operations	3,428.73	20,643.22
Less:operating expense		-
Less:General and administrative expenses	4,454,267.07	5,024,055.11
Less:Financial expenses	6,136,612.29	6,982,557.60
<b>Operating profit</b>	<b>12,176,910.07</b>	<b>7,453,047.55</b>
Investment income		-
Subsidies income	-	19,712.51
Non-operating income	30,432.15	1,000.00
Less:Non-operating expenses	44,174.25	46,818.85
<b>Total profit before tax</b>	<b>12,163,167.97</b>	<b>7,426,941.21</b>
Less:Income tax		-
<b>Net profit</b>	<b>12,163,167.97</b>	<b>7,426,941.21</b>

**Cash Flows Statement**

For the year of 2009

Enterprise:Haining Salcon Water CO., LTD

Monetary Unit:CNY

Item	Amount
<b>Cash Flow From Operating Activities</b>	
Cash received from sales of good&services	52,634,287.76
Cash received from tax return	-
Cash received from other operating activities	6,710,016.23
<b>Sub-total of cash inflows</b>	<b>59,344,303.99</b>
Cash paid for goods & services	15,574,142.71
Cash paid to staffs & paid on behalf of staff	4,871,879.33
Taxes payment	3,904,071.01
Other cash paid relating to operating activities	2,085,665.92
<b>Sub-total of cash outflows</b>	<b>26,435,758.97</b>
<b>Net cash flows from operating activities</b>	<b>32,908,545.02</b>
<b>Cash Flow From Investing Activities</b>	
Proceed from disposal of assets.intangible assets and other long-term assets	-
Cash received from investment income	-
Net cash received from disposal of fixed assets,intangible assets and other long-term assets	-
Cash received from other investing activities	-
<b>Sub-total of cash inflows</b>	<b>-</b>
Cash paid to acquired fixed assets.intangible assets and other long-term assets	39,742,219.84
Cash paid to invest	-
Cash paid to other activities relating to investment	-
<b>Sub-total of cash outflows</b>	<b>39,742,219.84</b>
<b>Net cash flows from investing activities</b>	<b>-39,742,219.84</b>
<b>Cash Flow From Financing Activities</b>	
Cash Flow From drawing on capital	12,568,702.12
Cash Flow From borrowings	60,000,000.00
Cash received from other financing activities	-
<b>Sub-total of cash inflows</b>	<b>72,568,702.12</b>
Loans payable	18,000,000.00
Cash payment of interest expenses and dividends	10,998,849.41
Other cash payment relating to financial activities	-
<b>Sub-total of cash outflows</b>	<b>28,998,849.41</b>
<b>Net cash flows from financing activities</b>	<b>43,569,852.71</b>
<b>Effect of foreign exchange rate changes on cash</b>	
<b>Net Increase in Cash &amp; Cash Equivalent</b>	<b>36,736,177.89</b>

## Cash Flows Statement

For the year of 2009

Enterprise:Haining Salcon Water CO., LTD

Monetary Unit:CNY

Supplemental informations	
<b>Reconciliation of net profit to cash flows from operating activities</b>	
<b>Net profit</b>	<b>12,163,167.97</b>
Add:provision for loss on realization of fixed assets	
Depreciation of fixed assets	8,369,126.29
Amortization of intangible assets	921,149.02
Amortization of long-term prepayed expenses	1,733,377.32
Decrease of prepayed expenses(less:increase)	131,699.95
Increase of accrued expenses(less:decrease)	-59,878.28
Losses on disposal of fixed assets,intangible assets and other long-term assets	-
Losese on scrapping of fixed assets	-
Financial expenses	5,284,291.97
Losses on investments(less:gain)	
Deferred tax credit(less:debit)	-
Decrease of inventories(less:increase)	-193,437.41
Decrease of operating receivables(less:increase)	125,301.07
Increase of operating payables(less:decrease)	4,433,747.12
Others	
<b>Net cash flows from operating activities</b>	<b>32,908,545.02</b>
<b>Other investment &amp;financial activities not relating to cash inflows/outflows</b>	
Debit convert into capital	-
Convertible bond due in 1 year	-
Fixed assets under leasehold	-
<b>Net Increase in Cash &amp; Cash Equivalentts</b>	
<b>Cash carry forward</b>	<b>46,769,719.15</b>
<b>Less: cash bring forward</b>	<b>10,033,541.26</b>
Add:cash equivalentts bring forward	-
Less: cash equivalent carry forward	-
<b>Net Increase in Cash &amp; Cash Equivalentts</b>	<b>36,736,177.89</b>

## Notes to the Financial Statements

### Part one

#### Main introduction of the company

Haining Salcon Water Company limited (hereafter as the company) was incorporated in Haining county, Jiaxing city, Zhejiang Province, P.R.C on September 28, 2006. It is a Sino-foreign contractual joint venture co invested by Salcon Zhejiang (HK) Limited and Haining City Water Investment Group Company Limited. The register capital is USD13.55 million and paid-in capital end at December 31, 2009 is USD 13.55 million, therein to, the paid-in capital of Salcon Zhejiang (HK) Limited is USD 8.13 million, and Haining City Water Investment Group Company Limited owns USD 5.42 million, the equity proportion is 60% and 40% respective. The company's legal representative is Mr. How See Hock. Its main operation scope list as: construct and maintain water reticulation system, municipal water supply.

### Part two

#### Principal accounting policies and accounting assessments

##### 1 Basis of accounting

The financial statements of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with Financial Reporting Standards ("FRSs") issued by the Malaysian Accounting Standards Board ("MASB"), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965.

##### 2 Associates

Associates are those enterprises in which the company has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the total recognized gains and losses of



associates on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealized profits arising on transactions between the company and its associates who are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the company's interests in the associates. Unrealized losses on such transactions are also eliminated partially unless cost cannot be recovered.

Goodwill on acquisition is calculated based on the fair value of net assets acquired.

### **3 Joint venture**

A joint venture is a contractual agreement whereby the company and other parties have joint control over an economic activity.

In respect of its interest in jointly controlled entities, the company uses the equity method to account for its interest.

Unrealized profits or losses arising from transactions between the company and its joint venturers are recognized only to the extent of that portion of the gain or loss which is attributable to the interests of the other venturers. Unrealized losses are recognized in full when the transaction provides evidence of a reduction in the net realizable value of current assets or an impairment loss.

### **4 Property, plant and equipment**

#### **(1) Owned assets:**

Property, plant and equipment are stated at cost/valuation less accumulated depreciation.

The company revalues its property comprising land and building every 5 years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Surpluses arising from revaluation are dealt with in the property revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment loss if any.

#### **(2) Assets under hire purchase**

Property, plant and equipment financed by hire purchase agreements are capitalized at cost. The interest element is charged to income statement over the period of the agreement and accounted for on a sum-of-digits method.

### (3) Depreciation

PPE is not amortized. Leasehold properties are amortized in equal installments over the period of the respective leases is 30 years. The straight line method is used to write off the cost of other assets over the term of their estimated useful lives. The main assets' annual depreciation rates are at the following:

Categories	Useful year at least	Annual depreciation rate	Residual percent of book value	Remark
House and building	30	3%	10%	
Pipeline and water reticulation	7	12.86%	10%	
Equipment & machines	10	9%	10%	
Motor vehicle	5	18%	10%	
Office and electronic equipment	5	18%	10%	

## 5 Intangible asset

### Goodwill

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated amortization and accumulated impairment losses

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associates.

## 6 Inventories

Inventories consist of spares and supplies, are stated at the lower of cost and net realizable value with weighted average cost being the main basis for cost. Cost is the aggregate cost of purchase and other costs incurred in bringing the inventories to their present location and condition.

## **7 Trade and other receivables**

Trade and other receivables are stated at cost less allowance for doubtful debts.

## **8 Amount due from contract customers**

Amount due from contract customers on construction contracts is stated at cost plus attributable profits less foreseeable losses and less progress billings. Cost includes all direct construction costs and other related costs. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is shown in trade and other payables as amount due to contract customers.

## **9 Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances and deposits with banks. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

## **10 Impairment**

The carrying amount of the Company's assets, other than inventories, assets arising from construction contracts and financial assets (other than investments in subsidiaries, associates and joint ventures), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognized in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent

external events have occurred that reverse the effect of that event.

In respect of other assets, 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 amortization, if no impairment loss had been recognized. The reversal is recognized in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

## **11 Liabilities**

Borrowings and trade and other payables are stated at cost.

## **12 Income tax**

Tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognized for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

## **13 foreign currency transactions**

Transactions in foreign currencies are translated to CNY at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to CNY at the foreign exchange rates ruling at that date.

Foreign exchange differences arising on translation are recognized in the income statement.

## 14 Revenue

### (1) Good sold

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

### (2) Construction contracts

Revenue from fixed price construction contracts is recognized on the percentage of completion method, measured by reference to surveys of work performed.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that is probable will be recoverable and contract costs are recognized as an expense in the period in which they are incurred.

An expected loss on a contract is recognized immediately in the income statement.

### (3) Dividend income

Dividend income is recognized when the right to receive payment is established.

### (4) Interest income

Interest income is recognized in the income statement as it accrues, taking into account the effective yield on the assets.

## 15 Financing costs

Financing costs comprise interest payable on borrowings. All interest and other costs incurred in connection with borrowings are expensed as incurred.

## Part three

### Notes to main accounts

#### 1. Cash in hand and at bank

Categories	B/F	C/F
Cash in hand	3,438.13	5,482.62
Cash at bank	10,030,103.13	46,764,236.53
<b>Total</b>	<b>10,033,541.26</b>	<b>46,769,719.15</b>

## 2. Inventories

Categories	B/F	C/F
Raw Materials	261,651.84	407,262.60
Low-value consumption goods	116,516.45	164,343.10
Merchandise Inventory	2,873,967.54	1,846,056.07
<b>Total</b>	<b>3,252,135.83</b>	<b>2,417,661.77</b>

## 3. Fixed assets and accumulated depreciations

## Fixed assets book value

Categories	B/F	Increase	Decrease	C/F
House & buildings	108,001,933.92	2,396,195.97		110,398,129.89
E&M	49,621,592.85	152,154.42		49,773,747.27
Motor vehicle	1,664,890.00			1,664,890.00
Electronic-equipment	261,780.40	14,290.05		276,070.45
<b>Total</b>	<b>159,550,197.17</b>	<b>2,562,640.44</b>		<b>162,112,837.61</b>

## Accumulated depreciations

Categories	B/F	Increase	Decrease	C/F
House& buildings	4,148,716.15	3,419,629.4		7,568,345.56
E&M	5,702,632.41	4,622,607.5		10,325,239.99
Electronic	477,578.85	299,680.20		777,259.05
Motor vehicle	89,728.68	27,209.1		116,937.78
<b>Total</b>	<b>10,418,656.09</b>	<b>8,369,126.29</b>		<b>18,787,782.38</b>
<b>Net book value</b>	<b>149,131,541.08</b>			<b>143,325,055.23</b>

## 4. Construction in progress

Categories	B/F	Increase	Decrease	C/F
Second Stage Construction of the third Water Work	1,335,647.20	29,265,844.17		30,601,491.37
<b>Total</b>	<b>1,335,647.20</b>	<b>29,265,844.17</b>		<b>30,601,491.37</b>

## 5. Tax payable

Categories	B/F	C/F
VAT	508,757.01	220,731.47
Stamp Tax	1,031.14	776.50
Individual INTAX	15.41	15.41
Local Education Fee Additional	5,155.72	2,799.69
Water Resource Facility Construction Fund	4,296.44	3,235.43
<b>Total</b>	<b>519,255.72</b>	<b>227,558.50</b>

## 6. Paid-in capital

Investor	B/F	C/F	Proportion of equity
Salcon Zhejiang(HK) Limited	USD7,026,000.00	USD8,130,000.00	60%
Haining City Water Investment Group Company Limited	USD4,684,000.00	USD5,420,000.00	40%
<b>Total</b>	<b>USD11,710,000.00</b>	<b>USD13,550,000.00</b>	<b>100%</b>

**Part four****Contingencies**

To the date of 31 December 2009, no contingencies are to be disclosed in notes to the financial statements.

**Part five****Committed events**

To the date of 31 December 2009, no such committed events are to be disclosed in notes to the financial statements.

**Haining Salcon Water Company Limited**

**January 10, 2010**

**1.0 INFORMATION ON FUJIAN****1.1 DATE AND PLACE OF INCORPORATION**

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

**1.2 BRIEF HISTORY AND BUSINESS**

Fujian is an investment holding company since incorporation whilst the principal activities of its subsidiary are as further detailed in Section 1.6 herein.

**1.3 SHARE CAPITAL**

Fujian's authorised and issued and paid-up share capital as at 10 December 2010 are as follows:

<b>Type</b>	<b>No. of share(s)</b>	<b>Par Value (HKD)</b>	<b>Total (HKD)</b>
<b>Authorised</b>			
Ordinary shares	10,000	1.00	10,000
<b>Issued and paid-up</b>			
Ordinary shares	1	1.00	1.00

For the purpose of the Proposed Internal Restructuring, the authorised share capital of Fujian will be increased to HKD300 million of HKD1.00 each. Upon completion of the Proposed Internal Restructuring, the issued and fully paid-up share capital of Fujian will increase to 84.62 million ordinary shares of HKD1.00 each.

**1.4 SUBSTANTIAL SHAREHOLDERS**

Fujian is a wholly-owned subsidiary of Salcon prior to the Proposed Internal Restructuring. Upon completion of the Proposed Internal Restructuring, the immediate and ultimate holding company of Fujian is Salcon Asia and Salcon respectively.

**1.5 DIRECTORS**

The particulars of the directors of Fujian as at 3 January 2011 are as follows:

<b>Name</b>	<b>Designation</b>	<b>Nationality</b>
Dato' Seri Goh Eng Toon	Director	Malaysian
Loh Boon Sue	Director	Malaysian

None of the directors of Fujian have any, direct or indirect, shareholdings in Fujian.

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## 1.6 LIST OF SUBSIDIARY AND ASSOCIATED COMPANIES

Details of the subsidiary company of Fujian are as follows:

Subsidiary company	Date/Place of incorporation	Effective equity interest %	Registered capital RMB	Principal activities
Nan An Water	18 April 2008/ PRC	65	100,000,000	Management, operation and distribution of raw water

Fujian does not have any associated companies.

## 1.7 DETAILS OF BUSINESS/ ASSETS OWNED

Save and except for the business and assets owned by its subsidiary, Fujian does not directly own any business/ assets.

## 1.8 FINANCIAL INFORMATION

### 1.8.1 Summary financial information

The summary financial information of Fujian based on the audited financial statements for the period from 8 June 2007 (date of incorporation) to 31 December 2007 and FYE 31 December 2008 and 2009 and the unaudited financial results for the nine (9) months FPE 30 September 2010 are summarised as follows:

	8 June 2007 to 31 December 2007	FYE 31 December 2008	FYE 31 December 2009	9 months FPE 30 September 2010
	Audited		Unaudited	
	HKD	HKD	HKD	HKD
Turnover	-	-	-	-
PBT/(LBT)	(39,972)	348,147	(204,417)	(1,184,437)
PAT/(LAT)	(39,972)	348,147	(204,417)	(1,184,437)
PATMI/(LATMI)	(39,972)	348,147	(204,417)	(1,184,437)
Gross EPS/(LPS) (HKD)	(39,972)	348,147	(204,417)	(1,184,437)
Net EPS/(LPS) (HKD)	(39,972)	348,147	(204,417)	(1,184,437)
Paid-up capital	1	1	1	1
Shareholders' funds	(39,971)	308,176	103,759	(1,080,678)
NA/(NL)	(39,971)	308,176	103,759	(1,080,678)
NA/(NL) per share (HKD)	(39,971)	308,176	103,759	(1,080,678)
Current ratio (times)	Negligible	0.0001	0.0001	0.0001
Total borrowings (all interest-bearing debts)	-	-	-	-
Gearing ratio (times)	-	-	-	-

**1.8.2 Commentary on past performance**

Fujian is an investment holding company and has been recording losses since incorporation to-date except for the FYE 31 December 2008 due to administrative and operating expenses incurred such as legal and professional fees, audit and other statutory fees. Fujian recorded a PBT and PAT for the FYE 31 December 2008 mainly due to unrealised exchange gain of advances from holding company.

**1.8.3 Accounting policies adopted**

There are no specific accounting policies adopted which are peculiar to Fujian because of the nature of Fujian's business and/or the industry it is involved in.

**1.8.4 Audit qualification**

The financial results of Fujian for the period from 8 June 2007 (date of incorporation) to 31 December 2007 was not subject to any audit qualification.

The financial results of Fujian for the past two (2) FYE 31 December 2008 and 2009 were subject to an audit qualification. The basis for the audit qualification was due to a non-compliance with Section 124 of the Hong Kong Companies Ordinance and Hong Kong Accounting Standard 27 – “Consolidated and Separate Financial Statements” whereby there is a requirement to consolidate the accounts of Fujian with its subsidiary. The non-compliance is only in regard to the fact that no consolidated financial statements had been prepared to include the results of its subsidiary. Nevertheless, the auditors are of the opinion (except for the audit qualification) that the financial statements give a true and fair view of the state of affairs of Fujian and that it has been prepared in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Companies Ordinance.

In Malaysia, paragraph 10(a) of the FRS 127 – Consolidated and Separate Financial Statements exempts a parent from presenting consolidated financial statements of which the parent is itself a wholly-owned subsidiary. As such, no consolidated financial statements have been prepared by Fujian for the past two (2) FYE 31 December 2008 and 2009 to include the results of its subsidiaries. The financial statements of Fujian for the FYE 31 December 2010 will not be prepared on a consolidated basis based on the reason mentioned above.

**1.8.5 Audited financial statements of Fujian for the FYE 31 December 2009**

The audited financial statements of Fujian for the FYE 31 December 2009 are reproduced in the ensuing pages.

(Please take note that the paging and/or reference made in the Independent Auditor's Report is made in relation to the paging and reference as contained in the audited financial statements of Fujian for the FYE 31 December 2009.)

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**SALCON FUJIAN (HK) LIMITED**  
**REPORT OF THE DIRECTORS**  
**AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**



Chartered Accountants  
Certified Public Accountants

**REPORT OF THE DIRECTORS**

The directors present their report together with the audited financial statements of Salcon Fujian (HK) Limited (hereinafter referred to as the "Company") for the year ended 31 December 2009.

**Principal activity**

The principal activity of the Company is investment holding. The principal activity of the subsidiary of the Company is set out in Note 9 to the financial statements.

**Financial statements**

The results of the Company for the year are set out in the statement of comprehensive income on Page 5.

The state of affairs of the Company as at 31 December 2009 is set out in the statement of financial position on Page 6.

The cash flow of the Company for the year is set out in the statement of cash flows on Page 8.

**Dividends**

The directors do not recommend a payment of dividend nor transfer of any amount to reserves for the year (2008: Nil).

**Share capital**

There were no movements in either the Company's registered or issued share capital during the year (2008: Nil).

**Reserves**

Details of the movements in reserves of the Company during the year are set out in the statement of changes in equity on Page 7.

**Directors**

The directors in office during the year and up to the date of this report are:

Mr. Goh Eng Toon  
Mr. How See Hock  
Mr. Loh Boon Sue

In accordance with Article 79 of the Company's Articles of Association, all directors in office at the end of the year retire and, being eligible, offer themselves for re-election.

**REPORT OF THE DIRECTORS (CONTINUED)****Directors' interests in contracts**

The directors' interests in contracts are set out in Notes 10 and 13 to the financial statements. Apart from the foregoing, no contracts of significance in relation to the Company's business to which the Company, its ultimate holding company, its subsidiary or any of its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

**Directors' rights to acquire shares or debentures**

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

**Auditors**

Messrs HLB Hodgson Impey Cheng retire and, being eligible, offer themselves for re-appointment.

On behalf of the board



.....  
Director

Hong Kong, 8 March 2010  
.....



國 衛 會 計 師 事 務 所  
Hodgson Impey Cheng



Chartered Accountants  
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDER OF  
SALCON FUJIAN (HK) LIMITED**

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(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Salcon Fujian (HK) Limited (the "Company") set out on pages 5 to 26, which comprise the statement of financial position at 31 December 2009, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes:

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion 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. Except as described in the basis for qualified opinion paragraph, 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 as to 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 the true 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 the directors, as well as evaluating the overall presentation of the financial statements.

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

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國 衛 會 計 師 事 務 所  
Hodgson Impey Cheng



Chartered Accountants  
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDER OF  
SALCON FUJIAN (HK) LIMITED (CONTINUED)**  
(incorporated in Hong Kong with limited liability)

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**Basis for qualified opinion**

Included in the statement of financial position as at 31 December 2009 is the investment cost of a subsidiary of HK\$83,528,186. As stated in Note 3 in the financial statements, consolidated financial statements have not been prepared to include the results 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" issued by the Hong Kong Institute of Certified Public Accountants. The non-consolidation of this subsidiary would affect the net assets of the Company as at 31 December 2009, its loss for the year then ended, and the related disclosures in the financial statements. It is not practicable to quantify the effects of this non-compliance.

**Qualified opinion arising from disagreement about accounting treatment**

In our opinion, except for the effect on the financial statements of the disagreement in accounting treatment described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2009 and of the its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Chartered Accountants  
Certified Public Accountants

Hong Kong, 8 March 2010  
.....

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SALCON FUJIAN (HK) LIMITED \_\_\_\_\_ 5

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2009 (in HK Dollars)	Notes	2009	2008
<b>Turnover</b>		-	-
<b>Other revenue</b>	6	-	394,353
<b>Administrative and operating expenses</b>		<u>(204,417)</u>	<u>(46,206)</u>
<b>(Loss)/profit before taxation</b>	7	(204,417)	348,147
<b>Taxation</b>	8	<u>-</u>	<u>-</u>
<b>(Loss)/profit for the year</b>		(204,417)	348,147
<b>Other comprehensive income for the year</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive (loss)/income for the year</b>		<u>(204,417)</u>	<u>348,147</u>
<b>(Loss)/profit attributable to equity holder of the Company</b>		<u>(204,417)</u>	<u>348,147</u>
<b>Total comprehensive (loss)/income attributable to equity holder of the Company</b>		<u>(204,417)</u>	<u>348,147</u>

All of the Company's operations are classed as continuing.

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




SALCON FUJIAN (HK) LIMITED \_\_\_\_\_ 6

**STATEMENT OF FINANCIAL POSITION**

At 31 December 2009 (in HK Dollars)	Notes	2009	2008
<b>Non-current asset</b>			
Investment in a subsidiary	9	83,528,186	83,528,186
<b>Current asset</b>			
Cash and bank balances		9,382	9,678
<b>Less: Current liabilities</b>			
Accruals		18,000	19,500
Amount due to ultimate holding company	10	55,834,559	55,799,279
Amounts due to fellow subsidiaries	10	27,581,250	27,410,909
		83,433,809	83,229,688
<b>Net current liabilities</b>		<b>(83,424,427)</b>	<b>(83,220,010)</b>
<b>Total assets less current liabilities</b>		<b>103,759</b>	<b>308,176</b>
<b>Capital and reserve attributable to equity holder of the Company</b>			
Share capital	11	1	1
Retained profits	12	103,758	308,175
<b>Total equity</b>		<b>103,759</b>	<b>308,176</b>

Approved by the board of directors on 8 March 2010

 )  
 ..... )  
 ..... ) Directors  
 ..... )  
 ..... )  
 ..... )

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

SALCON FUJIAN (HK) LIMITED \_\_\_\_\_ 7

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2009 (in HK Dollars)

	<u>Share capital</u>	<u>Retained profits</u>	<u>Total</u>
Issue of shares	1	(39,972)	(39,971)
Profit for the period	-	348,147	348,147
At 31 December 2008 and 1 January 2009	1	308,175	308,176
Loss for the year	-	(204,417)	(204,417)
<b>At 31 December 2009</b>	<b>1</b>	<b>103,758</b>	<b>103,759</b>

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

SALCON FUJIAN (HK) LIMITED 8**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2009 (in HK Dollars)	2009	2008
<b>OPERATING ACTIVITIES</b>		
(Loss)/profit before taxation	(204,417)	348,147
Adjustment for:		
Bank interest income	-	(1,168)
Operating (loss)/profit before working capital changes	(204,417)	346,979
(Decrease)/increase in accruals	(1,500)	1,800
Increase in amount due to ultimate holding company	35,280	55,799,280
Increase in amounts due to fellow subsidiaries	170,341	27,388,637
<b>Net cash (used in)/generated from operating activities</b>	<b>(296)</b>	<b>83,536,696</b>
<b>INVESTING ACTIVITY</b>		
Investment in a subsidiary	-	(83,528,186)
<b>Net cash used in investing activity</b>	<b>-</b>	<b>(83,528,186)</b>
<b>FINANCING ACTIVITY</b>		
Bank interest income	-	1,168
<b>Net cash generated from financing activity</b>	<b>-</b>	<b>1,168</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(296)</b>	<b>9,678</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>9,678</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>9,382</b>	<b>9,678</b>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	9,382	9,678

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2009 (in HK Dollars)

**1. GENERAL**

The Company is incorporated in Hong Kong as an exempted company with limited liability. The registered office of the Company is located at 31/F, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activity of its subsidiary is management and operation of water production and distribution of water in Nan An City, Fujian Province, the People's Republic of China ("the PRC").

The directors of the Company consider that its ultimate holding company is Salcon Berhad, a company incorporated in Malaysia and its shares are listed on Bursa Malaysia Securities Berhad.

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")**

In the current year, the Company has applied, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2009. A summary of the new HKFRSs are set out as below:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment - Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)**

HKAS 1 (Revised) “Presentation of Financial Statements” has introduced a number of terminology changes, including revised titles for the financial statements, and has resulted in a number of changes in presentation and disclosure.

Except for HKAS 1 (Revised) as disclosed above, the directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Company.

The Company has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 <sup>2</sup>
HKFRS (Amendments)	Improvements to HKFRSs issued in 2009 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>6</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>4</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>2</sup>
HKFRS 1 (Revised)	Additional Exemptions for First-time Adopters <sup>3</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>3</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets) <sup>7</sup>
HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement <sup>6</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>2</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013

The Company is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that these new and revised HKFRSs are unlikely to have a significant impact on the Company’s results of operations and financial position.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with HKFRSs (which also include 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 Hong Kong Companies Ordinance except for the non-compliance with Section 124 of the Hong Kong Companies Ordinance, HKAS 27 “Consolidated and Separate Financial Statements” and HKFRS 3 “Business Combinations” relating to preparation of consolidated financial statements for the Company and its subsidiary.

The preparation of financial statements in conformity with HKFRSs requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

A summary of significant accounting policies followed by the Company in the preparation of the financial statements is set out below:

**(a) Basis of preparation**

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

The financial statements have been prepared on a going concern basis. The Company had net current liabilities of \$83,424,427 (2008: \$83,220,010) as at 31 December 2009 and its continuance in business as a going concern is dependent upon the continuing financial support from its ultimate holding company. The financial statements have been prepared on a going concern basis as the ultimate holding company has confirmed to provide continuing financial support to the Company to enable it to continue as a going concern and to settle its liabilities as and when they fall

**(b) Co-operative joint ventures**

Co-operative joint ventures represent Sino-foreign joint ventures registered in the PRC in respect of which the venturers’ profit-sharing ratios and share of entitlements to net assets upon the expiration of the joint ventures periods may not be the same as their capital contribution ratios but are as defined in the respective joint ventures agreement.

A co-operative joint venture is accounted for as a subsidiary when the Company can exercise unilateral control over the co-operative joint venture. Otherwise the co-operative joint venture is accounted for as a joint venture or an associate, depending on whether the Company is able to exercise a joint control or simply a significant influence over the co-operative joint venture respectively.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Subsidiary**

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefit from its activities. Investment in subsidiary is stated at cost less any impairment losses. The result of the subsidiary is accounted for by the Company on the basis of dividends received and receivable.

The registered office of the Company's ultimate holding company, Salcon Berhad, which will publish consolidated financial statements is located at 15/F., Menara Summit, Persiaran Kewajipan, USJ 1 47600 UEP Subang Jaya, Selangor Darul Ehsan, Malaysia.

**(d) Turnover**

There was no turnover during the year.

**(e) Foreign currencies**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"), the financial statements are presented in Hong Kong Dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the date of the reporting period are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the statement of comprehensive income.

**(f) Revenue recognition**

Interest income is recognised on a time-apportioned basis on the principal outstanding and at the rate applicable.

**(g) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) Taxation (Continued)**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference arises from goodwill (or negative goodwill) or from the initial recognition that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the date of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**(h) Provisions**

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the date of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value at the date of the reporting period of the expenditures expected to be required to settle the obligation.

**(i) Financial instruments**

Financial assets and financial liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statement of comprehensive income.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Financial instruments (continued)***Financial assets*

The Company's major financial assets are cash and bank balances which fall within the category of loans and receivables and the accounting policies adopted are set out below:

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss, of which interest income is included in net gains or losses.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the date of each reporting period subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

*Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the date of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all other financial assets, objective evidence of impairment could include:

- (i) significant financial difficulty of the issuer or counterparty; or
- (ii) default or delinquency in interest or principal payments; or
- (iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Financial instruments (continued)***Financial assets (continued)**Impairment of financial assets (continued)*

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Financial instruments (continued)***Financial liabilities and equity*

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at fair value through profit or loss, of which the interest expense is included in net gains or losses.

*Financial liabilities*

The Company's financial liabilities including accruals, amount due to ultimate holding company and amounts due to fellow subsidiaries are initially measured at fair value and subsequently measured at amortised cost using effective interest method.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the statement of comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Financial instruments (continued)*****Derecognition (continued)***

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the statement of comprehensive income.

**(j) Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and on hand, demand deposits and short term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

**(k) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(I) Related party transactions**

A party is considered to be related to the Company if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) control, is controlled by, or is under common control with, the Company; (ii) has an interest in the Company that gives it significant influence over the Company; or (iii) has joint control over the Company;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Company or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Company, or of any entity that is a related party of the Company.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**4. FINANCIAL INSTRUMENTS****4.1 Categories of financial instruments**

	<u>2009</u>	<u>2008</u>
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	9,382	9,678
<b>Financial liabilities</b>		
Amortised cost	83,433,809	83,229,688

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**For the year ended 31 December 2009 (in HK Dollars)

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**4. FINANCIAL INSTRUMENTS (CONTINUED)****4.2 Financial risk management objectives and policies**

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and foreign exchange risk), credit risk and liquidity risk. The management reviews and agrees policies for managing each of the risks and they are summarised below.

Market risk

The Company's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

There has been no change to the Company's exposure to market risk or the manner in which it manages and measures the risk.

*Interest rate risk management*

The Company has no borrowings at variable interest rate and at fixed rate that expose the Company to cash flow interest rate risk and fair value interest rate risk respectively.

*Foreign exchange risk management*

The Company has transactional currency exposures. Such exposures arise from transactions with ultimate holding company and fellow subsidiaries of the Company in currencies other than the Company's functional currency. The transactions with ultimate holding company and fellow subsidiaries are denominated in Ringgit Malaysia ("RM") and United States dollars ("USD") whilst almost all of costs are denominated in the Company's functional currency.

The carrying amounts of the Company's foreign currency denominated monetary liabilities at the date of the reporting period are as follows:-

	<b>Liabilities</b>	
	<b>2009</b>	<b>2008</b>
RM	<b>10,115,581</b>	10,115,581
USD	<b>73,019,559</b>	73,019,559

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**4. FINANCIAL INSTRUMENTS (CONTINUED)****4.2 Financial risk management objectives and policies (continued)***Sensitivity analysis on foreign exchange risk management*

The Company is mainly exposed to the effects of fluctuation in RM and USD.

The following table details the Company sensitivity to a 5% increase and decrease in the Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where the Hong Kong dollars weaken 5% against the relevant currency. For a 5% strengthening of the Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

	<b>Impact of RM</b>		<b>Impact of USD</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Profit or loss (Note)	<b>505,779</b>	<b>505,779</b>	<b>3,650,978</b>	<b>3,650,978</b>

Note:

This is mainly attributable to the exposure outstanding on the payables at the year end.

The Company sensitivity to foreign exchange had increased during the current year mainly due to the increase in amounts due to ultimate holding company and fellow subsidiaries during the year.

Credit risk

The Company has no significant concentrations of credit risk.

Liquidity risk

Advances from ultimate holding company and fellow subsidiaries are the general source of funds to finance the operation of the Company. The Company regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**4. FINANCIAL INSTRUMENTS (CONTINUED)****4.2 Financial risk management objectives and policies (continued)**Liquidity risk (continued)

The following table details the Company's remaining contractual maturity for its financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial liabilities, the table reflects the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows.

	Within 1 year HK\$	Over 1 year HK\$	Total undiscounted cash flows HK\$	Total carrying amount HK\$
<b>At 31 December 2009</b>				
<b>Non-derivative financial liabilities</b>				
Accruals	(18,000)	-	(18,000)	(18,000)
Amount due to ultimate holding company	(55,834,559)	-	(55,834,559)	(55,834,559)
Amounts due to fellow subsidiaries	(27,581,250)	-	(27,581,250)	(27,581,250)
	<b>(83,433,809)</b>	<b>-</b>	<b>(83,433,809)</b>	<b>(83,433,809)</b>
<b>At 31 December 2008</b>				
<b>Non-derivative financial liabilities</b>				
Accruals	(19,500)	-	(19,500)	(19,500)
Amount due to ultimate holding company	(55,799,279)	-	(55,799,279)	(55,799,279)
Amounts due to fellow subsidiaries	(27,410,909)	-	(27,410,909)	(27,410,909)
	<b>(83,229,688)</b>	<b>-</b>	<b>(83,229,688)</b>	<b>(83,229,688)</b>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**4. FINANCIAL INSTRUMENTS (CONTINUED)****4.2 Financial risk management objectives and policies (continued)****Fair value of financial instruments**

The fair value of financial assets and financial liabilities are determined as follows:

- (i) the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and trade on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- (ii) the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance in generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

**5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

Estimates and judgments 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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There were no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**6. OTHER REVENUE**

	<u>2009</u>	<u>2008</u>
Bank interest income	-	1,168
Exchange gain	-	393,185
	-	<u>394,353</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**7. (LOSS)/PROFIT FROM OPERATIONS**

	<u>2009</u>	<u>2008</u>
(Loss)/profit from operations is stated at after charging:		
Auditors' remuneration	15,500	15,500
Directors' remuneration		
- fees	-	-
- other emoluments	-	-
Exchange loss	175,762	-
	175,762	-

**8. TAXATION**Current taxation

No provision for Hong Kong profits tax has been made as the Company has no assessable profits for the year (2008: Nil).

The tax effect for the year can be reconciled to (loss)/profit before taxation per the statement of comprehensive income as follows:

	<u>2009</u>	<u>2008</u>
(Loss)/profit before taxation	(204,417)	348,147
Tax at Hong Kong profits tax rate of 16.5% (2008: 16.5%)	(33,729) (16.5%)	57,444 16.5%
Tax effect of income not subject to tax and expenses not deductible for tax	33,729 16.5%	(57,444) (16.5%)
Tax effect for the year	-	-
	-	-

Deferred taxation

No provision for deferred taxation has been made as the Company had no material temporary differences between the tax bases and carrying amounts of assets and liabilities in the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**9. INVESTMENT IN A SUBSIDIARY**

	<u>2009</u>	<u>2008</u>
Unlisted shares, at cost	73,466,032	73,466,032
Cost directly attributable to investment	<u>10,062,154</u>	<u>10,062,154</u>
	<u>83,528,186</u>	<u>83,528,186</u>

At 31 December 2009, the Company had investment in the following subsidiary:-

<u>Name of subsidiary</u>	<u>Principal place of incorporation and operation</u>	<u>Principal activities</u>	<u>Registered capital</u>	<u>Percentage of interest held</u>
Nan An Salcon Water Company Limited	The PRC	Management and operation of water production and distribution of water	RMB100,000,000	65% (direct)

Nan An Salcon Water Company Limited was set up on 11 April 2008 as a co-operative joint venture company. The Company can exercise unilateral control over the co-operative joint venture company.

**10 AMOUNTS DUE TO ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES**

The amounts due to ultimate holding company/fellow subsidiaries are unsecured, interest-free and repayable on demand.

**11. SHARE CAPITAL**

	<u>2009</u>	<u>2008</u>
Authorised:		
10,000 ordinary shares of HK\$1 each	<u>10,000</u>	<u>10,000</u>
Issued and fully paid:		
1 ordinary share of HK\$1	<u>1</u>	<u>1</u>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

**12. RETAINED PROFITS**

At 1 January 2008	(39,972)
Profit for the year	<u>348,147</u>
At 31 December 2008 and 1 January 2009	308,175
Loss for the year	<u>(204,417)</u>
At 31 December 2009	<u><u>103,758</u></u>

**13. MATERIAL RELATED PARTY TRANSACTIONS**

During the year ended 31 December 2009, no compensation of any kind was paid to the Company's directors who were key management personnel of the Company.

Saved as disclosed in Note 10 to the financial statements, there was no other material related party transaction during the year.

**14. CAPITAL RISK MANAGEMENT**

The Company's primary objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholder and benefits for other stakeholders.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes judgments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Company monitors its capital structure on the basis of gearing ratio which is calculated at total borrowings over total equity ratio. For this purpose the Company defines total borrowings which include interest-bearing borrowings, less cash and cash equivalents.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2009 (in HK Dollars)

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**14. CAPITAL RISK MANAGEMENT (CONTINUED)**

As the Company had no borrowing during the year, therefore no adjustment had been placed by the Company in order to maintain or adjust the capital structure.

There was no change in the Company's approach to capital management during the year.

**15. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 8 march 2010.

- End of Notes -

SALCON FUJIAN (HK) LIMITED

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**DETAILED STATEMENT OF COMPREHENSIVE INCOME**  
(For Management Use Only)

For the year ended 31 December 2009 (in HK Dollars)	2009	2008
<b>Turnover</b>	-	-
<b>Other revenue</b>		
Bank interest income	-	1,168
Exchange gain	-	393,185
	-	394,353
<b>Administrative and operating expenses</b>		
Audit fee	(15,500)	(15,500)
Bank charges	(400)	(1,707)
Business registration fee	-	(5,450)
Exchange loss	(175,762)	-
Legal and professional fees	(7,500)	(18,325)
Printing, postage and travelling	(1,655)	(1,724)
Registered office facility	(3,600)	(3,500)
	(204,417)	(46,206)
<b>(Loss)/profit before taxation</b>	(204,417)	348,147
<b>Taxation</b>	-	-
<b>(Loss)/profit for the year</b>	(204,417)	348,147
<b>Other comprehensive income for the year</b>	-	-
<b>Total comprehensive (loss)/income for the year</b>	(204,417)	348,147

## 2.0 INFORMATION ON NAN AN WATER

### 2.1 DATE AND PLACE OF INCORPORATION

Nan An Water was incorporated in Nan An City, Fujian Province, PRC on 18 April 2008.

### 2.2 BRIEF HISTORY AND BUSINESS

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. The total initial investment by Fujian and Nan An City Trading Industry & Agriculture Investment Co Ltd. was RMB65 million and RMB35 million cash representing 65% and 35% respectively of the total registered share capital of Nan An Water. 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, expiring on 25 May 2038, 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 3 Coastal Towns (Guan Qiao/Shui Tou/Shi Jing) and the right to collect fees, as well as the exclusive right to execute standardised management on the water resources from ShiBi, HouQiao and ShuNei reservoirs for 3 Coastal Towns. The facilities (i.e. laying of raw water pipelines) under the said concession has been under construction since 26 May 2008 and is expected to be fully completed and operational by the the second (2<sup>nd</sup>) half of 2011.

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:
  - (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 in accordance with the stipulated price and areas stated in the agreements, to operate legally and obtain reasonable returns; and
  - (ii) to guarantee the sufficiency and quality of the Raw Water (B) and to meet the requirement of Nan An 3 Coastal Town Water Plants (Guan Qiao, Shui Tou, Shi Jing) in accordance with the law of China 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 works is the initial advancement via equity (in cash) injection made at the start of the joint venture by Nan An City Trading Industry & Agriculture Investment Co Ltd. and Fujian. As for the project financing, Nan An Water obtained a loan from a financial institution.

### 2.2.1 Daily capacity of water transfer and production output

The expected daily capacity of water transfer of Nan An Water is 245 mld upon completion.

There is no information on the production output as the water supply work is currently under construction which is expected to be completed by mid 2011.

The principal market of Nan An Water for the supply of the raw water is Nan An 3 Coastal Towns namely Guan Qiao, Shui Tou and Shi Jing with the following estimated water supply:

Area	Expected water supply mld
Guan Qiao	10
Shui Tou	40
Shi Jing	40

### 2.2.2 Details of assets owned

The net book values of the major assets owned by Nan An Water based on the audited financial statements of Nan An Water as at 31 December 2009 are as follows:

Details	NBV as at 31 December 2009 RMB
Motor vehicle	1,048,088
Office equipment	143,987
Office furniture	28,594

### 2.2.3 Construction risk

Progress and completion of the construction is dependent on various factors, which include, amongst others, obtaining the necessary permits or approvals from the relevant government agencies or authorities, satisfactory performance of subcontractors, adequacy of supply of raw materials and manpower, and weather conditions. Delay in completion of the construction within the time frame could adversely affect the cashflow, profitability and reputation of the Salcon Group.



The management of Salcon seek to limit this by careful planning, close monitoring of the construction progress and by strictly complying with quality management measures. The management of Salcon also appoint reliable sub-contractors and suppliers of materials in order to complete the construction within the schedule and budget. Currently, the laying of raw water pipelines is 89% completed and thus reduces the construction risk on the Group.

### 2.3 REGISTERED AND PAID-IN CAPITAL

The registered and paid-in capital of Nan An Water is RMB100,000,000 as at 10 December 2010.

### 2.4 SUBSTANTIAL SHAREHOLDERS

The particulars of the substantial shareholders of Nan An Water and their direct and indirect shareholdings in Nan An Water as at 10 December 2010 are as follows:

Name	Nationality / Country of Incorporation	Shareholdings in Nan An Water as at 10 December 2010			
		Direct		Indirect	
		RMB	%	RMB	%
Fujian	Hong Kong	65,000,000	65	-	-
Nan An Municipal Trade Industrial and Agriculture Investment Operating Company Limited	China	35,000,000	35	-	-
Salcon	Malaysia	-	-	65,000,000	65

### 2.5 DIRECTORS

The particulars of the directors of Nan An Water as at 10 December 2010 are as follows:

Directors	Designation	Nationality
How See Hock	Director	Malaysian
Wu Shun Qing	Director	Chinese
Tey Thiam Huat	Director	Malaysian
Loh Boon Sue	Director	Malaysian
Fan Zhi Ping	Director	Chinese
Wu Jian An	Director	Chinese
Chen Tian Yi	Director	Chinese

None of the directors of Nan An Water have any, direct or indirect, shareholdings in Nan An Water.

### 2.6 LIST OF SUBSIDIARY AND ASSOCIATED COMPANIES

Nan An Water does not have any subsidiary or associated companies.

## 2.7 FINANCIAL INFORMATION

### 2.7.1 Summary financial information

The summary financial information of Nan An Water based on the audited financial statements for the period from 18 April 2008 (date of incorporation) to 31 December 2008 and FYE 31 December 2009 and the unaudited financial results for the nine (9) months FPE 30 September 2010 are summarised as follows:

	18 April 2008 to 31 December 2008	FYE 31 December 2009	9 months FPE 30 September 2010
	← Audited →		Unaudited
	RMB'000	RMB'000	RMB'000
Turnover	-	-	-
LBT	(1,148)	(2,083)	(1,941)
LAT	(1,148)	(2,083)	(1,941)
LATMI	(1,148)	(2,083)	(1,941)
Gross EPS/(LPS) (RMB)	<sup>(1)</sup> Not Applicable	<sup>(1)</sup> Not Applicable	<sup>(1)</sup> Not Applicable
Net EPS/(LPS) (RMB)	<sup>(1)</sup> Not Applicable	<sup>(1)</sup> Not Applicable	<sup>(1)</sup> Not Applicable
Paid-in capital (RMB'000)	100,000	100,000	100,000
Shareholders' funds	98,852	96,769	94,828
NA	98,852	96,769	94,828
NA per share (RMB)	<sup>(1)</sup> Not Applicable	<sup>(1)</sup> Not Applicable	<sup>(1)</sup> Not Applicable
Current ratio (times)	34.20	5.95	9.05
Total borrowings (all interest-bearing debts)	-	-	80,000
Gearing ratio (times)	-	-	0.84

*Note:*

*(1) The paid-in capital of companies incorporated in China is not represented by number of shares.*

### 2.7.2 Commentary on past performance

Nan An has been recording losses since incorporation till to-date due to administrative and operating expenses incurred such as legal and professional fees, audit and other statutory fees as the water supply work is currently under construction.

### 2.7.3 Accounting policies adopted

There are no specific accounting policies adopted which are peculiar to Nan An Water because of the nature of Nan An Water's business and/or the industry it is involved in.

### 2.7.4 Audit qualification

The financial results of Nan An Water for the period from 18 April 2008 (date of incorporation) to 31 December 2008 and FYE 31 December 2009 were not subject to any audit qualification.

**2.7.5 Audited financial statements of Nan An Water for the FYE 31 December 2009**

The audited financial statements of Nan An Water for the FYE 31 December 2009 are reproduced in the ensuing pages.

(Please take note that the paging and/or reference made in the Report of Auditors is made in relation to the paging and reference as contained in the audited financial statements of Nan An Water for the FYE 31 December 2009.)

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**Report of Auditors**

**NANAN SALCON WATER COMPANY LIMITED**

## **Report of Auditors**

### **To the shareholders of Nanan Salcon Water Company Limited**

We have audited the accompanying financial statements of Nanan Salcon Water Company Limited (the “Company”), including the balance sheet as of December 31, 2009 and the statements of income, cash flow statements for the years ended at 2009 and notes to the financial statement.

### **Management’s responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards (“FRSs”) issued by the Malaysian Accounting Standards Board (“MASB”), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor’s responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor’s 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 auditor considers 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.

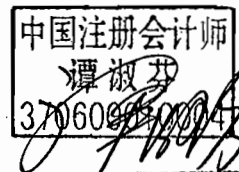
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Auditor’s opinion**

In our opinion, the accompanying financial statements are properly drawn up in accordance with Financial Reporting Standards (“FRSs”) issued by the Malaysian Accounting Standards Board (“MASB”), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965 and so as to give a true and fair view of the state of affairs of the “Company” at December 31, 2009 and the results of the company operations and cash flows of the year 2009.

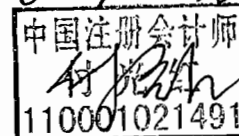
Beijing Yongtuo CPAs Co., Ltd

CPA



Shandong, China

CPA



January 16, 2010

**BALANCE SHEET**

As of December 31 2009

Enterprise name:Nanan Salcon Water Co.,Ltd.

Monetary unit:CNY

ITEM	B/F	C/F
<b>Current Assets</b>		
Cash On hand & at bank	69,861,254.55	17,678,536.84
Shor-term investment		
account receivable		
dividend receivable		
Interest receivable		
Receivables under specific fund		
other account receivable	169,343.08	1,074,419.20
prepayments		
Advances to suppliers	573,311.00	18,351,473.80
Inventories	131,423.00	
prepaid expense		
<b>Total Current Assets</b>	<b>70,735,331.63</b>	<b>37,104,429.84</b>
Longt-term investment		
<b>Total long-term investment</b>		
<b>Fixed Assets</b>		
Fixed assets-cost	1,190,279.00	1,530,967.00
Less: Accumulated Depreciation	73,100.35	310,297.57
Fixed assets-net Value	1,117,178.65	1,220,669.43
Less:Allowance for the impairment of fixed asset		
Engineering Materials		
Construction in progress	29,060,686.51	64,661,941.59
Disposal of fixed assets		
<b>Total Fixed Assets</b>	<b>30,177,865.16</b>	<b>65,882,611.02</b>
<b>Intangible Assets &amp; Other Assets</b>		
Intangible assets	6,750.00	5,250.00
long-term prepaid expenses		
Other long-term differed asset		11,021.00
<b>Total intangible assets and long-term prepaid expenses</b>	<b>6,750.00</b>	<b>16,271.00</b>
<b>Total Assets</b>	<b>100,919,946.79</b>	<b>103,003,311.86</b>

**BALANCE SHEET**

As of December 31 2009

Enterprise name:Nanan Salcon Water Co.,Ltd.

Monetary unit:CNY

ITEM	B/F	C/F
<b>Current Liabilities</b>		
Accounts payable	2,034,359.24	4,741,381.22
Pre-received account		
welfare expense payable		
Taxes payable	1,457.63	2,312.49
Other fund payable		
Others payables	32,280.73	1,490,360.53
withdraw in advance		
<b>Current Liabilities Total</b>	<b>2,068,097.60</b>	<b>6,234,054.24</b>
<b>Long-Term Liabilities</b>		
Long Term Loans		
Long term payable		
payables under specific fund		
<b>Long-Term Liabilities Total</b>		
<b>Deferred taxes</b>		
Deferred taxes credits		
<b>Total liabilities</b>	<b>2,068,097.60</b>	<b>6,234,054.24</b>
<b>Owner' Equity</b>		
capital stock		
Paid-in capital	100,000,000.00	100,000,000.00
Nan An Municipal Trade Industrial and Agriculture Investment Operating Co., Ltd.	35,000,000.00	35,000,000.00
Salcon Fujian (HK) Company Limited	65,000,000.00	65,000,000.00
capital surplus		
surplus		
Undistributed profits	-1,148,150.81	-3,230,742.38
<b>Total Owner' Equity</b>	<b>98,851,849.19</b>	<b>96,769,257.62</b>
<b>Total Liabilities &amp; Owner' Equity</b>	<b>100,919,946.79</b>	<b>103,003,311.86</b>



## INCOME STATEMENT

For the year of 2009

Enterprise name: Nanan Salcon Water Co., Ltd.

Monetary unit: CNY

Item	Current year cumulative amount	Last year cumulative amount
Income from main operation		
less: Costs of main operation		
less: main operation tax and additional expenses		
<b>profits on sales</b>		
Income from other operations		
less: operating expense		
less: General and administrative expenses	2,693,059.65	1,061,333.15
less: Financial expenses	-610,468.08	-13,182.34
<b>Operating profit</b>	-2,082,591.57	-1,048,150.81
investment income		
subsidies income		
Non-operating income		
less: Non-operating expenses		100,000.00
<b>Total profit before tax</b>	-2,082,591.57	-1,148,150.81
less: Income tax		
<b>Net profit</b>	-2,082,591.57	-1,148,150.81

## Cash Flows Statement

For the year of 2009

Enterprise name: Nanan Salcon Water Co., Ltd.

Monetary unit: CNY

Item	Amount
Cash received from sales of good&services	
Cash received from tax return	
Cash received from other operating activities	844,984.49
<b>Sub-total of cash inflows</b>	<b>844,984.49</b>
Cash paid for goods & services	
Cash paid to staff & paid on behalf of staff	718,902.13
Taxes payment	40,539.90
Other cash paid relating to operating activities	3,770,223.35
<b>Sub-total of cash outflows</b>	<b>4,529,665.38</b>
<b>Net cash flows from operating activities</b>	<b>-3,684,680.89</b>
<b>Cash Flow From Investing Activities</b>	
Proceed from disposal of assets.intangible assets and other long-term assets	
Cash received from investment income	
Net cash received from disposal of fixed assets,intangible assets and other long-term assets	
Cash received from other investing activities	
<b>Sub-total of cash inflows</b>	
Cash paid to acquired fixed assets.intangible assets and other long-term assets	48,498,036.82
Cash paid to invest	
Cash paid to other activities relating to investment	
<b>Sub-total of cash outflows</b>	<b>48,498,036.82</b>
<b>Net cash flows from investing activities</b>	<b>-48,498,036.82</b>
<b>Cash Flow From Financing Activities</b>	
Cash Flow From drawing on capital	
Cash Flow From borrowings	
Cash received from other financialing activities	
<b>Sub-total of cash inflows</b>	
Loans payable	
Cash payment of interest expenses and dividends	
Other cash payment relating to financial activities	
<b>Sub-total of cash outflows</b>	
<b>Net cash flows from financing activities</b>	
<b>Effect of foreign exchange rate changes on cash</b>	
<b>Net Increase in Cash &amp; Cash Equivalents</b>	<b>-52,182,717.71</b>

## Cash Flows Statement

For the year of 2009

Enterprise name: Nanan Salcon Water Co., Ltd.

Monetary unit: CNY

Supplemental informations	Consolidated amount
<b>Reconciliation of net profit to cash flows from operating activities</b>	
<b>Net profit</b>	-2,082,591.57
Add: provision for loss on realization of fixed assets	
Depreciation of fixed assets	237,197.22
Amortization of intangible assets	1,500.00
Amortization of long-term prepaid expenses	
Decrease of prepaid expenses (less: increase)	
Increase of accrued expenses (less: decrease)	
Losses on disposal of fixed assets, intangible assets and other long-term assets	
Losses on scrapping of fixed assets	
Financial expenses	-610,468.08
Losses on investments (less: gain)	
Deferred tax credit (less: debit)	
Decrease of inventories (less: increase)	131,423.00
Decrease of operating receivables (less: increase)	-905,076.12
Increase of operating payables (less: decrease)	-456,665.34
Others	
<b>Net cash flows from operating activities</b>	<b>-3,684,680.89</b>
<b>Other investment &amp; financial activities not relating to cash inflows/outflows</b>	
Debit convert into capital	
Convertible bond due in 1 year	
Fixed assets under leasehold	
<b>Net Increase in Cash &amp; Cash Equivalents</b>	
<b>Cash at the end of the period</b>	<b>17,678,536.84</b>
<b>Less: cash at the beginning of the period</b>	<b>69,861,254.55</b>
<b>Add: cash equivalents at the end of periods</b>	
<b>Less: cash equivalent at the beginning of the period</b>	
<b>Net Increase in Cash &amp; Cash Equivalents</b>	<b>-52,182,717.71</b>

## **Notes to the Financial Statements**

### **Part one**

#### **Main introduction of the company**

Nan An Salcon Water Company Limited (hereafter as the Company) was incorporated on April 18, 2008. After the approval of the Fujian Provincial People's Government, the Company registered in Quanzhou Municipal Bureau of Industry and Commercial Administration, the business license number is 350500400020300. Its office address is on the 106-107 Room, A2, Pulian Road, Nan An City, and Fujian Province. The legal representative is Mr. How See Hock and the registered capital is RMB 100 million Yuan, the shareholders are Nan An Municipal Trade Industrial and Agriculture Investment Operating Company Limited and Salcon Fujian (HK) Company Limited, and the equity proportion is 35% and 65% respectively. The economic nature of the Company is Sino-foreign joint ventures. Its main operation scope list as: production and sale of the raw water and other business related to water treatment and water supply (not including drinking water).(Where the above operating scope relates to the state special provisions, comply with the state provisions)

### **Part two**

#### **Principal accounting policies and accounting assessments**

##### **1 Basis of accounting**

The financial statements of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with Financial Reporting Standards (“FRSs”) issued by the Malaysian Accounting Standards Board (“MASB”), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965 and the preparation and fair presentation of financial statements is the responsibility of the company’s

management.

## **2 Associates**

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the total recognized gains and losses of associates on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealized profits arising on transactions between the Group and its associates which are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the Group's interests in the associates. Unrealized losses on such transactions are also eliminated partially unless cost cannot be recovered.

Goodwill on acquisition is calculated based on the fair value of net assets acquired.

## **3 Property, plant and equipment**

### **(1) Owned assets:**

Property, plant and equipment (fixed assets) are stated at cost/valuation less accumulated depreciation.

The Group revalues its property comprising land and building every 5 years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Surpluses arising from revaluation are dealt with in the property revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment loss if any.

### **(2) Assets under hire purchase**

Property, plant and equipment financed by hire purchase agreements are capitalized at cost. The interest element is charged to income statement over the period of the agreement and accounted for on a sum-of-digits method.

**(3) Depreciation**

Freehold land is not amortized. Leasehold properties are amortized in equal installments over the period of the respective leases which range from ten to ninety-nine years, while freehold buildings are depreciated on a straight line basis over 50 years. The straight line method is used to write off the cost of other assets over the term of their estimated useful lives at the following principal annual rates:

Categories	Useful year at least	Annual depreciation rate	Residual percent of book value	Remark
Equipment & machines	5	18%	10%	
Motor vehicle	5	18%	10%	
Office equipment	5	18%	10%	
Office furniture	5	18%	10%	

**4 Investments**

Long term investments other than in subsidiaries and associates, are stated at cost. An allowance is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

Long term investments in subsidiaries and associates are stated at cost in the Group and in the Company, less impairment loss where applicable.

**5 Intangible asset****Goodwill**

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated amortisation and accumulated impairment losses.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associates.

**6 Inventories**

Inventories consist of spares and supplies, are stated at the lower of cost and net realizable value with weighted average cost being the main basis for cost. Cost is the aggregate cost of purchase and other costs incurred in bringing the inventories to their present location and condition.

**7 Trade and other receivables**

Trade and other receivables are stated at cost less allowance for doubtful debts.

**8 Amount due from contract customers**

Amount due from contract customers on construction contracts is stated at cost plus attributable profits less foreseeable losses and less progress billings. Cost includes all direct construction costs and other related costs. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is shown in trade and other payables as amount due to contract customers.

**9 Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances and deposits with banks. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

**10 Impairment**

The carrying amount of the Group's and of the Company's assets, other than inventories, assets arising from construction contracts and financial assets (other than investments in subsidiaries, associates and joint ventures), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognized in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused

by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, 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 recognized. The reversal is recognized in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

### **11 Liabilities**

Borrowings and trade and other payables are stated at cost.

### **12 Income tax**

Tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognized for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

### **13 Foreign currency transactions**

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of



exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement.

#### **14 Revenue**

##### **(1) Good sold**

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

##### **(2) Construction contracts**

Revenue from fixed price construction contracts is recognized on the percentage of completion method, measured by reference to surveys of work performed.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that is probable will be recoverable and contract costs are recognized as an expense in the period in which they are incurred.

An expected loss on a contract is recognized immediately in the income statement.

##### **(3) Dividend income**

Dividend income is recognized when the right to receive payment is established.

##### **(4) Interest income**

Interest income is recognized in the income statement as it accrues, taking into account the effective yield on the assets.

#### **15 Financing costs**

Financing costs comprise interest payable on borrowings.

All interest and other costs incurred in connection with borrowings are expensed as incurred.

### **Part Three**

#### **Notes to main accounts**

**1. Cash in hand and at bank**

Categories	2009-12-31	2008-12-31
Cash in hand	270.52	2,896.76
Cash at bank	17,678,266.32	69,858,357.79
<b>Total</b>	<b>17,678,536.84</b>	<b>69,861,254.55</b>

**2 Inventories**

Category	2009-12-31	2008-12-31
Project material		131,423.00
<b>Total</b>		<b>131,423.00</b>

**3. Prepaid expense**

	2009-12-31	2008-12-31
Prepaid expenses	18,351,473.80	573,311.00

Most of the ending balances are the prepaid project funds.

**4. Fixed assets and accumulated depreciations**

	2008-12-31	Increase	Decrease	2009-12-31
Original value				
Motor vehicle	1,030,885.00	281,588.00		1,312,473.00
Official equipment	119,998.00	59,100.00		179,098.00
Official furnitures	39,396.00	-		39,396.00
<b>Total</b>	<b>1,190,279.00</b>	<b>340,688.00</b>		<b>1,530,967.00</b>
Accunulated depreciation				
Motor vehicle	61,930.31	202,454.64		264,384.95
Official equipment	7,880.44	27,230.46		35,110.90
Official furnitures	3,289.60	7,512.12		10,801.72
<b>Total</b>	<b>73,100.35</b>	<b>237,197.22</b>		<b>310,297.57</b>
<b>Net book value</b>	<b>1,117,178.65</b>			<b>1,220,669.43</b>

There is no impairment in the current period, so the allowance for fixed assets impairment is no need to make.

**5. Construction in progress**

	2008-12-31	Increase	Decrease	2009-12-31
the Building and Installing Project	16,806,899.00	19,736,243.20		36,543,142.20
Servy and Design Fees	4,150,000.00	1,080,000.00		5,230,000.00
Requisition and Demolition Fees	5,206,642.30	3,128,981.57		8,335,623.87
Amortization Settlement FeeS	988,958.97	1,695,752.51		2,684,711.48
Quality Supervison and Inspection Fee	5,250.00	3,200.00		8,450.00
Construction and Installment Materials	1,902,936.24	9,957,077.80		11,860,014.04
<b>Total</b>	<b>29,060,686.51</b>	<b>35,601,255.08</b>		<b>64,661,941.59</b>

**6. Intangible assets**

	2008-12-31	Increase	Amortization	2009-12-31
Software	6,750.00		1,500.00	5,250.00
<b>Total</b>	<b>6,750.00</b>		<b>1,500.00</b>	<b>5,250.00</b>

**7. Paid-in Capital**

Investor	Paid-in Capital	Propotion of Equity(%)
Nan An Municipal Trade Industrial and Agriculture Investment Operating Company Limited	35,000,000.00	35.00
Salcon Fujian (HK) Company Limited	65,000,000.00	65.00
<b>Total</b>	<b>100,000,000.00</b>	<b>100.00</b>

The Company's registered capital has been verified by Quanzhou Dexin Zhengda Union CPAs Co., Ltd.

**Part Five****Contingencies**

No such events are to be disclosed in the notes to the financial statements.

**Part Six**

**Committed events**

No such events are to be disclosed in the notes to the financial statements.

**Part Seven**

**Others**

To the date of 31 December 2009, the Company's industrial and commerce license and the tax registration certificate have not been processed.

**Nan An Salcon Water Company Limited**

**January 16, 2010**

**ADDITIONAL INFORMATION****1. RESPONSIBILITY STATEMENT**

This Circular has been seen and approved by the Board and they collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other material facts the omission of which would make any statement herein misleading.

**2. CONSENT**

MIMB has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

**3. DECLARATION**

To the best of MIMB's knowledge and belief, MIMB is not aware of any other potential conflict of interest that exists or is likely to exist in respect of its role as the Adviser to the Company for the Proposed Disposal in this Circular.

However, MIMB wishes to highlight that EBB, the holding company of MIMB, has extended various banking facilities to the Group with a limit of up to approximately RM85.52 million comprising overdraft, revolving credit, standby letter of credit, letter of credit, trust receipt, bankers' acceptance, bank guarantee, shipping guarantee, foreign exchange contract line and hire purchase. As at 10 December 2010, the outstanding balance of the said banking facilities amounted to approximately RM48.13 million.

Despite the aforesaid banking facilities provided by EBB, the relationship between EBB and the Group does not give rise to a material conflict of interest situation due to the following reasons:

- (a) MIMB is required to comply strictly with regulated policies and guidelines issued by the relevant authorities such as the SC, Bursa Securities and Bank Negara Malaysia; and
- (b) MIMB's role as the Adviser for the Proposed Disposal has been carried out professionally and objectively in accordance with the relevant terms of the due diligence planning memorandum. The due diligence processes and the verification exercises (which were participated by the Board, senior management of Salcon, the solicitors and MIMB and other advisers) have been duly undertaken and performed in relation to the preparation of relevant documents relating to the Proposed Disposal.

**4. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES**

Save as disclosed below, there are no material commitments and contingent liabilities incurred or known to be incurred by the Salcon Group as at 10 December 2010:

Contingent Liabilities

Corporate guarantees given by the Company to financial institutions for credit facilities granted to its subsidiaries

RM'000

489,365

**5. MATERIAL LITIGATION, CLAIMS OR ARBITRATION**

As at 10 December 2010, Salcon Asia, the HK Subsidiaries and the China Subsidiaries are not engaged in any material litigation, claims or arbitration either as a plaintiff or defendant, and the Directors of Salcon Asia, the HK Subsidiaries and the China Subsidiaries do not have any knowledge of any proceedings pending or threatened against Salcon Asia, the HK Subsidiaries and the China Subsidiaries respectively or any facts likely to give rise to any proceedings which may materially and adversely affect the financial position or business of Salcon Asia, the HK Subsidiaries and the China Subsidiaries.

**6. MATERIAL CONTRACTS**

There are no material contracts (not being contracts entered into in the ordinary course of business) entered into by Salcon Asia, the HK Subsidiaries or the China Subsidiaries within two (2) years preceding the date of this Circular.

**7. DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents are available for inspection at the registered office of Salcon at 15<sup>th</sup> Floor, Menara Summit, Persiaran Kewajipan, USJ1, 47600 UEP Subang Jaya, Selangor Darul Ehsan, Malaysia during normal business hours from the date of this Circular up to and including the date of the EGM:

- (a) Memorandum and Articles of Association of Salcon, Salcon Asia, the HK Subsidiaries and the China Subsidiaries;
- (b) the letter of consent referred to in Section 2 above;
- (c) the audited consolidated financial statements of the Salcon Group for the past two (2) financial years ended 31 December 2008 and 2009 and the unaudited financial statements of the Salcon Group for the nine (9)-month financial period ended 30 September 2010;
- (d) the audited financial statements of Salcon Asia for the past two (2) financial years ended 31 December 2008 and 2009 and the unaudited financial statements of Salcon Asia for the nine (9)-month financial period ended 30 September 2010;
- (e) the audited financial statements of the HK Subsidiaries for the past two (2) financial years ended 31 December 2008 and 2009 and the unaudited financial statements of the HK Subsidiaries for the nine (9)-month financial period ended 30 September 2010;
- (f) the audited financial statements of the China Subsidiaries for the past two (2) financial years ended 31 December 2008 and 2009 and the unaudited financial statements of the China Subsidiaries for the nine (9)-month financial period ended 30 September 2010; and
- (g) the SPA relating to the Proposed Internal Restructuring and Proposed Disposal.

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**SALCON BERHAD**

(Company No.: 593796-T)

(Incorporated in Malaysia under the Companies Act, 1965)

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** an Extraordinary General Meeting (“EGM”) of Salcon Berhad (“Salcon” or the “Company”) will be held at Classics Ballroom 2, Level 3, Holiday Villa Hotel & Suites Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Friday, 21 January 2011 at 10.30 a.m., for the purpose of considering and if thought fit, passing the following resolution, with or without any modifications:

**ORDINARY RESOLUTION**

**PROPOSED DISPOSAL BY SALCON BERHAD OF 40% OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF SALCON WATER (ASIA) LIMITED (“SALCON ASIA”) TO CHALLENGER EMERGING MARKET INFRASTRUCTURE FUND PTE. LTD (“EMIF”) FOR A TOTAL CASH CONSIDERATION OF RENMINBI 238 MILLION AFTER A PROPOSED INTERNAL RESTRUCTURING (“PROPOSED DISPOSAL”)**

“**THAT**, subject to the approvals being obtained from the relevant authorities, approval be and is hereby given to the Company to dispose 126,248,603 ordinary shares of HKD1.00 each in Salcon Asia, representing 40% of the entire issued and paid-up share capital of Salcon Asia to EMIF for a total cash consideration of Renminbi 238 million after the Proposed Internal Restructuring (as defined in the Circular dated 6 January 2011) in accordance with the terms and conditions of the conditional Sale and Purchase Agreement dated 22 November 2010 entered into between Salcon and EMIF;

**AND THAT** the Directors of the Company be and are hereby authorised to do all such acts and matters as they may consider necessary or expedient to give full effect to the aforesaid Proposed Disposal with full power to assent to any conditions, modifications, variations and/or amendments to the terms of the aforesaid Proposed Disposal as may be required by any relevant authorities and to execute, deliver and/or cause to be delivered such documents and agreements in connection therewith.”

**BY ORDER OF THE BOARD**

**Ng Yen Hoong (LS 008016)**  
**Lim Poh Yen (MAICSA 7009475)**  
Company Secretaries

Kuala Lumpur  
6 January 2011

*Notes:*

- 1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply.*
- 2. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.*
- 3. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.*
- 4. The instrument appointing a proxy must be deposited at the Registered Office at 15<sup>th</sup> Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.*



**Proxy Form**

I/We.....  
(PLEASE USE BLOCK/CAPITAL)

of.....  
(FULL ADDRESS)

being a member/ members of **SALCON BERHAD** hereby appoint .....

.....of.....

.....or failing whom, .....of.....

..... or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf, at the Extraordinary General Meeting of the Company to be held at Classics Ballroom 2, Level 3, Holiday Villa Hotel & Suites Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Friday, 21 January 2011 at 10.30 a.m., or at any adjournment thereof.

Resolution	*For	*Against
1. <b>Ordinary Resolution</b> Proposed Disposal		

(\*Please indicate with 'X' in the space provided above how you wish your vote to be cast. If no instruction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.)

Dated this ..... day of ..... 2011

**Number of shares held:**

If more than 1 proxy, please specify number of shares represented by each proxy  
**Name of Proxy 1:**  
**Name of Proxy 2:**

.....  
**Signature of Shareholder(s) or Common Seal**

*Notes:*

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Fold this flap for sealing

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AFFIX  
STAMP

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

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