

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

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SALCON BERHAD

(Company No.: 593796-T)

(Incorporated in Malaysia under the Companies Act, 1965)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE

PROPOSED DISPOSAL BY SALCON BERHAD OF 40% OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF SALCON WATER (ASIA) LIMITED TO CHALLENGER EMERGING MARKET INFRASTRUCTURE FUND PTE. LTD FOR A TOTAL CASH CONSIDERATION OF RENMINBI 238 MILLION AFTER A PROPOSED INTERNAL RESTRUCTURING

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Adviser



MIMB INVESTMENT BANK BERHAD (10209-W)

A Participating Organisation of Bursa Malaysia Securities Berhad

The Notice of the Extraordinary General Meeting (“**EGM**”) of Salcon which 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., is set out in this Circular. Shareholders are advised to refer to the Notice of EGM and the Proxy Form enclosed herein. The Proxy Form should be lodged at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan, no later than forty-eight (48) hours before the time appointed for holding the meeting. The lodgement of the Proxy Form will not preclude you from attending and voting in person at the meeting should you subsequently wish to do so.

Last date and time for lodging the Proxy Form : Wednesday, 19 January 2011 at 10.30 a.m.

Date and time for the EGM : Friday, 21 January 2011 at 10.30 a.m.

This Circular is dated 6 January 2011

DEFINITIONS

In this Circular, unless otherwise indicated, the following words and abbreviations shall have the following meanings:

“Act”	: The Companies Act, 1965
“Board”	: Board of Directors of Salcon
“Bursa Securities”	: Bursa Malaysia Securities Berhad
“Changle Salcon Raw Water”	: Changle Salcon Raw Water Company Limited
“China Subsidiaries”	: Comprising collectively Shandong Changle Water, Changle Salcon Raw Water, Linyi Water, Linyi Runcheng Water, Haining Water and Nan An Water
“Circular”	: This circular dated 6 January 2011 to the shareholders of Salcon
“Concession(s)”	: Concession(s) held by Salcon in the PRC via certain of its subsidiaries relating to the provision of services for water treatment, sewage treatment, raw water supply/transfer and treated water supply/transfer
“EBB”	: EON Bank Berhad
“ECB”	: EON Capital Berhad
“EGM”	: Extraordinary General Meeting
“EMIF”	: Challenger Emerging Market Infrastructure Fund Pte. Ltd
“EPS”	: Earnings per Share
“Fujian”	: Salcon Fujian (HK) Limited
“FPE”	: Financial period ended
“FRS”	: Financial Reporting Standards issued by the Malaysian Accounting Standards Board
“FYE”	: Financial year ended/ending, as the case may be
“Haining Water”	: Haining Salcon Water Company Limited
“HK”	: Hong Kong
“HKD”	: Hong Kong Dollar
“HK Subsidiaries”	: Comprising collectively, Salcon Services, Shandong, Linyi, Zhejiang and Fujian
“HK Subsidiaries Debt”	: The meaning of which is as prescribed in Section 2.1.3 herein
“LAT”	: Loss after taxation
“LATMI”	: Loss after taxation and minority interest
“LBT”	: Loss before taxation

DEFINITIONS (Cont'd)

“Linyi”	: Salcon Linyi (HK) Limited
“Linyi Runcheng Water”	: Linyi Runcheng Water Supply Project Company Limited
“Linyi Water”	: Linyi Salcon Water Company Limited
“LPS”	: Loss per share
“Main Market Listing Requirements”	: Main Market Listing Requirements of Bursa Securities
“MIMB”	: MIMB Investment Bank Berhad
“mld”	: Million litre per day
“m ² ”	: Square meter
“m ³ ”	: Million cubic meters
“NA”	: Net assets
“Nan An Water”	: Nan An Salcon Water Company Limited
“NBV”	: Net book value
“New PRC Co”	: A new company which will be incorporated in PRC as a wholly-owned subsidiary of Salcon Services
“NL”	: Net liabilities
“PAT”	: Profit after taxation
“PATMI”	: Profit after taxation and minority interest
“PBT”	: Profit before taxation
“PRC”	: People’s Republic of China
“Proposals”	: The Proposed Internal Restructuring and Proposed Disposal, collectively
“Proposed Disposal”	: Proposed disposal by Salcon of 126,248,603 ordinary shares of HKD1.00 each representing 40% of the entire issued and paid-up share capital of Salcon Asia to EMIF for a total cash consideration of RMB238 million (or an equivalent of HKD278.6 million or RM112.26 million) after the Proposed Internal Restructuring
“Proposed Disposal of Salcon Shanghai”	: The meaning of which is as prescribed in Section 2.1.3 herein
“Proposed Internal Restructuring”	: Proposed internal restructuring involving Salcon’s wholly-owned subsidiary company, namely Salcon Asia and the HK Subsidiaries whereby the HK Subsidiaries will become 99.99%-owned subsidiary companies of Salcon Asia as further detailed in Section 2.1 herein
“Proposed Novation of Debt and Capitalisation”	: The meaning of which is as prescribed in Section 2.1.3 herein

DEFINITIONS (Cont'd)

“Relevant Subsidiaries”	: Certain of Salcon’s wholly-owned subsidiaries (namely Salcon Engineering Berhad, Salcon Water (HK) Limited, Salcon Jiangsu (HK) Limited (formerly known as Salcon Yunnan (HK) Limited), Zhejiang and Shandong) which have extended advances to the HK Subsidiaries
“RM” and “sen”	: Ringgit Malaysia and sen, respectively
“RMB”	: Renminbi
“SA”	: The Shareholders’ Agreement to be entered into by Salcon with EMIF concurrent with the completion of the Proposed Disposal whereby the agreement regulates the operation and management of the Salcon Asia Group as well as the relationship between Salcon and EMIF
“SC”	: Securities Commission
“Salcon” or the “Company”	: Salcon Berhad
“Salcon Asia”	: Salcon Water (Asia) Limited
“Salcon Asia Debt”	: The meaning of which is as prescribed in Section 2.1.3 herein
“Salcon Asia Group”	: Salcon Asia and its subsidiaries following the Proposed Internal Restructuring
“Salcon Asia Shares”	: 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 (after the Proposed Internal Restructuring) to be disposed pursuant to the Proposed Disposal
“Salcon Group” or “Group”	: Salcon and its subsidiary companies
“Salcon Services”	: Salcon Services (HK) Limited
“Salcon Shanghai”	: Salcon Investment Consultation (Shanghai) Company Limited
“Shandong”	: Salcon Shandong (HK) Limited
“Shandong Changle Water”	: Shandong Changle Salcon Water Company Limited
“SPA”	: The Conditional Sale and Purchase Agreement dated 22 November 2010 entered into by Salcon with EMIF in relation to the Proposed Disposal
“Yizheng Rong Xin Wastewater”	: Yizheng Rong Xin Wastewater Treatment Company Limited
“Zhejiang”	: Salcon Zhejiang (HK) Limited

Words denoting the singular number only shall include the plural and also vice-versa and words denoting the masculine gender shall, where applicable, include the feminine gender, neuter gender and vice versa. Reference to persons shall include a body of persons, corporate or unincorporated (including a trust). Any reference to a time of day shall be a reference to Malaysian time, unless otherwise stated. Any reference to any enactment is a reference to that enactment as for the time being amended or re-enacted.

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

Registered Office:

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

6 January 2011

BOARD OF DIRECTORS

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

To: The Shareholders of Salcon

Dear Sir/Madam,

PROPOSED DISPOSAL BY SALCON OF 40% OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF SALCON ASIA TO EMIF FOR A TOTAL CASH CONSIDERATION OF RMB238 MILLION AFTER THE PROPOSED INTERNAL RESTRUCTURING

1.0 INTRODUCTION

On 22 November 2010, MIMB, on behalf of the Board, announced the following:

- (a) that the Company had on even date entered into a SPA with EMIF in relation to the proposed disposal by the Company of 40% of the entire issued and paid-up share capital of Salcon Asia to EMIF for a total cash consideration of RMB238 million (or an equivalent of HKD278.46 million or RM112.26 million based on an exchange rate of RMB1.00 : HKD1.17 and RM1.00 : RMB2.12 respectively); and
- (b) that in order to facilitate, inter-alia, the Proposed Disposal, Salcon shall undertake a proposed internal restructuring involving its wholly-owned subsidiary company, namely Salcon Asia (currently a dormant investment holding company) and its HK Subsidiaries whereby the HK Subsidiaries will become approximately 99.99%-owned subsidiary companies of Salcon Asia as further detailed in Section 2.1 herein. The Proposed Internal Restructuring is to be completed prior to the Proposed Disposal.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE THE SHAREHOLDERS OF SALCON WITH DETAILS ON THE PROPOSALS AND TO SEEK YOUR APPROVAL FOR THE RESOLUTION TO BE TABLED AT THE FORTHCOMING EGM IN RELATION TO THE PROPOSED DISPOSAL. THE NOTICE OF THE FORTHCOMING EGM TOGETHER WITH THE PROXY FORM ARE ENCLOSED HEREWITH IN THIS CIRCULAR.

SHAREHOLDERS OF SALCON ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED DISPOSAL AT THE FORTHCOMING EGM.

2.0 DETAILS OF THE PROPOSALS

2.1 Proposed Internal Restructuring

2.1.1 Brief information on concessions held by HK Subsidiaries/Current corporate structure

Salcon, via certain of its subsidiaries, currently has eight (8) Concessions. Six (6) of the Concessions (of which the water related plants/facilities are either already operational or under construction) are held by the HK Subsidiaries - as identified in the corporate structure of the HK Subsidiaries below. The HK Subsidiaries are all incorporated in Hong Kong.

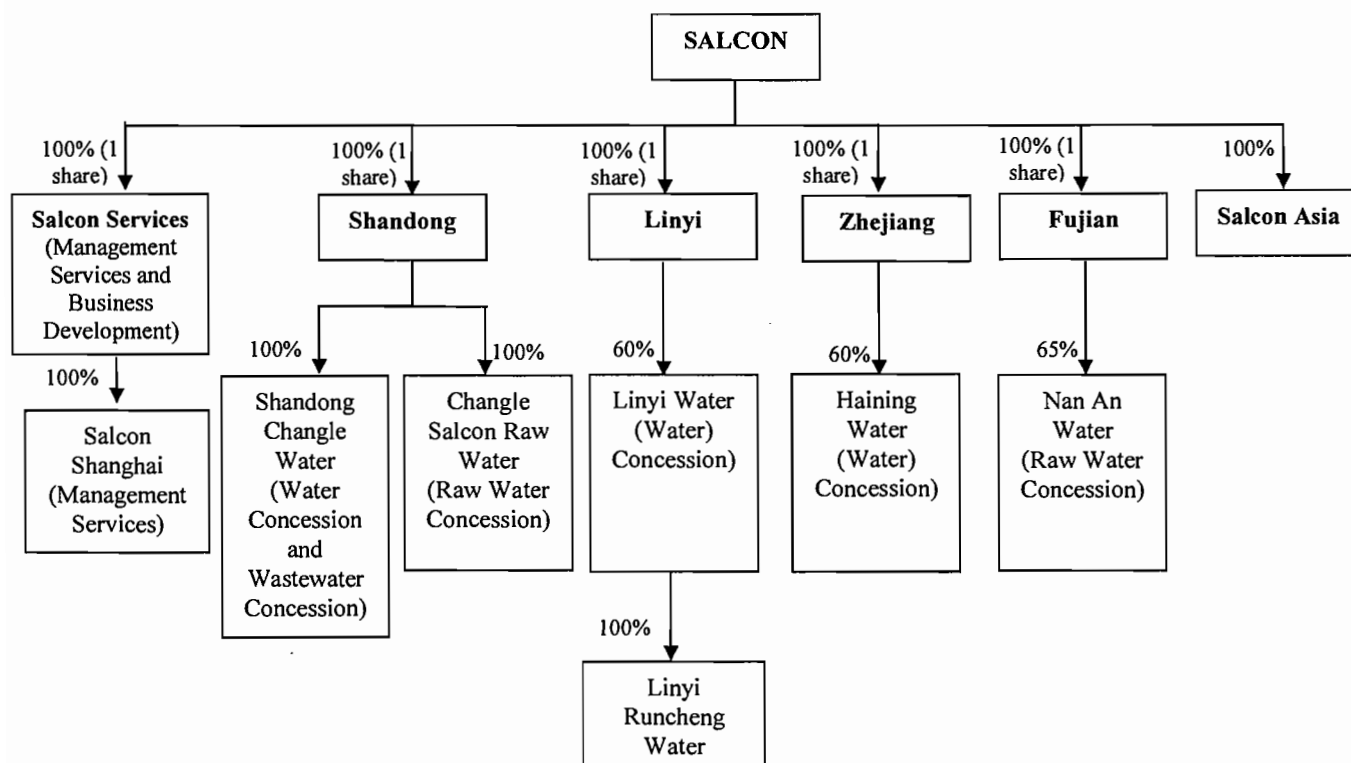
The seventh (7th) Concession, which involves treated water supply/transfer in Jiangsu Province, has only been awarded on 12 December 2009 to Jiangsu Salcon Water & Environmental Development Company Limited (a 66.67%-owned subsidiary of Salcon Jiangsu (HK) Limited, which, in turn, is a wholly-owned subsidiary of Salcon) on a Build-Operate-Transfer basis. The People's Government of Yizheng had commenced with the construction of the plant and is expected to be completed by mid 2011. Upon completion of the construction of the plant, the People's Government of Yizheng shall transfer the said plant to Jiangsu Salcon Water & Environmental Development Company Limited to commence the operation of the plant.

On 20 August 2010, Jiangsu Salcon Water & Environmental Development Company Limited entered into an Equity Transfer Agreement with Wins Sun International Investment Company Limited to acquire the entire equity interest in Yizheng Rong Xin Wastewater for a total cash consideration of RMB44 million. Yizheng Rong Xin Wastewater is principally involved in the treatment of wastewater which is being carried out via a wastewater treatment plant. The company owns a wastewater concession granted by the People's Government of Yizheng. The acquisition of Yizheng Rong Xin Wastewater, i.e. the eighth (8th) Concession, was only recently completed on 11 November 2010.

Accordingly, the seventh (7th) and eighth (8th) Concessions have not been included as part of the Proposed Internal Restructuring or the Proposed Disposal. Both the seventh (7th) and eighth (8th) Concessions are currently managed by Jiangsu Salcon Water & Environmental Development Company Limited.

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The current corporate structure of the HK Subsidiaries is as follows:



2.1.2 Investments to-date by Salcon in the HK Subsidiaries

Apart from the HKD1.00 invested in each of the issued and paid-up share capital of the respective HK Subsidiaries, Salcon and the Relevant Subsidiaries have to-date advanced a total of approximately HKD315.46 million (or an equivalent of RM127.20 million based on the exchange rate of RM1.00 : HKD2.48) to five of the HK Subsidiaries since their respective incorporation, as follows:

Name of HK Subsidiaries	Incorporation date	Advances (HKD' million)
Salcon Services	11 July 2008	1.17
Shandong	14 April 2008	127.49
Linyi	11 January 2005	40.35
Zhejiang	12 June 2006	61.83
Fujian	8 June 2007	84.62
Total		315.46

2.1.3 Proposed Internal Restructuring Steps

The Company is proposing to restructure the existing corporate structure of the HK Subsidiaries whereby the HK Subsidiaries will eventually be approximately 99.99%-owned subsidiary companies of Salcon Asia (which will remain as a wholly-owned subsidiary of Salcon), which will function as an intermediate holding company, the steps of which are as follows:

Step 1 - Transfer of Salcon Shanghai and incorporation of the New PRC Co

Salcon Shanghai is currently a wholly-owned subsidiary of Salcon Services and is principally involved in the provision of management services to the China Subsidiaries and other subsidiaries of Salcon incorporated in China. In order to segregate the provision of management services currently provided to the China Subsidiaries by Salcon Shanghai from that provided to other Salcon subsidiaries incorporated in China, the 100% interest in Salcon Shanghai will be disposed of at HKD1,085,532 to a wholly-owned subsidiary of Salcon, namely, Salcon Water International Limited (or another such other wholly-owned subsidiary of Salcon in HK) (“**Proposed Disposal of Salcon Shanghai**”) to be wholly satisfied by cash. The consideration for the Proposed Disposal of Salcon Shanghai amounting to HKD1,085,532 was arrived at on a “willing-buyer willing-seller” basis after taking into consideration the original cost of investment by Salcon Services in Salcon Shanghai.

Following the disposal of Salcon Shanghai, a New PRC Co will be incorporated to provide management services solely to Salcon Asia and its subsidiaries (which includes the China Subsidiaries) after the Proposed Internal Restructuring. The New PRC Co will be a wholly-owned subsidiary of Salcon Services.

Step 2 - Novation of debts to Salcon Asia in exchange for new Salcon Asia Shares

All the HK Subsidiaries will enter into Deeds of Novation with Salcon Asia, Salcon and the Relevant Subsidiaries for the novation of HKD315.46 million (being an aggregate amount presently owing by the HK Subsidiaries to Salcon and its Relevant Subsidiaries) to Salcon Asia. In conjunction with this, a separate Deed of Novation will also be entered into by Salcon Asia and one of the Relevant Subsidiaries for the novation of HKD0.16 million (being an amount presently owing by Salcon Asia to one of the Relevant Subsidiaries) to Salcon. As a result of the aforesaid Deeds of Novation, Salcon Asia will owe an aggregate amount of HKD315.62 million to Salcon (“**Salcon Asia’s Debt**”), whilst the HK Subsidiaries will owe Salcon Asia (instead of Salcon and its Relevant Subsidiaries, at present) the same aggregate amount (“**HK Subsidiaries’ Debt**”).

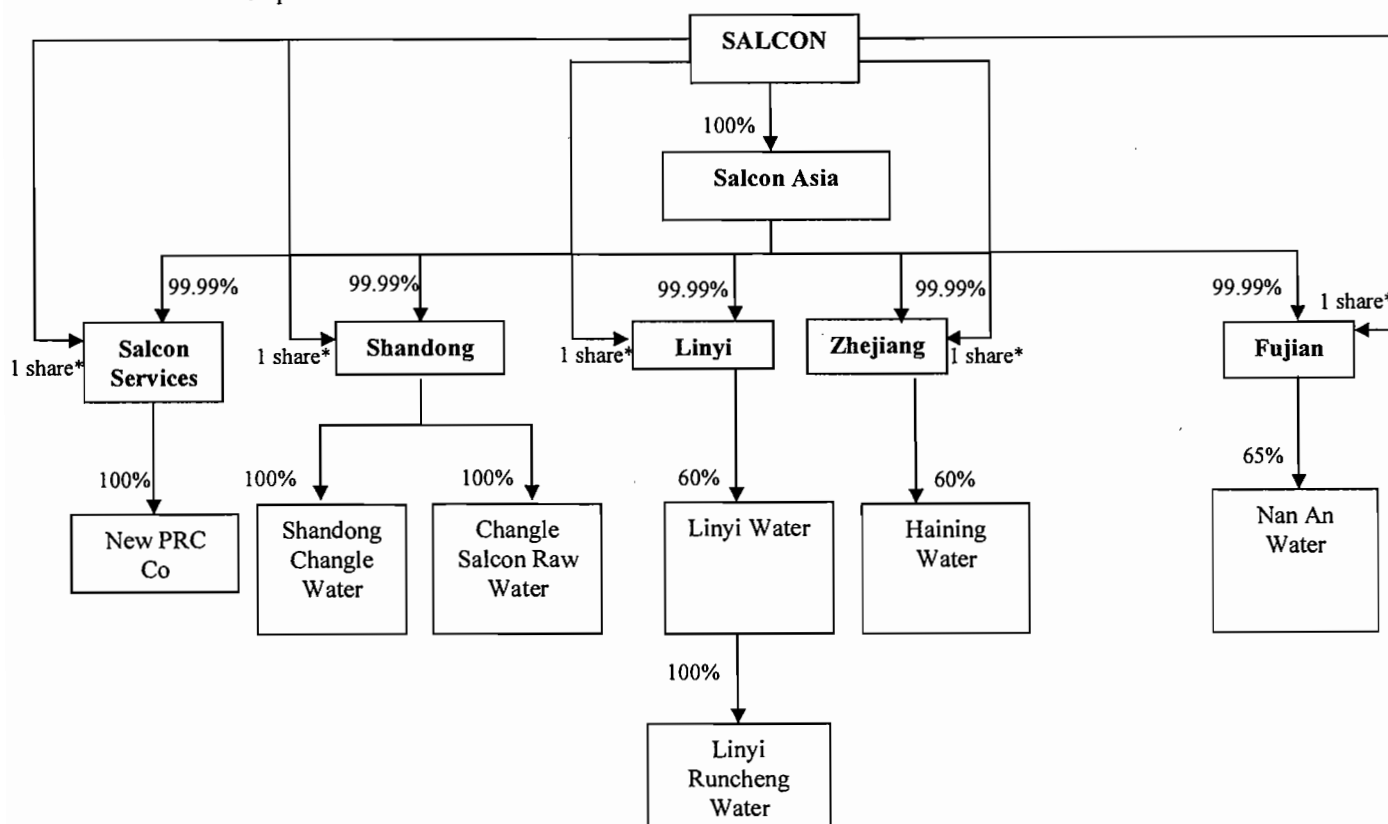
In settlement of the Salcon Asia’s Debt, Salcon Asia will issue 315.62 million ordinary shares of HKD1.00 each at an issue price of HKD1.00 per share to Salcon (“**Proposed Novation of Debt and Capitalisation**”), whereby Salcon Asia will remain a wholly-owned subsidiary of Salcon, albeit with an enlarged issued and paid-up share capital.

Meanwhile, the HK Subsidiaries will capitalise the respective amounts they owe to Salcon Asia under the HK Subsidiaries’ Debt (after the Proposed Novation of Debt and Capitalisation) by way of issuing new ordinary shares of HKD1.00 each in the respective HK Subsidiaries, whereby the HK Subsidiaries will become approximately 99.99%-owned subsidiary companies of Salcon Asia, as follows:

Name of HK Subsidiaries	Amount owing to Salcon Asia after the Proposed Novation of Debt and Capitalisation	Number of new ordinary shares of HKD1.00 each to be issued by respective HK Subsidiaries to Salcon Asia
	(HKD’ million)	(million)
Salcon Services	1.17	1.17
Shandong	127.49	127.49
Linyi	40.35	40.35
Zhejiang	61.83	61.83
Fujian	84.62	84.62
Total	315.46	315.46

The transactions proposed under Steps 1 and 2 constitute the **Proposed Internal Restructuring**.

Upon the completion of the Proposed Internal Restructuring, the corporate structure of the relevant companies involved would be as follows:



Note:

* Salcon will continue to hold the existing 1 share each in all the HK Subsidiaries upon completion of the Proposed Internal Restructuring. Salcon Asia has the right to exercise a call option two (2) years after the completion date of the Proposed Internal Restructuring in relation to the existing 1 share held by Salcon in each of the HK Subsidiaries. Such exercise will allow Salcon Asia to own the one (1) share held by Salcon in each of the HK Subsidiaries. There is no expiry timeframe for the call option. Nevertheless, Salcon Asia intends to exercise the said option the soonest possible (being two (2) years after the completion of the Proposed Internal Restructuring) as such exercise will result in the consolidation of all the interest of the HK Subsidiaries under Salcon Asia. The exercise price for the existing 1 share each in all the HK Subsidiaries shall be HKD1.00 based on the par value of each share in all the HK Subsidiaries.

2.2 Proposed Disposal

2.2.1 Details of the Proposed Disposal

After completion of the Proposed Internal Restructuring, Salcon will dispose of 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 (after the Proposed Internal Restructuring), to EMIF for a total cash consideration of RMB238 million (or an equivalent of HKD278.46 million or RM112.26 million based on an exchange rate of RM1.00 : HKD2.48 and RM1.00 : RMB2.12 respectively).

Under the SPA, EMIF shall acquire the Salcon Asia Shares free from all mortgages, charges, pledges, lien, options, restrictions, right of first refusal, right of pre-emption, claim, right, interest or preference granted to any third party, or any other encumbrance or security interest of any kind (or an agreement or commitment to create any of the same).

Concurrent with the completion of the Proposed Disposal, Salcon will enter into a SA with EMIF.

2.2.2 Brief information on Salcon Asia

Salcon Asia was incorporated in Hong Kong on 20 April 2006 under the Companies Ordinance as a private limited company.

Salcon Asia is currently an investment holding company. It has an authorised share capital of HKD10,000, divided into 10,000 ordinary shares of HKD1.00 each, of which 1 ordinary share of HKD1.00 each has been issued and fully paid-up.

For the purpose of the Proposed Internal Restructuring, the authorised share capital of Salcon Asia will be increased to HKD800 million of HKD1.00 each. Upon completion of the Proposed Internal Restructuring, the issued and fully paid-up share capital of Salcon Asia will increase to 315.62 million ordinary shares of HKD1.00 each.

Salcon Asia is presently a wholly-owned subsidiary of Salcon and will remain a wholly-owned subsidiary of the Company after the completion of the Proposed Internal Restructuring.

Salcon Asia currently does not have any subsidiary and associated companies. Upon completion of the Proposed Internal Restructuring, the HK Subsidiaries will be approximately 99.99%-owned subsidiaries of Salcon Asia, whilst the respective subsidiary companies of the HK Subsidiaries will be indirect subsidiary companies of Salcon Asia.

Details of the directors of Salcon Asia are as follows:

Name	Designation	Nationality
Dato' Seri Goh Eng Toon	Director	Malaysian
Loh Boon Sue	Director	Malaysian

None of the above directors have any, direct or indirect, shareholdings in Salcon Asia.

Kindly refer to the attached Appendix I to VI for further details on of Salcon Asia, the HK Subsidiaries and the China Subsidiaries.

2.2.3 Brief information on EMIF

EMIF was incorporated in Singapore on 4 March 2008 as a private limited company under the Singapore Companies Act (Cap 50). Since its incorporation, EMIF changed its name once from Challenger MBK Emerging Market Infrastructure Fund Pte. Ltd. to its current name on 23 June 2008. EMIF is principally an investment holding company. It has an authorised share capital of USD20,000,002 comprising of 20,002 ordinary shares all of which have been issued and fully paid-up.

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As at 10 December 2010, the Directors and the substantial shareholders of EMIF and their shareholdings in EMIF are as follows:

	Direct		Indirect	
	No. of shares	%	No. of shares	%
<u>Directors</u>				
Phillip William Peters	-	-	-	-
Masayoshi Hosoya	-	-	-	-
Andrew Wade Jones	-	-	-	-
Hironichi Takeuchi	-	-	-	-
<u>Substantial Shareholders</u>				
Challenger MBK Emerging Market Infrastructure Fund GP Limited	20,002	100	-	-

Details of the subsidiary company of EMIF are as follows:

Subsidiary company	Date/Place of incorporation	Effective equity interest	Principal activities	
		%		
GV Cayman Holding Trust	18 March 2008/ Cayman Island	51.4	Investment company	holding company
GV Jersey Holding Company Limited	18 March 2008/ Jersey	51.4	Investment company	holding company

EMIF does not have any associated companies.

2.2.4 Basis and justification of arriving at the consideration pursuant to the Proposed Disposal

The consideration for the Proposed Disposal amounting to RMB238 million was arrived at on a “willing-buyer willing-seller” basis after taking into consideration the respective valuations of the Concessions held by the HK Subsidiaries based on a discounted cash-flow method of valuation, which essentially discounts the projected net cash-flows of all the Concessions of the HK Subsidiaries over their entire respective concession periods. The discounted cash-flow method of valuation takes into consideration the expected sales quantity, tariff rate, non-revenue water (i.e. loss of water during the transfer due to leakage), inflation on the cost, provision of repair and maintenance, financing costs, utilities cost, etc. at a discount rate of 12%.

The following is the value placed on each of the Concessions held by the HK Subsidiaries based on the discounted cash-flow method of valuation for the disposal of 40% equity interest in Salcon Asia:

Name of HK Subsidiaries	RMB' million
Shandong – Water Concession and Wastewater Concession	76.00
Shandong – Raw Water Concession	28.00
Linyi	38.00
Zhejiang	56.00
Fujian	40.00
Total	238.00

The Board is of the opinion that such basis is justified as it takes into consideration the projected cashflow of all the Concessions during their respective concession periods.

2.2.5 Proposed utilisation of proceeds

The Board proposes to utilise the total cash proceeds amounting to approximately RMB238 million (equivalent to approximately RM112.26 million based on an exchange rate of RM1.00 : RMB2.12) to be realised from the Proposed Disposal, in the following manner:

Proposed utilisation	RM' million equivalent	Expected time frame for utilisation of proceeds from date of completion of the Proposals
Future investment(s) (See Note 1)	101.06	Within 24 months
Repayment of bank borrowings	10.00	Within 12 months
Defraying estimated expenses relating to the Proposed Disposal	1.20	Within 3 months
Total	112.26	

Note 1:

Over the last several years, the Salcon Group has been actively involved in the Malaysian water and wastewater industry via projects such as the Construction and Completion of Infrastructure Works (Package Utility 1) sewage treatment plant for Medini Development, Iskandar Malaysia, the Kota Kinabalu Sewage Treatment Project, NRW Lahad Datu Phase 1 Project, NRW Tawau Phase 2 Project, etc. On the international front, the Group has also expanded into various countries such as China, Vietnam, Sri Lanka and Thailand and is also planning to venture into other countries such as Indonesia, Cambodia and India. In this respect, the Group expects to make further investments to achieve its objective of growing its water related business operations and earnings base, through penetration into other markets. For example, the Group is currently planning/negotiating on several future projects (including water treatment, sewage treatment and raw water supply/ transfer operations via Salcon Asia). However, since such future projects are yet to be secured, information on the relevant projects (such as the location of the projects, estimated total amount to be invested, source(s) of funding by Salcon, etc.) cannot be disclosed at this juncture. Once such new projects are confirmed, be it local or foreign projects, the funds from the Proposed Disposal allocated for future investment(s), will be channelled towards funding such projects. Until such time as the proceeds are utilised for its intended purpose, the net proceeds will be invested in interest-bearing deposit accounts or other readily realisable short term investments.

As at 10 December 2010, the total bank borrowings of the Salcon Group stood at RM197.56 million. For illustration only, the annual savings in interest payment arising from the repayment of the earmarked bank borrowings of RM10 million will be approximately RM600,000 per annum based on an average cost of bank borrowings of 6% per annum of the Salcon Group.

2.2.6 Original cost and date of investment

The original cost of investment in Salcon Asia is HKD1.00, which was invested by Salcon on 20 April 2006.

Pursuant to the Proposed Novation of Debt and Capitalisation, Salcon will invest another HKD315.62 million (equivalent to approximately RMB269.76 million based on an exchange rate of RMB1.00 : HKD1.17 or approximately RM127.25 million based on an exchange rate of RM1.00 : RMB2.12) in the issued and paid-up share capital of Salcon Asia via the capitalisation of the Salcon Asia's Debt into 315.62 million ordinary shares of HKD1.00 each in Salcon Asia.

2.2.7 Assumption of liabilities

There are no liabilities, including contingent liabilities and guarantees, to be assumed by EMIF arising from the Proposed Disposal.

2.2.8 Salient terms of the SPA

A summary of the some salient terms and conditions of the SPA are as follows:

Consideration

EMIF shall pay Salcon a cash amount of RMB238 million in full upon completion of the Proposed Disposal.

Adjustments to the purchase price

Of the Concessions held by the HK Subsidiaries, Changle Salcon Raw Water and Nan An Water are still in the process of laying raw water pipelines, whilst Haining Water has only recently commenced operations of its Phase II with 150 MLD plant and has yet to agree the water tariff rates with the Haining Water Group (which is a unit owned by the Haining Municipal).

This being the case and as the Proposed Disposal consideration was arrived at after taking into consideration the valuations of all the Concessions held by the HK Subsidiaries based on a discounted cash-flow method of valuation, the SPA provides for adjustments to be made to the respective disposal considerations for Shandong (which owns Changle Salcon Raw Water), Fujian (which owns Nan An Water) and Zhejiang (which owns Haining Water).

Such adjustments (if necessary) shall be made and appropriate cash amounts paid by EMIF to Salcon or Salcon to EMIF, as the case may be, in the event of amongst others, variations to subject matters such as construction costs, amount of additional third party debt required, shareholders' loans required to fund any increase in total construction costs, water tariff rates, water sales volume bands and minimum guaranteed volumes, at various points in time, including the targeted dates of completion - as elaborated in Clause 3 and Schedule 5 of the SPA. Accordingly, any adjustment required will be made via a revised valuation for the said companies.

Conditions precedent

Completion of the SPA is conditional on the fulfilment of the conditions precedent on or before the 150th day following the signing of the SPA.

A summary of some salient conditions to be fulfilled, amongst others, are as follows:

- (a) the passing at a shareholders' meeting of Salcon of a valid resolution to approve the sale of the Salcon Asia Shares (pursuant to the Proposed Disposal);
- (b) Salcon sending and EMIF receiving the documents relating to the Proposed Internal Restructuring;
- (c) receipt by EMIF of all required regulatory certificates, permits, licences, authorizations, consents, registrations, filings, approvals, concessions, franchises, authorizations, waivers, orders, variances, clearances, declarations, disclosures and notifications to any regulatory or governmental authority in any country, without the imposition of adverse conditions;
- (d) the provision of all consents, waivers and approvals required from certain lending banks and other financing institutions in relation to the Proposed Internal Restructuring and the sale of the Salcon Asia Shares (pursuant to the Proposed Disposal); and

- (e) the occurrence of all events and the provision of all documents required in connection with the completion of the Proposed Internal Restructuring in accordance with the terms of the documents relating to the Proposed Internal Restructuring and the sale of the Salcon Asia Shares (pursuant to the Proposed Disposal) in accordance with the terms of the agreement under applicable laws and regulations or to avoid a breach of any material agreement, arrangement or undertaking to which Salcon Asia Group or Salcon Group is a party or otherwise bound.

2.2.9 Contributions to Salcon Group's PATMI

The Salcon Group recorded a consolidated PATMI of RM22.053 million based on the consolidated audited financial statements for the FYE 31 December 2009.

The Salcon Asia Group for the FYE 31 December 2009 would have recorded a consolidated PATMI of RM8.942 million based on the proforma consolidated audited financial statements for the FYE 31 December 2009 assuming that the Salcon Asia Group's structure had been in place since the beginning of the FYE 31 December 2009.

For illustration only, had the Proposed Disposal been completed on 1 January 2009, the proforma PATMI of the Salcon Group based on the audited consolidated financial statements for the FYE 31 December 2009 would be approximately RM18.476 million (i.e. reduced by approximately RM3.577 million due to the diluted effective interest in the HK Subsidiaries pursuant to the Proposed Disposal).

3.0 RATIONALE FOR THE PROPOSALS

The purpose of the Proposed Internal Restructuring is to restructure the corporate structure of the HK Subsidiaries (which are principally involved in water treatment, sewage treatment and raw water supply/transfer activities) under a single holding company i.e. Salcon Asia, in order to facilitate the following:

- (a) the Proposed Disposal, in the immediate future;
- (b) the planned continuing expansion of the Salcon Group's water treatment, sewage treatment and raw water supply/transfer operations via Salcon Asia; and
- (c) the Board's plans to explore a separate listing of the enlarged Salcon Asia Group on a stock exchange to be determined in the medium to longer term future.

The Proposed Disposal, in turn, has a two prong objective, as follows:

- (a) To enable the Company to unlock part of the value of its investments in the HK Subsidiaries, whilst maintaining controlling shareholding in the HK Subsidiaries via its remaining 60% equity stake in Salcon Asia, whereby the Salcon Group would realise an estimated gain on the Proposed Disposal of approximately RMB127.48 million (equivalent to approximately RM60.13 million based on an exchange rate of RM1.00 : RMB2.12) and would receive gross cash proceeds amounting to RMB238 million (equivalent to approximately RM112.26 million based on an assumed exchange rate of RM1.00 : RMB2.12).

The gross proceeds to be raised is proposed to be partly used to finance the planned continuing expansion of the Salcon Group's water treatment, sewage treatment and raw water supply/transfer operations via Salcon Asia, for which the Salcon Group plans to continue to seek out new opportunities. Therefore, despite having a lower equity stake (of 60%) in Salcon Asia after the Proposed Disposal, Salcon's plans are to expand its water related operational and earnings base such that its reduced stake would nevertheless be in a larger profitable entity in the longer term future.

- (b) In this regard, the introduction of a new strategic shareholder into Salcon Asia, namely, EMIF, is in consonance with Salcon's plans to grow its water related operations further. The Board understands that EMIF is an emerging market infrastructure fund, backed by well established and reputable multinational shareholders. The fund focuses on investing in infrastructure projects such as PRC water related operations amongst others. The Board is therefore of the view that such an alliance would form a strong platform for the continuing growth of the water related operations of the Salcon Group as well as enhancing the international image of the Group particularly in relation to its water related business activities.

4.0 EFFECTS OF THE PROPOSALS

The Proposed Internal Restructuring will not have any effect on the issued and paid-up share capital of Salcon nor the shareholdings of the substantial shareholders of Salcon. The Proposed Internal Restructuring will also not have any effect on the NA value, gearing, earnings and earnings per share of the Salcon Group.

4.1 Share Capital

The Proposed Disposal will not have any effect on the share capital of the Company as there is no issuance of shares in Salcon.

4.2 NA and Gearing

The proforma effects of the Proposed Disposal on the consolidated NA and gearing of the Salcon Group based on the audited financial statements for the FYE 31 December 2009 are illustrated as follows:

	Audited as at 31 December 2009	After the Proposed Disposal
	RM'000	RM'000
Share capital	233,860	233,860
Share premium	35,067	35,067
Warrant reserve	22,150	22,150
Translation reserve	9,840	9,840
Revaluation reserve	150	150
Retained earnings	6,464	⁽¹⁾ 66,594
Shareholders' funds/NA	307,531	367,661
No. of ordinary shares ('000)	467,720	467,720
NA per share (RM)	0.66	0.79
Bank borrowings (RM'000)	111,074	101,074
Gearing ratio (times)	0.36	0.27

Note:

- (1) *Net of estimated expenses for the Proposed Disposal amounting to approximately RM1.2 million and gain from the Proposed Disposal.*

4.3 Earnings

The Proposed Disposal is not expected to have any material effects on the earnings of the Group for the FYE 31 December 2010 as the Proposed Disposal is expected to be completed by the first (1st) quarter of the FYE 31 December 2011.

In line with the FRS 127 – Consolidated and Separate Financial Statements which was introduced in 2010, the Proposed Disposal will not have any material effects on the earnings and earnings per share of the Group for the FYE 31 December 2011 as the said disposal is only a reduction of interest in Salcon Asia (from 100% to 60% interest) while at the same time, control in Salcon Asia still remains. Nevertheless, the expected capital gain amounting to RMB127.48 million (equivalent to about RM60.13 million based on the exchange rate of RM1.00 : RMB2.12) will be reflected in the reserves of the Salcon Group.

Nevertheless, Salcon would be able to continue to consolidate (via its 60% interest in Salcon Asia after the Proposed Disposal) any future earnings of the Salcon Asia Group. The Company's earnings and EPS are expected to improve when all its Concessions become operational in the near future.

4.4 Substantial Shareholders' Shareholdings

The Proposed Disposal will not have any effect on the substantial shareholders' shareholdings in Salcon as the Proposed Disposal will be fully satisfied by cash.

5.0 RISK FACTORS

The Proposed Internal Restructuring is mainly to restructure the corporate structure of the HK Subsidiaries under a single holding company, and the Board does not foresee any significant risk involved. As regards to the Proposed Disposal, there may be various possible risk factors involved and these may include (but may not be limited to) the following:

- (a) Risk factors associated with and arising from disposal transactions in general - including the fact that the completion of the Proposed Disposal is subject to various conditions precedent set forth in the SPA and SA being satisfied and/or waived (as the case may be). These include, among others, approvals being secured from the relevant authorities/parties and shareholders of Salcon. In this regard, there can be no assurance that all conditions precedent would indeed be fulfilled, for example, that approvals would definitely be obtained from the relevant authorities/parties and/or the shareholders of Salcon. This is notwithstanding that Salcon may take all reasonable steps to seek to ensure the satisfaction and/or waiver (as the case may be) of the conditions precedent and completion of the Proposed Disposal.
- (b) The SPA provides for adjustments to be made to the respective disposal considerations for Shandong (which owns Changle Salcon Raw Water), Fujian (which owns Nan An Water) and Zhejiang (which owns Haining Water) as Changle Salcon Raw Water and Nan An Water are still in the process of laying raw water pipelines, whilst Haining Water has only recently commenced operation of its Phase II with 150 MLD plant and has yet to agree the water tariff rates with the Haining Water Group (which is a unit owned by the Haining Municipal). There can be no firm assurance that there will not be any triggering event (such as variations in construction costs, water tariff rates to be agreed to, etc.) for adverse adjustments which may reduce the disposal considerations for Shandong, Fujian and/or Zhejiang significantly. This is notwithstanding that Salcon may take all reasonable steps to seek to ensure that no such adverse variations arise.
- (c) The Proposed Disposal would result in Salcon consolidating a lower share of the HK Subsidiaries (via Salcon Asia). Although this is in line with Salcon's plans to expand its water related business activities such that its reduced stake via Salcon Asia would nevertheless be in a larger profitable entity in the longer term future, there can be no firm assurance that this objective would indeed be met.

- (d) The continuing growth and development of the Salcon Asia Group would be expected to depend on, inter-alia, the future good working relationship between Salcon and EMIF. Any breakdown in the relationship could have adverse implications on the ongoing business growth of the Salcon Asia Group as is the case for any partnership. By entering into the SA (concurrently with the completion of the Proposed Disposal), which governs (inter-alia) the working relationship between Salcon and EMIF (as shareholders of Salcon Asia after the Proposals) in respect of the business activities of Salcon Asia Group, Salcon hopes to mitigate such a risk to a certain extent.

6.0 APPROVALS REQUIRED FOR THE PROPOSALS

There is no approval to be obtained from any parties/authorities for the Proposed Internal Restructuring. The Proposed Disposal is subject to and conditional upon approvals from, amongst others, the following:

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

The Proposed Internal Restructuring is not conditional upon the Proposed Disposal. The Proposed Disposal is conditional upon the Proposed Internal Restructuring.

The Proposals are not conditional upon any other corporate proposals being undertaken by Salcon.

7.0 INTERESTS OF DIRECTORS AND MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

None of the Directors and major shareholders of Salcon and/or persons connected to them has any interest, direct or indirect, in the Proposals.

8.0 OUTSTANDING CORPORATE EXERCISES

Save for the Proposals which is the subject matter of this Circular, the Board has confirmed that there are no other corporate exercises/schemes which have been announced but not yet completed.

9.0 ESTIMATED TIME FRAME FOR COMPLETION AND TENTATIVE TIMETABLE FOR THE PROPOSALS

Barring any unforeseen circumstances, the Proposals are expected to be completed by the first (1st) quarter of the FYE December 2011. The indicative timetable for the implementation of the Proposed Disposal is as follows:

Events	Estimated Implementation Date ⁽¹⁾
EGM to approve the Proposed Disposal	21 January 2011
Completion of the Proposed Disposal	By 31 January 2011

Note:

(1) The timetable above is still tentative and is subject to changes which may be necessary to facilitate implementation procedures. Any delay in an event will result in a delay of subsequent events.

10.0 DIRECTORS' RECOMMENDATION

The Board, after having considered the terms of the SPA, the rationale and effects of the Proposed Disposal, is of the opinion that the Proposed Disposal is in the best interest of the Company.

Accordingly, the Board recommends that you vote in favour of the resolution to be tabled at the forthcoming EGM in relation to the Proposed Disposal based on the rationale as disclosed in Section 3.0 of this letter to the shareholders of Salcon.

11.0 EGM

The EGM for the Proposed Disposal, notice of which is enclosed in this Circular, 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 resolution pertaining to the Proposed Disposal.

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

12.0 ADDITIONAL INFORMATION

Shareholders are advised to refer to the attached Appendices for further information.

Yours faithfully
For and on behalf of the Board
SALCON BERHAD

Dato' Tee Tiam Lee
Executive Deputy Chairman

1.0 ADDITIONAL INFORMATION ON SALCON ASIA

1.1 DETAILS OF BUSINESS/ ASSETS OWNED

Currently, Salcon Asia does not directly own any business/ assets.

1.2 FINANCIAL INFORMATION

1.2.1 Summary financial information

The summary financial information of Salcon Asia based on the audited financial statements for the past three (3) FYE 31 December 2009 and the unaudited financial results for the nine (9) month 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	HKD	HKD	HKD
Turnover	-	-	-	-
LBT	(29,955)	(41,456)	(36,755)	(16,382)
LAT	(29,955)	(41,456)	(36,755)	(16,382)
LATMI	(29,955)	(41,456)	(36,755)	(16,382)
Gross LPS (HKD)	(29,955)	(41,456)	(36,755)	(16,382)
Net LPS (HKD)	(29,955)	(41,456)	(36,755)	(16,382)
Paid-up capital	1	1	1	1
Shareholders' funds	(74,326)	(115,782)	(152,537)	(168,919)
NL	(74,326)	(115,782)	(152,537)	(168,919)
NL per share (HKD)	(74,326)	(115,782)	(152,537)	(168,919)
Current ratio (times)	Negligible	Negligible	Negligible	Negligible
Total borrowings (all interest-bearing debts)	-	-	-	-
Gearing ratio (times)	-	-	-	-

1.2.2 Commentary on past performance

Salcon Asia is an investment holding company and has recorded losses since incorporation till to-date due to administrative and operating expenses incurred such as legal and professional fees, audit and other statutory fees.

1.2.3 Accounting policies adopted

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

1.2.4 Audit qualification

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

1.2.5 Audited financial statements of Salcon Asia for the FYE 31 December 2009

The audited financial statements of Salcon Asia 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 Salcon Asia for the FYE 31 December 2009.)

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SALCON WATER (ASIA) LIMITED
REPORT OF THE DIRECTORS
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009



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 Water (Asia) Limited (hereinafter referred to as the "Company") for the year ended 31 December 2009.

Principal activity

The Company was inactive during the year.

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 8, 9 and 12 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 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.

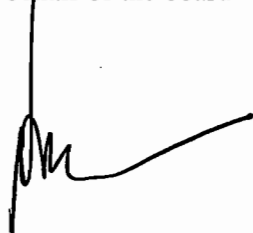
Directors' rights to acquire shares or debentures

At no time during the year was the Company, its ultimate holding company 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 WATER (ASIA) LIMITED**

3

(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Salcon Water (Asia) Limited (“the Company”) set out on pages 5 to 23, 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 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. 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 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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Certified Public Accountants



**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDER OF
SALCON WATER (ASIA) LIMITED (CONTINUED)** _____ 4
(incorporated in Hong Kong with limited liability)

Opinion

In our opinion, 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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SALCON WATER (ASIA) LIMITED _____ 5

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009 (in HK Dollars)	Notes	2009	2008
Turnover		-	-
Administrative and operating expenses		<u>(36,755)</u>	(41,456)
Loss before taxation	6	(36,755)	(41,456)
Taxation	7	<u>-</u>	-
Loss for the year		(36,755)	(41,456)
Other comprehensive income for the year		<u>-</u>	-
Total comprehensive loss for the year		(36,755)	(41,456)
Loss attributable to equity holder of the Company		<u>(36,755)</u>	(41,456)
Total comprehensive loss attributable to equity holder of the Company		<u>(36,755)</u>	(41,456)

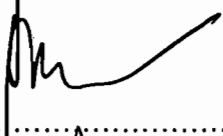
The accompanying notes form an integral part of these financial statements.

SALCON WATER (ASIA) LIMITED _____ 6

STATEMENT OF FINANCIAL POSITION

At 31 December 2009 (in HK Dollars)	Notes	2009	2008
Current asset			
Amount due from ultimate holding company	8	1	1
Less: Current liabilities			
Accruals		19,500	19,500
Amount due to a fellow subsidiary	9	133,038	96,283
		152,538	115,783
Net current liabilities		(152,537)	(115,782)
Total asset less current liabilities		(152,537)	(115,782)
Capital and reserve attributable to equity holder of the Company			
Share capital	10	1	1
Accumulated losses	11	(152,538)	(115,783)
Total equity		(152,537)	(115,782)

Approved by the board of directors on 8 March 2010

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

SALCON WATER (ASIA) LIMITED _____ 7

STATEMENT OF CHANGES IN EQUITY

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

	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
At 1 January 2008	1	(74,327)	(74,326)
Loss for the year	-	(41,456)	(41,456)
At 31 December 2008 and 1 January 2009	1	(115,783)	(115,782)
Loss for the year	-	(36,755)	(36,755)
At 31 December 2009	1	(152,538)	(152,537)

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

SALCON WATER (ASIA) LIMITED _____ 8

STATEMENT OF CASH FLOWS

For the year ended 31 December 2009 (in HK Dollars)	2009	2008
OPERATING ACTIVITIES		
Loss before taxation and operating loss before working capital changes	(36,755)	(41,456)
Increase in accruals	-	500
Increase in amount due to a fellow subsidiary	36,755	40,956
Net cash used in operating activities	-	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	-
Analysis of balances of cash and cash equivalents		
Cash and bank balances	-	-

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

NOTES TO 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 Company was inactive during the year.

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

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

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 January 2010

⁴ Effective for annual periods beginning on or after 1 February 2010

⁵ Effective for annual periods beginning on or after 1 July 2010

⁶ Effective for annual periods beginning on or after 1 January 2011

⁷ 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)

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.

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 \$152,537 (2008: \$115,782) and accumulated losses of \$152,538 (2008: \$115,783) 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) Turnover

There was no turnover during the year.

(c) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(d) 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.

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.

(e) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(f) 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.

Financial assets

The Company's major financial asset is amount due from ultimate holding company which falls 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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
- (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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

The Company's financial liabilities including accruals and amount due to a fellow subsidiary 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.

(g) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(g) Contingent liabilities and contingent assets (continued)**

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.

(h) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

	<u>2009</u>	<u>2008</u>
Financial assets		
Loans and receivables	1	1
Financial liabilities		
Amortised cost	152,538	115,783

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 operates mainly locally and most transactions are denominated in Hong Kong Dollars. Therefore the foreign exchange risk of the Company is minimal.

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)**Credit risk

The Company has no significant concentrations of credit risk.

Liquidity risk

Advance from a fellow subsidiary is 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\$
At 31 December 2009				
Non-derivative financial liabilities				
Accruals	(19,500)	-	(19,500)	(19,500)
Amount due to a fellow subsidiary	(133,038)	-	(133,038)	(133,038)
	(152,538)	-	(152,538)	(152,538)
At 31 December 2008				
Non-derivative financial liabilities				
Accruals	(19,500)	-	(19,500)	(19,500)
Amount due to a fellow subsidiary	(96,283)	-	(96,283)	(96,283)
	(115,783)	-	(115,783)	(115,783)

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 values 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. 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	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

7. TAXATIONCurrent 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	(36,755)		(41,456)	
Tax at Hong Kong profits tax rate of 16.5% (2008: 16.5%)	(6,064)	(16.5%)	(6,840)	(16.5%)
Tax effect of income not subject to tax and expenses not deductible for tax	6,064	16.5%	6,840	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.

8. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount due from ultimate holding company is unsecured, interest-free and recoverable on demand.

9. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount due to a fellow subsidiary is unsecured, interest-free and repayable on demand.

SALCON WATER (ASIA) LIMITED _____ 22

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

10. 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

11. ACCUMULATED LOSSES

At 1 January 2008	(74,327)
Loss for the year	<u>(41,456)</u>
At 31 December 2008 and 1 January 2009	(115,783)
Loss for the year	<u>(36,755)</u>
At 31 December 2009	<u>(152,538)</u>

12. 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 Notes 8 and 9 to the financial statements, there was no other material related party transaction during the year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

13. 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.

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.

14. 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 WATER (ASIA) LIMITED _____ 24

DETAILED STATEMENT OF COMPREHENSIVE INCOME

(For Management Use Only)

For the year ended 31 December 2009 (in HK Dollars)	2009	2008
Turnover	-	-
Administrative and operating expenses		
Audit fee	(15,500)	(15,500)
Bank charge	(50)	(77)
Business registration fee	(2,450)	(450)
Legal and professional fees	(13,000)	(19,900)
Printing, stationery and travelling	(2,155)	(2,029)
Registered office facility	(3,600)	(3,500)
	(36,755)	(41,456)
Loss before taxation	(36,755)	(41,456)
Taxation	-	-
Loss for the year	(36,755)	(41,456)
Other comprehensive loss for the year	-	-
Total comprehensive loss for the year	(36,755)	(41,456)

1.0 INFORMATION ON SALCON SERVICES**1.1 DATE AND PLACE OF INCORPORATION**

Salcon Services was incorporated in Hong Kong on 11 July 2008 under the Companies Ordinance as a private limited company.

1.2 BRIEF HISTORY AND BUSINESS

Salcon Services 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

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

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

For the purpose of the Proposed Internal Restructuring, the authorised share capital of Salcon Services will be increased to HKD50 million of HKD1.00 each. Upon completion of the Proposed Internal Restructuring, the issued and fully paid-up share capital of Salcon Services will increase to 1.17 million ordinary shares of HKD1.00 each.

1.4 SUBSTANTIAL SHAREHOLDERS

Salcon Services 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 Salcon Services is Salcon Asia and Salcon respectively.

1.5 DIRECTORS

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

Name	Designation	Nationality
Law Woo Hock	Director	Malaysian
Loh Boon Sue	Director	Malaysian

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

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1.6 LIST OF SUBSIDIARY AND ASSOCIATED COMPANIES

Details of the subsidiary company of Salcon Services are as follows:

Subsidiary company	Date/Place of incorporation	Effective equity interest %	Registered capital USD	Principal activities
Salcon Shanghai	20 October 2008/ PRC	100	140,000	Provision of management services

Salcon Shanghai will not be a part of the Salcon Asia Group since it will be disposed to a wholly-owned subsidiary of Salcon pursuant to the Proposed Internal Restructuring. Salcon Shanghai will therefore not be a subject of the Proposed Disposal.

Salcon Services does not have any associated companies.

1.7 DETAILS OF BUSINESS/ ASSETS OWNED

Salcon Services does not directly own any business/ assets.

1.8 FINANCIAL INFORMATION

1.8.1 Summary financial information

The summary financial information of Salcon Services based on the audited financial statements for the period from 11 July 2008 (date of incorporation) to 31 December 2008 and FYE 31 December 2009 and the unaudited financial results as at 30 November 2010 are summarised as follows:

	11 July 2008 to 31 December 2008	FYE 31 December 2009	As at 30 November 2010
	Audited		Unaudited
	HKD	HKD	HKD
Turnover	-	-	-
LBT	(38,905)	(28,405)	(16,540)
LAT	(38,905)	(28,405)	(16,540)
LATMI	(38,905)	(28,405)	(16,540)
Gross LPS (HKD)	(38,905)	(28,405)	(16,540)
Net LPS (HKD)	(38,905)	(28,405)	(16,540)
Paid-up capital (HKD)	1	1	1
Shareholders' funds	(38,904)	(67,309)	(83,848)
NL	(38,904)	(67,309)	(83,848)
NL per share (HKD)	(38,904)	(67,309)	(83,848)
Current ratio (times)	0.20	0.03	0.01
Total borrowings (all interest-bearing debts)	-	-	-
Gearing ratio (times)	-	-	-

1.8.2 Commentary on past performance

Salcon Services is an investment holding company and has been recording losses since incorporation to-date due to administrative and operating expenses incurred such as legal and professional fees, audit and other statutory fees.

1.8.3 Accounting policies adopted

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

1.8.4 Audit qualification

The financial results of Salcon Services for the period from 11 July 2008 (date of incorporation) to 31 December 2008 was not subject to any audit qualification.

The financial results of Salcon Services for the FYE 31 December 2009 was 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 Salcon Services 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 and that the information in relation to the acquisition of the subsidiary had not been presented in the financial statements as required by Hong Kong Accounting Standard 7 – Cash Flow Statements. 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 Salcon Services and that it has been prepared in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Companies Ordinance.

1.8.5 Audited financial statements of Salcon Services for the FYE 31 December 2009

The audited financial statements of Salcon Services 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 Salcon Services for the FYE 31 December 2009.)

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SALCON SERVICES (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 Services (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. Law Woo Hock
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, 11 and 14 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.

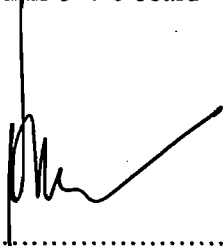
Directors' rights to acquire shares or debentures

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 SERVICES (HK) LIMITED**

3

(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Salcon Services (HK) Limited (“the Company”) set out on pages 5 to 24, 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 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 of 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 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 SERVICES (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\$232,644. 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. In addition, information in relation to the acquisition of the subsidiary has not been presented in the financial statements as required by Hong Kong Accounting Standard 7 "Cash Flow Statements". 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 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 SERVICES (HK) LIMITED _____ 5

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009 (in HK Dollars)	01/01/2009 to 31/12/2009	11/07/2008 to 31/12/2008
Turnover	-	-
Other revenue 6	2	-
Administrative and operating expenses	<u>(28,407)</u>	<u>(38,905)</u>
Loss before taxation 7	(28,405)	(38,905)
Taxation 8	<u>-</u>	<u>-</u>
Loss for the year/period	(28,405)	(38,905)
Other comprehensive income for the year/period	<u>-</u>	<u>-</u>
Total comprehensive loss for the year/period	(28,405)	(38,905)
Loss attributable to equity holder of the Company	<u>(28,405)</u>	<u>(38,905)</u>
Total comprehensive loss attributable to equity holder of the Company	<u>(28,405)</u>	<u>(38,905)</u>

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

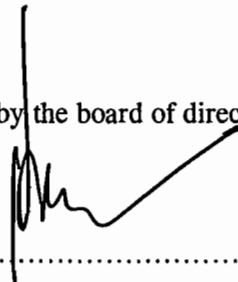

The accompanying notes form an integral part of these financial statements.

SALCON SERVICES (HK) LIMITED _____ 6

STATEMENT OF FINANCIAL POSITION

At 31 December 2009 (in HK Dollars)	Notes	2009	2008
Non-current asset			
Investment in a subsidiary	9	232,644	-
Current assets			
Amount due from ultimate holding company	10	1	1
Cash and bank balances		8,842	9,842
		8,843	9,843
Less: Current liabilities			
Accruals		12,000	12,000
Amounts due to fellow subsidiaries	11	296,796	36,747
		308,796	48,747
Net current liabilities		(299,953)	(38,904)
Total assets less current liabilities		(67,309)	(38,904)
Capital and reserve attributable to equity holder of the Company			
Share capital	12	1	1
Accumulated losses	13	(67,310)	(38,905)
Total equity		(67,309)	(38,904)

Approved by the board of directors on 8 March 2010

)
) Directors
)
)

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

SALCON SERVICES (HK) LIMITED _____ 7

STATEMENT OF CHANGES IN EQUITY

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

	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Issue of share	1	-	1
Loss for the period	-	(38,905)	(38,905)
At 31 December 2008 and 1 January 2009	1	(38,905)	(38,904)
Loss for the year	-	(28,405)	(28,405)
At 31 December 2009	1	(67,310)	(67,309)

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

SALCON SERVICES (HK) LIMITED _____ 8

STATEMENT OF CASH FLOWS

For the year ended 31 December 2009 (in HK Dollars)	01/01/2009 to 31/12/2009	11/07/2008 to 31/12/2008
OPERATING ACTIVITIES		
Loss before taxation and operating loss before working capital changes	(28,405)	(38,905)
Increase in amount due from ultimate holding company	-	(1)
Increase in accruals	-	12,000
Increase in amounts due to fellow subsidiaries	260,049	36,747
Net cash generated from operating activities	231,644	9,841
INVESTING ACTIVITY		
Investment in a subsidiary	(232,644)	-
Net cash used in investing activity	(232,644)	-
FINANCING ACTIVITY		
Issue of share	-	1
Net cash generated from financing activity	-	1
Net (decrease)/increase in cash and cash equivalents	(1,000)	9,842
Cash and cash equivalents at the beginning of the year/period	9,842	-
Cash and cash equivalents at the end of the year/period	8,842	9,842
Analysis of balances of cash and cash equivalents		
Cash and bank balances	8,842	9,842

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

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

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 January 2010

⁴ Effective for annual periods beginning on or after 1 February 2010

⁵ Effective for annual periods beginning on or after 1 July 2010

⁶ Effective for annual periods beginning on or after 1 January 2011

⁷ 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)

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 \$299,953 (2008: \$38,904) and accumulated losses of \$67,310 (2008: \$38,905) 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) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

There was no turnover during the year.

(d) 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.

(e) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(f) 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.

(g) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

The Company's financial liabilities including accruals 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.

(h) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

(j) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

	<u>2009</u>	<u>2008</u>
Financial assets		
Loans and receivables (including cash and cash equivalents)	8,843	9,843
Financial liabilities		
Amortised cost	308,796	48,747

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 operates mainly locally and most transactions are denominated in Hong Kong Dollars. Therefore the foreign exchange risk of the Company is minimal.

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 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\$
At 31 December 2009				
Non-derivative financial liabilities				
Accruals	(12,000)	-	(12,000)	(12,000)
Amounts due to fellow subsidiaries	(296,796)	-	(296,796)	(296,796)
	(308,796)	-	(308,796)	(308,796)
At 31 December 2008				
Non-derivative financial liabilities				
Accruals	(12,000)	-	(12,000)	(12,000)
Amounts due to fellow subsidiaries	(36,747)	-	(36,747)	(36,747)
	(48,747)	-	(48,747)	(48,747)

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

	01/01/2009	11/07/2008
	to 31/12/2009	to 31/12/2008
Exchange gain	2	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

7. LOSS FROM OPERATIONS

	<u>01/01/2009</u> <u>to 31/12/2009</u>	11/07/2008 <u>to 31/12/2008</u>
Loss from operations is stated at after charging:		
Auditors' remuneration	8,000	8,000
Directors' remuneration		
- fees	-	-
- other emoluments	-	-
Preliminary expenses	-	15,800
Exchange loss	-	8

8. TAXATIONCurrent 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/period can be reconciled to loss before taxation per the statement of comprehensive income as follows:

	<u>01/01/2009</u> <u>to 31/12/2009</u>		11/07/2008 <u>to 31/12/2008</u>	
Loss before taxation	(28,405)		(38,905)	
Tax at Hong Kong profits tax rate of 16.5% (2008: 16.5%)	(4,686)	(16.5%)	(6,419)	(16.5%)
Tax effect of income not subject to tax and expenses not deductible for tax	4,686	16.5%	6,419	16.5%
Tax effect for the year/period	-	-	-	-

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 SERVICES (HK) LIMITED _____ 22

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	232,566	-
Cost directly attributable to investment	78	-
	<u>232,644</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>
Salcon Investment Advisory (Shanghai) Company Limited	The PRC	Consultancy services for investments, operation and strategy business	US\$140,000	100% (direct)

Salcon Investment Advisory (Shanghai) Company Limited ("Salcon Investment Advisory") was set up on 20 October 2008 in PRC. On 17 March 2009, the Company paid in US\$29,990 (approximately HK\$232,566) into Salcon Investment Advisory.

10. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount due from ultimate holding company is unsecured, interest-free and recoverable on demand.

11. AMOUNTS DUE TO FELLOW SUBSIDIARIES

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

12. 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

SALCON SERVICES (HK) LIMITED _____ 23

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

13. ACCUMULATED LOSSES

At 11 July 2008 (date of incorporation)	-
Loss for the period	<u>(38,905)</u>
At 31 December 2008 and 1 January 2009	(38,905)
Loss for the year	<u>(28,405)</u>
At 31 December 2009	<u>(67,310)</u>

14. 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 Notes 10 and 11 to the financial statements, there was no other material related party transaction during the year.

15. 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.

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.

SALCON SERVICES (HK) LIMITED _____ 24

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

16. 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 SERVICES (HK) LIMITED _____ 25

DETAILED STATEMENT OF COMPREHENSIVE INCOME
(For Management Use Only)

For the year ended 31 December 2009 (in HK Dollars)	01/01/2009 to 31/12/2009	11/07/2008 to 31/12/2008
Turnover	-	-
Other revenue		
Exchange gain	2	-
Administrative and operating expenses		
Audit fee	(8,000)	(8,000)
Bank charge	(1,202)	(150)
Business registration fee	(2,555)	(450)
Exchange loss	-	(8)
Legal and professional fees	(11,100)	(13,650)
Preliminary expenses	-	(15,800)
Printing, stationery and travelling	(1,950)	(847)
Registered office facility	(3,600)	-
	(28,407)	(38,905)
Loss before taxation	(28,405)	(38,905)
Taxation	-	-
Loss for the year/period	(28,405)	(38,905)
Other comprehensive income for the year/period	-	-
Total comprehensive loss for the year/period	(28,405)	(38,905)

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

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

1.2 BRIEF HISTORY AND BUSINESS

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

1.3 SHARE CAPITAL

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

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

For the purpose of the Proposed Internal Restructuring, the authorised share capital of Shandong 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 Shandong will increase to 127.49 million ordinary shares of HKD1.00 each.

1.4 SUBSTANTIAL SHAREHOLDERS

Shandong 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 Shandong is Salcon Asia and Salcon respectively.

1.5 DIRECTORS

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

Name	Designation	Nationality
Dato' Seri Goh Eng Toon	Director	Malaysian
Loh Boon Sue	Director	Malaysian

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

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1.6 LIST OF SUBSIDIARY AND ASSOCIATED COMPANIES

Details of the subsidiary companies of Shandong are as follows:

Subsidiary companies	Date/Place of incorporation	Effective equity interest %	Registered capital USD	Principal activities
Shandong Changle Water	14 November 2003/ PRC	100	7,000,000	Management and operation of water production and distribution of water in Changle County, Shandong Province
Changle Salcon Raw Water	12 June 2008/ PRC	100	8,680,000	Management, operation and distribution of raw water

Shandong does not have any associated companies.

1.7 DETAILS OF BUSINESS/ ASSETS OWNED

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

1.8 FINANCIAL INFORMATION

1.8.1 Summary financial information

The summary financial information of Shandong based on the audited financial statements 14 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:

	14 April 2008 to 31 December 2008	FYE 31 December 2009	9 months FPE 30 September 2010
	Audited		Unaudited
	HKD	HKD	HKD
Turnover	-	-	-
PBT/(LBT)	340,891	(103,805)	(67,338)
PAT/(LAT)	340,891	(103,805)	(67,338)
PATMI/(LATMI)	340,891	(103,805)	(67,338)
Gross EPS/(LPS) (HKD)	340,891	(103,805)	(67,338)
Net EPS/(LPS) (HKD)	340,891	(103,805)	(67,338)
Paid-up capital (HKD)	1	1	1
Shareholders' funds	340,892	237,087	169,749
NA	340,892	237,087	169,749
NA per share (HKD)	340,892	237,087	169,749
Current ratio (times)	0.0003	0.0002	0.0002
Total borrowings (all interest-bearing debts)	-	-	-
Gearing ratio (times)	-	-	-

1.8.2 Commentary on past performance

Shandong is an investment holding company and has been recording losses since incorporation to-date except for the FYE 31 December 2008 as no dividends have been paid by its subsidiaries (one of which is Changle Salcon Raw Water, which is still in the process of laying raw water pipelines). The said losses are also due to administrative and operating expenses incurred such as legal and professional fees, audit and other statutory fees. Shandong recorded a PBT and PAT for the FYE 31 December 2008 mainly due to the 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 Shandong because of the nature of Shandong's business and/or the industry it is involved in.

1.8.4 Audit qualification

The financial results of Shandong for the period from 14 April 2008 (date of incorporation) to 31 December 2008 and 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 Shandong with its subsidiaries. The non-compliance is only in regard to the fact that no consolidated financial statements had been prepared to include the results of its subsidiaries. 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 Shandong 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 Shandong for the period from 14 April 2008 (date of incorporation) to 31 December 2008 and FYE 31 December 2009 to include the results of its subsidiaries. The financial statements of Shandong 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 Shandong for the FYE 31 December 2009

The audited financial statements of Shandong 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 Shandong for the FYE 31 December 2009.)

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SALCON SHANDONG (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 Shandong (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 activities of the subsidiaries of the Company are 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.

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 financial year and up to the date of this report are:

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

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.

SALCON SHANDONG (HK) LIMITED _____ 2

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 subsidiaries 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.

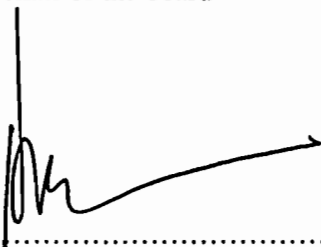
Directors' rights to acquire shares or debentures

At no time during the year was the Company, its ultimate holding company, its subsidiaries 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 SHANDONG (HK) LIMITED**

3

(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Salcon Shandong (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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國 衛 會 計 師 事 務 所
Hodgson Impey Cheng



Chartered Accountants
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDER OF
SALCON SHANDONG (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 subsidiaries of HK\$112,964,707. As stated in Note 3 in the financial statements, consolidated financial statements have not been prepared to include the results of the subsidiaries. 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 the subsidiaries 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 SHANDONG (HK) LIMITED _____ 5

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009 (in HK Dollars)	Notes	01/01/2009 to 31/12/2009	14/04/2008 to 31/12/2008
Turnover		-	-
Other revenue	6	34	385,604
Administrative and operating expenses		<u>(103,839)</u>	<u>(44,713)</u>
(Loss)/profit before taxation	7	(103,805)	340,891
Taxation	8	<u>-</u>	<u>-</u>
(Loss)/profit for the year/period		(103,805)	340,891
Other comprehensive income for the year/period		<u>-</u>	<u>-</u>
Total comprehensive (loss)/income for the year/period		<u>(103,805)</u>	<u>340,891</u>
(Loss)/profit attributable to equity holder of the Company		<u>(103,805)</u>	<u>340,891</u>
Total comprehensive (loss)/income attributable to equity holder of the Company		<u>(103,805)</u>	<u>340,891</u>

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

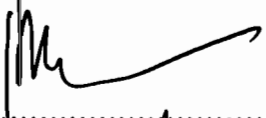
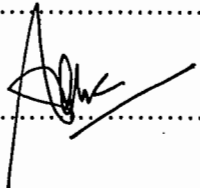
The accompanying notes form an integral part of these financial statements.

SALCON SHANDONG (HK) LIMITED _____ 6

STATEMENT OF FINANCIAL POSITION

At 31 December 2009 (in HK Dollars)	Notes	2009	2008
Non-current asset			
Investments in subsidiaries	9	112,964,707	77,809,466
Current asset			
Cash and bank balances		23,393	25,253
Less: Current liabilities			
Accruals		12,000	12,000
Amount due to ultimate holding company	10	74,135,887	74,089,043
Amounts due to fellow subsidiaries	10	38,603,126	3,392,784
		112,751,013	77,493,827
Net current liabilities		(112,727,620)	(77,468,574)
Total asset less current liabilities		237,087	340,892
Capital and reserve attributable to equity holders of the Company			
Share capital	11	1	1
Retained profits	12	237,086	340,891
Total equity		237,087	340,892

Approved by the board of directors on 8 March 2010

)
)
) Directors
)
)
)

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

SALCON SHANDONG (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	-	1
Profit for the period	-	340,891	340,891
At 31 December 2008 and 1 January 2009	1	340,891	340,892
Loss for the year	-	(103,805)	(103,805)
At 31 December 2009	1	237,086	237,087

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

SALCON SHANDONG (HK) LIMITED _____ 8

STATEMENT OF CASH FLOWS

For the year ended 31 December 2009 (in HK Dollars)	01/01/2009 to 31/12/2009	14/04/2008 to 31/12/2008
OPERATING ACTIVITIES		
(Loss)/profit before taxation	(103,805)	340,891
Adjustment for:		
Bank interest income	(34)	(1,611)
Operating (loss)/profit before working capital changes	(103,839)	339,280
Increase in accruals	-	12,000
Increase in amount due to ultimate holding company	46,844	74,089,043
Increase in amounts due to fellow subsidiaries	35,210,342	3,392,784
Net cash generated from operating activities	35,153,347	77,833,107
INVESTING ACTIVITIES		
Investments in subsidiaries	(35,155,241)	(77,809,466)
Interest income	34	1,611
Net cash used in investing activities	(35,155,207)	(77,807,855)
FINANCIAL ACTIVITY		
Issue of share	-	1
Net cash generated from financing activity	-	1
Net (decrease)/increase in cash and cash equivalents	(1,860)	25,253
Cash and cash equivalents at the beginning of the year/period	25,253	-
Cash and cash equivalents at the end of the year/period	23,393	25,253
Analysis of balances of cash and cash equivalents		
Cash and bank balances	23,393	25,253

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 activities of its subsidiaries are set out in Note 9 to the financial statements.

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

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

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 January 2010

⁴ Effective for annual periods beginning on or after 1 February 2010

⁵ Effective for annual periods beginning on or after 1 July 2010

⁶ Effective for annual periods beginning on or after 1 January 2011

⁷ 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)

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” relating to preparation of consolidated financial statements for the Company and its subsidiaries.

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 \$112,727,620 (2008: \$77,468,574) 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) Turnover

There was no turnover during the year.

(c) Subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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) 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.

(e) Revenue recognition

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

(f) 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 period. Taxable profit is the profit for the period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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 period 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.

(g) 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.

(h) 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.

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(h) 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)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(h) 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.

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 HK Dollars)

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

(j) 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.

(k) 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)**(k) 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>
Financial assets		
Loans and receivables (including cash and cash equivalents)	23,393	25,253
Financial liabilities		
Amortised cost	<u>112,751,013</u>	<u>77,493,827</u>

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.

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)*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 United State Dollar ("USD") and Renminbi ("RMB") 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:-

	Liabilities	
	2009	2008
USD	109,312,203	9,978,000
RMB	112,452	99,000

Sensitivity analysis on foreign exchange risk management

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

The following table details the Company sensitivity to a 5% increase and decrease in the Hong Kong dollars against the relevant foreign currency. 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.

	2009	2008
Impact of USD		
Profit or loss (Note)	5,465,610	498,900
Impact of RMB		
Profit or loss (Note)	5,623	4,950

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)*Sensitivity analysis on foreign exchange risk management (continued)*

Note:

This is mainly attributable to the exposure outstanding on 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 operations 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\$
At 31 December 2009				
Non-derivative financial liabilities				
Accruals	12,000	-	12,000	12,000
Amount due to ultimate holding company	74,135,887	-	74,135,887	74,135,887
Amounts due to fellow subsidiaries	38,603,126	-	38,603,126	38,603,126
	112,751,013	-	112,751,013	112,751,013

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)

	Within 1 year HK\$	Over 1 year HK\$	Total undiscounted cash flows HK\$	Total carrying amount HK\$
At 31 December 2008				
Non-derivative financial liabilities				
Accruals	12,000	-	12,000	12,000
Amount due to ultimate holding company	74,089,043	-	74,089,043	74,089,043
Amounts due to fellow subsidiaries	3,392,784	-	3,392,784	3,392,784
	<u>77,493,827</u>	<u>-</u>	<u>77,493,827</u>	<u>77,493,827</u>

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 period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

6. OTHER REVENUE

	<u>01/01/2009</u> <u>to 31/12/2009</u>	<u>14/04/2008</u> <u>to 31/12/2008</u>
Bank interest income	34	1,611
Exchange gain	-	383,993
	<u>34</u>	<u>385,604</u>

7. (LOSS)/PROFIT FROM OPERATIONS

	<u>01/01/2009</u> <u>to 31/12/2009</u>	<u>14/04/2008</u> <u>to 31/12/2008</u>
(Loss)/profit from operations is stated at after charging:		
Auditors' remuneration	8,000	8,000
Directors' remuneration		
- fees	-	-
- other emoluments	-	-
Exchange loss	69,513	-
	<u>69,513</u>	<u>-</u>

8. TAXATIONCurrent 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/period can be reconciled to (loss)/profit before taxation per the statement of comprehensive income as follows:

	<u>01/01/2009</u> <u>to 31/12/2009</u>		<u>14/04/2008</u> <u>to 31/12/2008</u>	
(Loss)/profit before taxation	(103,805)		340,891	
Tax at Hong Kong profits tax rate of 16.5% (2008: 16.5%)	(17,128)	(16.5%)	56,247	16.5%
Tax effect of income not subject to tax and expenses not deductible for tax	17,128	16.5%	(56,247)	(16.5%)
Tax effect for the year/period	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

8. TAXATION (CONTINUED)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. INVESTMENTS IN SUBSIDIARIES

	<u>2009</u>	<u>2008</u>
Unlisted shares, at cost	112,852,421	77,697,180
Cost directly attributable to investment	<u>112,286</u>	<u>112,286</u>
	<u>112,964,707</u>	<u>77,809,466</u>

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

<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>
Changle Salcon Raw Water Company Limited	The PRC	Management and operation of raw water production and distribution of raw water	US\$6,792,000	100% (direct)
Shandong Changle Salcon Water Company Limited	The PRC	Management and operation of water production and distribution of water	US\$7,720,010	100% (direct)

Changle Salcon Raw Water Company Limited ("Changle Salcon") was set up on 12 June 2008 in the PRC. On 23 June 2009, the Company further injected US\$4,784,020 (approximately HK\$37,099,118) into Changle Salcon.

Shandong Changle Salcon Water Company Limited ("Shandong Salcon") was set up on 14 November 2003 in the PRC. On 22 September 2009, the Company further injected US\$472,000 (approximately HK\$3,660,266) into Shandong Changle.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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 PROFITS

At 14 April 2008 (date of incorporation)	-
Profit for the period	<u>340,891</u>
At 31 December 2008 and 1 January 2009	340,891
Loss for the year	<u>(103,805)</u>
At 31 December 2009	<u>237,086</u>

13. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in Note 10 to the financial statements, during the year ended 31 December 2009, the Company had entered into the following transaction with a related party, in the opinion of the directors, were carried out in the ordinary course of the Company's business.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

13. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) The contracts to which the Company was party and in which a director of the Company had a material interest during the period, as disclosable under Section 129D of the Hong Kong Companies Ordinance, are as follows:

<u>Name of related party</u>	<u>Nature of transaction</u>	<u>2009</u>	<u>2008</u>
Salcon Water (HK) Limited	Acquisition of a subsidiary	-	20,514,181

- (b) During the year ended 31 December 2009 and 2008, no compensation of any kind was paid to the Company's directors who were key management personnel of the Company.

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.

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 -

DETAILED STATEMENT OF COMPREHENSIVE INCOME

(For Management Use Only)

For the year ended 31 December 2009 (in HK Dollars)	01/01/2009 to 31/12/2009	14/04/2008 to 31/12/2008
Turnover	-	-
Other revenues		
Bank interest income	34	1,611
Exchange gain	-	383,993
	34	385,604
Administrative and operating expenses		
Audit fee	(8,000)	(8,000)
Bank charge	(2,421)	(1,816)
Business registration fees	(2,450)	-
Exchange loss	(69,513)	-
Legal and professional fees	(19,100)	(18,100)
Preliminary expenses	-	(15,500)
Printing, postage and travelling	(2,355)	(1,297)
	(103,839)	(44,713)
(Loss)/profit before taxation	(103,805)	340,891
Taxation	-	-
(Loss)/profit for the year/period	(103,805)	340,891
Other comprehensive income for the year/period	-	-
Total comprehensive (loss)/income for the year/period	(103,805)	340,891

2.0 INFORMATION ON SHANDONG CHANGLE WATER

2.1 DATE AND PLACE OF INCORPORATION

Shandong Changle Water was incorporated in Changle County, Weifang City, Shandong Province, PRC on 14 November 2003.

2.2 BRIEF HISTORY AND BUSINESS

Water concession held by Shandong

Salcon Water (HK) Limited, a wholly-owned subsidiary company of Salcon, had on 25 July 2003 entered into a joint venture agreement with Changle County General Water Supply Company to set up the joint venture company, Shandong Changle Water, on a 75:25 basis to handle, upgrade and manage the existing and newly-built facilities/plant for the production and supply of potable water and industrial water to Changle County on a Transfer-Operate-Transfer (“TOT”). On even date, Changle County People’s Government of Changle County issued a Letter of Undertaking granting the concession right to Shandong Changle Water to operate the plant exclusively for 50 years, i.e. from 1 January 2004 to 31 December 2053. The plant is located on a land size of 14,899 m² at Nanliu Spring Village, Changle County with a designed capacity of 40 mld commenced operations on 1 January 2004. The total initial investment by Salcon Water (HK) Limited and Changle County General Water Supply Company was USD1.44 million and USD0.48 million cash representing 75% and 25% respectively of the total registered share capital of Shandong Changle Water.

On 3 July 2008, Salcon Water (HK) Limited entered into a Sale and Purchase Agreement with Shandong to dispose all its shares in Shandong Changle Water to Shandong for RMB18 million in cash. On 21 November 2005, Shandong entered into a Sale and Purchase Agreement with Changle County General Water Supply Company to acquire the remaining 25% of the registered share capital of Shandong Changle Water for RMB4 million in cash.

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

- (a) Shandong Changle Water is to possess, upgrade, construct, operate and manage the water production and distribution systems in the Changle County as well as to produce and sell water in compliance with the standards to potable and industrial users (excluding wastewater treatment and its related activities).
- (b) The co-operation period shall be of 50 years commencing from the date on which the business license was obtained (“Co-operation Period”). The said business license was issued by the National Administrative Bureau for Industry and Commerce, China.
- (c) The following are the water tariff and charge:
 - (i) Initial water tariff and charge for household and industrial consumption shall be based on the existing regulations and policies;
 - (ii) The General Manager of Shandong Changle Water shall submit the proposal for the revision to the water tariff to the Board of Directors of Shandong Changle Water and relevant government departments for approval after the signing of the joint venture agreement. The approval from the Board of Directors of Shandong Changle Water is to be obtained one (1) month before the end of every two (2) years or within one (1) month upon which the state policies are published; and
 - (iii) In the event there is an obvious increase in the production costs of Shandong Changle Water, the Board of Shandong Changle Water has the rights to request for an increase in the water tariff from the government departments.

Shandong Changle Water and The People's Government of Changle County, Shandong Province ("**Changle Government**") had on 18 March 2008 and 21 April 2008 signed a "Memorandum of Shandong Changle 100 mld Water Plant Expansion & Investment Project" and the "Construction of 100 mld New Water Plant and Nan Liu Quan Water Plant Counter Buy Agreement" respectively, which stipulates that within the authority of the existing concession right, Shandong Changle Water shall construct, operate and manage a 100 mld new water plant on a Build-Operate-Transfer ("**BOT**") basis. Simultaneously, upon operation of the 100 mld new water plant, the Changle Government shall close down the existing water plant (i.e. the 40 mld existing water plant which is currently operational) after the acquisition of the said existing water plant by the Changle Government from Shandong Changle Water.

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

The initial funding of the water project works is the initial advancement via equity (in cash) and assets injection made at the start of the joint venture by Salcon Water (HK) Limited and the Changle County General Water Supply Company. As for the project financing, Shandong Changle Water obtained loans from a financial institution whereby a corporate guarantee has been extended by Salcon.

Wastewater concession held by Shandong

Salcon Water (HK) Limited had on 27 February 2005 entered into a Framework Agreement with Changle Government to takeover a wastewater treatment plant which is located on a land size of 32,617.03 m² on a TOT basis ("**Shandong Province Changle County Wastewater Project Framework Agreement**"). On 22 April 2005 Salcon Water (HK) Limited entered into a TOT agreement, "Changle Wastewater Treatment Plant TOT Project Agreement", to secure the concession with the Changle Government whereby an operating Company (herein referred to as Shandong Changle Water) was incorporated to engage in the design, construction, transfer, operation and maintenance of the wastewater treatment facilities inside the Changle County Wastewater Treatment Plant for the Changle Government. The plant with a designed capacity of 40 mld commenced operations since 22 April 2005 and will expire on 21 April 2035.

The salient terms and conditions of the concession which are provided in the TOT agreement are as follows:

- (a) The Changle Government shall grant the following exclusive responsibilities to Salcon Water (HK) Limited without compensation within the 30 years from the 90 days within the signing and effectives of the agreement or 15 days upon which all the conditions precedents are fulfilled (whichever is later), which shall be the date on which the existing facilities is transferred from Changle Government to Salcon Water (HK) Limited ("**First Transfer Date**") ("**Concession Period**") and issue relevant license of operating wastewater treatment business to Shandong Changle Water:
 - (i) Manage, own, operate and maintain the existing facilities and extension portion of the existing facilities;
 - (ii) Financing, design and build the extension part of the existing facilities;
 - (iii) Exclusive right to treat wastewater in the service area; and
 - (iv) Collect the abovementioned relevant wastewater treatment service fee.

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

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

The initial funding of the water project works is the initial advancement via equity (in cash) and assets injection made at the start of the joint venture by Salcon Water (HK) Limited and the the Changle Government. As for the project financing, Shandong Changle Water obtained loans from a financial institution whereby a corporate guarantee has been extended by Salcon.

2.2.1 Daily production capacity and production output

Water concession

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

FYE 31 December	2007	2008	2009
Production/Designed capacity (mld)	40.0	40.0	40.0
Production output (mld)	21.7	25.3	30.3

The principal market of Shandong Changle Water for the supply of water is Changle County, Shandong Province, China. The supply of water to residential areas and non-residential areas constitute 1,785 customers and 411 customers (based on number of bulk meters) respectively as at 10 December 2010.

Wastewater concession

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

FYE 31 December	2007	2008	2009
Production/Designed capacity (mld)	40.0	40.0	40.0
Production output (mld)	9.35	14.80	13.91

The principal market of Shandong Changle Water for the wastewater treatment is Changle County, Shandong Province, China. The wastewater treatment plant treated the waste water which is collected by the Changle Government.

2.2.2 Details of assets owned

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

Details	NBV as at 31 December 2009
	RMB
House and buildings and structures	14,783,210
Pipes and groove	25,117,031
Machines	9,180,614
Transportation facilities	1,052,372
Electronic application	102,663

2.3 REGISTERED AND PAID-IN CAPITAL

The registered and paid-in capital of Shandong Changle Water is USD7,000,000 as at 10 December 2010.

2.4 SUBSTANTIAL SHAREHOLDERS

Shandong Changle Water is a wholly-owned subsidiary of Shandong (a company incorporated in Hong Kong).

2.5 DIRECTORS

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

Directors	Designation	Nationality
How See Hock	Director	Malaysian
Teo Seng Khim	Director	Singaporean
Tey Thiam Huat	Director	Malaysian
Loh Boon Sue	Director	Malaysian
Feng Li Sheng	Director	Chinese

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

2.6 LIST OF SUBSIDIARY AND ASSOCIATED COMPANIES

Shandong Changle Water does not have any subsidiary or associated companies.

2.7 FINANCIAL INFORMATION

2.7.1 Summary financial information

The summary financial information of Shandong Changle 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	18,088	23,006	25,668	20,999
PBT	4,472	5,451	8,316	10,408
PAT	3,926	5,055	7,601	7,806
PATMI	3,926	5,055	7,601	7,806
Gross EPS/(LPS) (RMB)	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable
Net EPS/(LPS) (RMB)	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable
Paid-in capital (RMB)	16,000	22,935	50,708	50,708
Shareholders' funds	22,510	27,063	62,361	70,167
NA	22,510	27,063	62,361	70,167
NA per share (RMB)	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable
Current ratio (times)	0.61	0.70	2.22	1.03
Total borrowings (all interest-bearing debts)	20,191	24,811	18,628	42,997
Gearing ratio (times)	0.90	0.92	0.30	0.61

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, Shandong Changle Water achieved revenue of RMB18.09 million, which was 44.03% higher than the revenue of RMB12.56 million recorded in the FYE 31 December 2006. Shandong Changle Water recorded higher PAT of RMB3.93 million for the FYE 2007 as compared with PAT of RMB1.64 million in the FYE 31 December 2006, mainly due to the increase in production output of the water supply.

FYE 31 December 2008 (“FYE 2008”)

In FYE 2008, Shandong Changle Water achieved revenue of RMB23.01 million, which was approximately 27.20% higher than the revenue of RMB18.09 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, Shandong Changle Water registered a PAT of RMB5.06 million in FYE 2008, which translates into an increase of approximately 28.75% from the PAT registered in the previous financial year of RMB3.93 million.

FYE 31 December 2009 (“FYE 2009”)

In FYE 2009, Shandong Changle Water achieved revenue of RMB25.67 million, which was approximately 11.56% higher than the revenue of RMB23.01 million recorded in FYE 2008, as a result of the steady increase in the output of water supply. In tandem with the increase in revenue, Shandong Changle Water registered a PAT of RMB7.60 million in FYE 2009 as compared with PAT of RMB5.06 million in FYE 2008.

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

In FPE Sept 2010, Shandong Changle Water achieved revenue of RMB21.00 million and PAT of RMB7.81 million. This represents an increase of 13.15% and 9.38% respectively from the preceding year corresponding period where Shandong Changle Water recorded revenue of RMB18.56 million and PAT of RMB7.14 million. The improvement in the revenue and PAT 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 Shandong Changle Water because of the nature of Shandong Changle Water’s business and/or the industry it is involved in.

2.7.4 Audit qualification

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

2.7.5 Audited financial statements of Shandong Changle Water for the FYE 31 December 2009

The audited financial statements of Shandong Changle 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 Shandong Changle Water for the FYE 31 December 2009.)

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Report of Auditors

SHANDONG CHANGLE SALCON WATER COMPANY LIMITED

Report of Auditors

To the shareholders of Shandong Changle Salcon Water Company Limited,

We have audited the accompanying financial statements of Shandong Changle 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

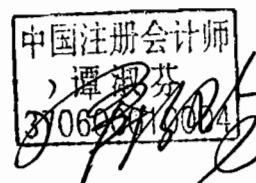
In our opinion, the accompanying financial statements are properly drawn up in accordance with Financial Reporting Standards ("FRSs") issued by the Malaysian Accounting Standards Board ("MASB"), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965, so as 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.

Emphasized matters

We remind the users of the financial statements that in the current period the Changle County Financial Departments and other sectors checked, appraised, paid and changed the Company's the first phase of the Wastewater Treatment Plant; the Company has treated Changle Wastewater Treatment Plant as its subsidiary and has utilized some of its assets in 2006 and the documents on income tax exemption are being processing.

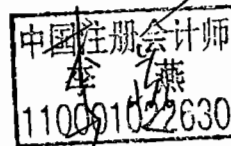
Beijing Yongtuo CPAs Co., Ltd

CPA



Shandong, China

CPA



January 7, 2010

Balance Sheet
As of December 31 2009

Enterprise:Shandong Changle Salcon Water Co., Ltd.

Monetary Unit:CNY

Item	B/F	C/F
Current Assets		
Cash On hand & at bank	7,061,471.06	31,154,316.18
account receivable	5,263,005.07	6,664,520.46
Receivables under specific fund	113,325.74	113,325.74
Other account receivable	255,488.92	1,605,758.98
Pre-payments	581,838.00	5,082,308.37
Prepaid expense	209,561.27	
Inventories	655,514.89	731,828.08
Total Current Assets	14,140,204.95	45,352,057.81
Fixed Assets		
Fixed assets-cost	66,215,807.51	66,610,020.94
Less: Accumulated Depreciation	13,385,048.21	16,374,130.80
Fixed Assets-net Value	52,830,759.30	50,235,890.14
Construction in progress	2,886,174.21	3,802,471.00
Total Fixed Assets	55,716,933.51	54,038,361.14
Intangible Assets & Other Assets		
Intangible assets		-
long-term prepaid expense		
other long-term assets	2,135,717.18	2,050,164.04
Total intangible assets and long-term prepaid expenses	2,135,717.18	2,050,164.04
Total Assets	71,992,855.64	101,440,582.99

Balance Sheet
As of December 31 2009

Enterprise:Shandong Changle Salcon Water Co., Ltd.

Monetary Unit:CNY

Item	B/F	C/F
Current Liabilities		
Short-term loan	7,537,000.00	7,537,000.00
Accounts payable	-	108,941.60
Advanced received	124,828.92	249,108.32
Accrued payroll	340,000.00	390,000.00
Welfare expense payable	54,555.48	76,010.60
Dividend payable	7,178,598.90	7,178,598.90
Taxes payable	105,462.56	322,994.45
Others payables	2,919,200.10	2,387,868.02
Accrued expense	313,034.98	
Payables under specific fund	1,546,464.25	2,201,034.57
Current Liabilities Total	20,119,145.19	20,451,556.46
Long-Term Liabilities		
Long Term Loans	20,964,068.00	15,460,356.00
Long term payable	3,846,976.38	3,167,848.81
Long-Term Liabilities Total	24,811,044.38	18,628,204.81
Deferred taxes		
Deferred taxes credits		
Total liabilities	44,930,189.57	39,079,761.27
Owner' Equity		
Capital paid	22,934,944.54	50,707,982.48
capital surplus	820,760.80	820,829.14
surplus	1,059,147.45	1,819,253.45
Undistributed profits	2,247,813.28	9,012,756.65
Total Owner' Equity	27,062,666.07	62,360,821.72
Total Liabilities & Owner' Equity	71,992,855.64	101,440,582.99

Income Statement

For the year of 2009

Enterprise:Shandong Changle Salcon Water Co., Ltd.		Monetary Unit:CNY
Item	Current year cumulative amount	Last year cumulative amount
Income from main operation	25,667,967.62	23,006,485.82
Less:Costs of main operation	15,810,445.65	15,179,281.72
Less:main operation tax and additional expenses	-	
Profits on sales	9,857,521.97	7,827,204.10
Income from other operations	2,193,727.56	2,921,456.75
Less:operating expense	-	
Less:General and administrative expenses	4,018,584.49	4,856,308.28
Less:Financial expenses	1,906,220.31	2,370,258.92
Operating profit	6,126,444.73	3,522,093.65
Investment income	-	-
Subsidies income	2,710,525.85	2,030,354.69
Non-operating income	905,955.65	266,810.63
Less:Non-operating expenses	1,427,136.83	368,106.54
Total profit before tax	8,315,789.40	5,451,152.43
Less:Income tax	714,729.43	396,077.96
Net profit	7,601,059.97	5,055,074.47

Cash Flows Statement

For the year of 2009

Enterprise:Shandong Changle Salcon Water Co., Ltd.

Monetary Unit:CNY

Item	Amount
Cash Flow From Operating Activities	
Cash received from sales of good&services	28,963,545.52
Cash received from tax return	
Cash received from other operating activities	2,884,794.36
Sub-total of cash inflows	31,848,339.88
Cash paid for goods & services	9,026,261.39
Cash paid to staffs & paid on behalf of staff	4,027,578.10
Taxes payment	1,967,745.97
Other cash paid relating to operating activities	8,730,780.27
Sub-total of cash outflows	23,752,365.73
Net cash flows from operating activities	8,095,974.15
Cash Flow From Investing Activities	
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	1,692,914.80
Cash received from other investing activities	
Sub-total of cash inflows	1,692,914.80
Cash paid to acquired fixed assets.intangible assets and other long-term assets	6,146,804.02
Cash paid to invest	-
Cash paid to other activities relating to investment	-
Sub-total of cash outflows	6,146,804.02
Net cash flows from investing activities	-4,453,889.22
Cash Flow From Financing Activities	
Cash Flow From drawing on capital	27,773,037.94
Cash Flow From borrowings	
Cash received from other financialing activities	
Sub-total of cash inflows	27,773,037.94
Loans payble	5,500,000.00
Cash payment of interest expenses and dividends	1,619,074.53
Other cash payment relating to financial activities	201,180.23
Sub-total of cash outflows	7,320,254.76
Net cash flows from financing activities	20,452,783.18
Effect of foreign exchange rate changes on cash	-2,022.99
Net Increase in Cash & Cash Equivalents	24,092,845.12

Cash Flows Statement

For the year of 2009

Enterprise:Shandong Changle Salcon Water Co., Ltd.

Monetary Unit:CNY

Supplemental informations	
Reconciliation of net profit to cash flows from operating activities	
Net profit	7,601,059.97
Add:provision for loss on realization of fixed assets	4,484.87
Depreciation of fixed assets	4,444,745.53
Amortization of intangible assets	46,732.68
Amortization of long-term prepaid expenses	36,590.56
Decrease of prepaid expenses(less:increase)	120,546.70
Increase of accrued expenses(less:decrease)	186,659.78
Losses on disposal of fixed assets,intangible assets and other long-term assets	1,402,263.49
Losese on scrapping of fixed assets	
Financial expenses	1,863,095.01
Losses on investments(less:gain)	
Deferred tax credit(less:debit)	
Decrease of inventories(less:increase)	-76,313.19
Decrease of operating receivables(less:increase)	-7,163,241.25
Increase of operating payables(less:decrease)	-370,650.00
Others	
Net cash flows from operating activities	8,095,974.15
Other investment &financial activities not relating to cash inflows/outflows	
Debit convert into capital	
Convertible bond due in 1 year	
Fixed assets under leasehold	
Net Increase in Cash & Cash Equivalents	
Cash carry forward	31,154,316.18
Less: cash bring forward	7,061,471.06
Add:cash equivalents bring forward	
Less: cash equivalent carry forward	
Net Increase in Cash & Cash Equivalents	24,092,845.12

Notes to the Financial Statements

Part one

Main introduction of the company

Shandong Changle Salcon Water Company Limited (hereafter as the company) was incorporated in Changle county, Weifang city, Shandong province, P.R.C on November 14, 2003. Its sole shareholder is Salcon Water (HK) Limited. The company's legal representative is Mr. How See Hock.

Under the approve of Weifang Municipal Bureau of Industrial and Commercial Administration on November 19, 2008, the registered shareholder became Salcon Shandong (HK) Limited, according to the Company's shareholder resolution on July 6, 2007, and the revised articles of the association and Weifang Municipal Bureau of Foreign Trade and Economic Cooperation document Wei Wai Jing Mao Wai Zi Zi (2008) No. 296 "Approval of the equity transfer and additional investment of Shandong Changle Salcon Water Company", the registered capital changed from USD1.92 million into USD 7 million. On August 20, 2008, the Company received the Shang Wai Zi Lu Fu Wei Zi [2003] No.2472 "approval certificate issued by Shandong Provincial Government". The Company received Corporate Business License on November 19, 2008, the registered No. is 370700400006698.

Its main operation scope list as: transformation, construction, operation and management of Changle County's water production, transmission and distribution systems, production and sales in line with national standards for drinking water (Health permit deadline June 3, 2011 only), industrial water, pure water project (limited to With health branch operating permit), the waste water treatment project construction and operation. (The above scope is not included state restrictions and prohibited items, if any concerning operating license, comply with the approved operation scope and the state regulations).

According to 《the contract related TOT project of Changle Waste Water Treatment

Plant » which was signed between Changle county government and Salcon Water (HK) limited, as the operation company, the company accepted all the privileges and obligations pertaining to the said contract, to account for all assets and liabilities of the said Changle Waste Water Treatment Plant as its sub-branch department in this fiscal year 2006.

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 the provisions of the 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 company'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.

3. 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.

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

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
Building and structures	20	4.5%	10%	
Pipelines	20、 10	4.5%、 9%	10%	
E&M	10	9%	10%	
Motor vehicle	8	11.25%	10%	
Electronic Equipment	5	18%	10%	

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 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 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 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.

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.

Part three

Notes to main accounts

1. Cash in hand and at bank

Categories	Dec.31, 2008	Dec.31, 2009
Cash in hand	3,279.47	3,714.75
Cash at bank	7,058,191.59	31,150,601.43
Total	7,061,471.06	31,154,316.18

2. Inventories

Categories	Dec. 31, 2008	Dec. 31, 2009
Materials	655514.89	731,828.08
Total	655,514.89	731,828.08

3. Fixed assets and accumulated depreciations

Fixed assets book value

Categories	Dec.31, 2008	Increase	Decrease	Dec.31, 2009.
House and buildings and structures and stricstructure	17,668,262.14	714,616.99		18,382,879.13

APPENDIX III

Pipes and groove	33,023,148.69	3,419,091.80	3,010,988.51	33,431,251.98
Machines	13,929,702.42	193,296.00	1,060,923.66	13,062,074.76
Transportation facilities	1,368,190.60	108,329.00		1,476,519.60
Electronic applications	226,503.66	30,791.81		257,295.47
Total	66,215,807.51	4,466,125.60	4,071,912.17	66,610,020.94

Accumulated Depreciations

Categories	Dec.31, 2008	Increase	Decrease	Dec.31, 2009.
House and buildings and	2,783,613.00	816,056.32		3,599,669.32
Pipes and groove	7,150,760.01	2,185,301.94	1,021,841.03	8,314,220.92
Machines	3,063,365.63	1,252,232.14	434,136.84	3,881,460.93
Transportation facilities	270,226.07	153,921.48		424,147.55
Electronic applications	117,083.50	37,548.58		154,632.08
Total	13,385,048.21	4,445,060.46	1,455,977.87	16,374,130.80
Net Value of the PPE	52,830,759.30			50,235,890.14

At the end of the current period, the Company does not have impairment, so there is not need to withdraw the allowance for fixed assets value decline.

4. Construction in progress

Project	Dec.31, 2008	Increase	Decrease	Dec.31, 2009
Pukuai filter chamber of Water	83,256.54	528,760.00	612,016.54	
Yongkang Rd 200Pipe	12,468.25	3,670.00	16,138.25	
the newly constructd water plant	200,000.00	-200,000.00		
Changda Rd to Kaifa 1 Rd 400 main	90,449.42	95,269.21	185,718.63	
Baotong Street Party School to CuijiaBu		249,983.11	249,983.11	
Baotong Street Party School to Nanxiao		951,718.90	951,718.90	
Yongkang Rd PE200 Pipe		45,870.86	45,870.86	
YongkangRd(ChangshengSt.North PVC2		52,515.94	52,515.94	
Wenhua Rd and Limin St. PE25		27,770.00	27,770.00	
Hongyang St.(No.1Middleschool PVC210 Pipe)		23,351.80	23,351.80	
Baotong St.DN800		1,180.96	1,180.96	
Baotong St.DN1000		1,658.44	1,658.44	
Limin RdDN300Pipe jacking		3,845.00	3,845.00	

APPENDIX III

Project	Dec.31, 2008	Increase	Decrease	Dec.31, 2009
BaotongSt.Cuijiabu PE200		15,126.50	15,126.50	
Weichang RD PE400		1,535,817.81	1,535,817.81	
Weichang RD PE200 (Shanshui)		256,381.58	256,381.58	
HongyangST.PVC16 Pipe Reformation		24,014.02	24,014.02	
100 thousand ton water plant enlarge project	2,500,000.00	1,302,471.00		3,802,471.00
Total	2,886,174.21	4,919,405.13	4,003,108.34	3,802,471.00

5 Tax payable

Categories	December 31, 2008	December 31, 2009
VAT	96,221.91	127,921.48
Sales tax	5,806.03	10,668.17
Building tax	11,817.89	9,908.43
Land use tax	18,691.93	18,691.93
Enterprise Income tax	-28,542.50	154,291.37
Individual Income tax	1,467.30	1,513.07
Total	105,462.56	322,994.45

6. Long-term loan

Categories	Dec.31, 2008	Dec.31, 2009
Secured loan(OCBC Shanghai Branch)	3,964,068.00	3,960,356.00
Secured loan(Shenzhen Overseas Bank Limited) United	17,000,000.00	11,500,000.00
Total	20,964,068.00	15,460,356.00

7. Long-term payable

Categories	Dec.31, 2008	Dec.31, 2009
Staff relocation fee(for the internal retired staff)	3,846,976.38	3,167,848.81
Total	3,846,976.38	3,167,848.81

8. Paid-in capital

Investor	December 31, 2009 USD	Proportion
Salcon Shandong (HK) Co.,Ltd.	7,000,000.00	100%
Total	7,000,000.00	100%

Part four**Contingencies**

To the date of December 31, 2009, the tax department in charge of the Company has not approved for the Company's application for registered as a productive foreign investment enterprise.

Part five**Committed events**

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

Shandong Changle Salcon Water Company Limited

January 7, 2010

3.0 INFORMATION ON CHANGLE SALCON RAW WATER

3.1 DATE AND PLACE OF INCORPORATION

Changle Salcon Raw Water was incorporated in Changle County, Weifang City, Shandong Province, PRC on 12 June 2008.

3.2 BRIEF HISTORY AND BUSINESS

Raw water concession held by Shandong

Shandong had on 21 April 2008 entered into a Raw Water Supply Concession Agreement with the Changle Government to establish Changle Salcon Raw Water Co Ltd, a foreign wholly owned project company in Changle County, Shandong Province (“**Project Company**” or “**Changle Salcon Raw Water**”). Upon the establishment of the Project Company, Shandong’s rights and obligations stated in the agreement shall be transferred to the Project Company. The facilities (i.e. laying of raw water pipelines) under the said concession has been under construction since 21 April 2008 with an estimated total construction cost of RMB148 million which was financed by equity and bank borrowings. The concession on a BOT basis commenced from 21 April 2008 and will expire on 20 April 2038.

The salient terms of the concession agreement are as follows:

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

- (iv) Assist Shandong in processing the documentations of using the land in accordance with law;
 - (v) Guarantee Shandong to enjoy the water intake right within the concession period;
 - (vi) Assist Shandong in completing the preliminary works and construction of permanent municipal facilities and other works; and
 - (vii) Taking strong measures to protect the ecology of water resources area.
- (g) During the concession period, Shandong shall enjoy the following rights and obligations:
- (i) to supply raw water to areas in accordance with the price stipulated;
 - (ii) to meet water demand within the concession area and to ensure that water quality is in compliance with the requirement of relevant standards as well as the law of China and the requirement contained in the agreement;
 - (iii) upon the operation of water supply engineering works, Shandong shall obtain the water resource from Gao Ya Reservoir or various water reservoirs within the Changle County, and has the right to sell raw water to the raw water users of Changle County;
- (h) Upon expiry of the concession right, Shandong shall guarantee that all facilities are in good condition and all the liabilities have been cleared, Shandong, shall transfer without consideration the engineering facilities which is related to the water supply project and all the relevant document, material and files to the Changle Government of its designated organisation.

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

The initial funding of the water project works is the initial advancement via equity (in cash) and assets injection made at the start of the joint venture by Shandong and the Changle Government respectively. As for the project financing, Shandong Changle Water obtained loans from a financial institution whereby corporate guarantees are extended by Salcon.

3.2.1 Daily production capacity and production output

The expected daily production capacity of Changle Salcon Raw Water is 100 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 and to commence operations by the end of the second (2nd) quarter of 2011.

Changle Salcon Raw Water is expected to sell the raw water to Shandong Changle Water upon commencement of the operations. However, Changle Salcon Raw Water has been granted the right to sell raw water to other raw water users of Changle County.

3.2.2 Details of assets owned

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

Details	NBV as at 31 December 2009	
		RMB
Motor vehicle		182,875
Electrical equipment		14,049

3.2.3 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 sub-contractors, 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 75% completed and thus reduces the construction risk on the Group.

3.3 REGISTERED AND PAID-IN CAPITAL

The registered and paid-in capital of Changle Salcon Raw Water is USD8.68 million as at 10 December 2010.

3.4 SUBSTANTIAL SHAREHOLDERS

Changle Salcon Raw Water is a wholly-owned subsidiary of Shandong (a company incorporated in Hong Kong).

3.5 DIRECTORS

The particulars of the directors of Changle Salcon Raw Water as at 10 December 2010 are as follows:

Directors	Designation	Nationality
How See Hock	Director	Malaysian
Teo Seng Khim	Director	Singaporean
Tey Thiam Huat	Director	Malaysian
Loh Boon Sue	Director	Malaysian
Fan Zhi Ping	Director	Chinese

None of the directors of Changle Salcon Raw Water have any, direct or indirect, shareholdings in Changle Salcon Raw Water.

3.6 LIST OF SUBSIDIARY AND ASSOCIATED COMPANIES

Changle Salcon Raw Water does not have any subsidiary or associated companies.

3.7 FINANCIAL INFORMATION

3.7.1 Summary financial information

The summary financial information of Changle Salcon Raw Water based on the audited financial statements for the period from 12 June 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:

	12 June 2008 to 31 December 2008	FYE 31 December 2009	9 months FPE 30 September 2010
	← Audited →		Unaudited
	RMB'000	RMB'000	RMB'000
Turnover	-	-	-
PBT/(LBT)	47	514	(59)
PAT/(LAT)	47	514	(59)
PATMI/(LATMI)	47	514	(59)
Gross EPS/(LPS) (RMB)	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable
Net EPS/(LPS) (RMB)	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable
Paid-in capital (USD)	6,320	6,792	8,680
Shareholders' funds	43,200	46,936	59,638
NA	43,200	46,936	59,638
NA per share (RMB)	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable	⁽¹⁾ Not applicable
Current ratio (times)	8.57	10.38	2.17
Total borrowings (all interest-bearing debts)	-	-	37,900
Gearing ratio (times)	-	-	0.64

Note:

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

3.7.2 Commentary on past performance

As Changle Salcon Raw Water's supply work has been under construction as yet, it recorded losses for the nine (9) months FPE 30 September 2010 due to administrative and operating expenses incurred such as legal and professional fees, audit and other statutory fees. Changle Salcon Raw Water recorded PBT and PAT for the FYE 31 December 2007 and 2008 mainly due to the interest income received from the placement of fixed deposits with financial institutions.

3.7.3 Accounting policies adopted

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

3.7.4 Audit qualification

The financial results of Changle Salcon Raw Water for the period from 12 June 2008 (date of incorporation) to 31 December 2008 and FYE 31 December 2009 were not subject to any audit qualification.

3.7.5 Audited financial statements of Changle Salcon Raw Water for the FYE 31 December 2009

The audited financial statements of Changle Salcon Raw 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 Changle Salcon Raw Water for the FYE 31 December 2009.)

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Report of Auditors

CHANGLE SALCON RAW WATER COMPANY LIMITED

Report of Auditors

To the shareholders of Changle Salcon Raw Water Company Limited,

We have audited the accompanying financial statements of Changle Salcon Raw 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.

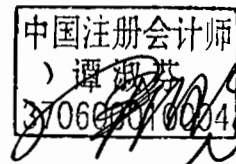
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

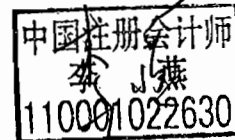
Beijing Yongtuo CPAs Co., Ltd

CPA



Shandong, China

CPA



January 7, 2010

Balance Sheet
As of December 31 2009

Enterprise:Changle Salcon Raw Water Co., Ltd.

Monetary Unit:CNY

Item	B/F	C/F
Current Assets		
Cash On hand & at bank	33,656,997.23	27,174,860.81
account receivable		
Receivables under specific fund		
Other account receivable	1,520,833.33	4,500.00
Pre-payments		3,870,679.20
Prepaid expense		
Inventories		
Total Current Assets	35,177,830.56	31,050,040.01
Fixed Assets		
Fixed assets-cost	228,748.00	233,578.00
Less: Accumulated Depreciation	8,942.50	36,653.78
Fixed Assets-net Value	219,805.50	196,924.22
Construction in progress	11,894,181.73	18,670,054.42
Total Fixed Assets	12,113,987.23	18,866,978.64
Intangible Assets & Other Assets		
Intangible assets	13,750.00	10,750.00
long-term prepaid expenses		
Total intangible assets and long-term prepaid expenses	13,750.00	10,750.00
Total Assets	47,305,567.79	49,927,768.65

Balance Sheet
As of December 31 2009

Enterprise:Changle Salcon Raw Water Co., Ltd.

Monetary Unit:CNY

Item	B/F	C/F
Current Liabilities		
Short-term loan		
Accounts payable	3,536,084.70	849,067.81
Advanced received		
Accrued payroll		
Welfare expense payable		
Taxes payable	1,624.97	1,829.30
Others payables	568,227.31	2,140,424.19
Accrued expense		
Payables under specific fund		
Current Liabilities Total	4,105,936.98	2,991,321.30
Long-Term Liabilities		
Long Term Loans		
Long term payable		
Long-Term Liabilities Total		
Deferred taxes		
Deferred taxes credits		
Total liabilities	4,105,936.98	2,991,321.30
Owner' Equity		
Capital paid	43,152,328.00	46,375,500.51
capital surplus		
surplus		
Undistributed profits	47,302.81	560,946.84
Total Owner' Equity	43,199,630.81	46,936,447.35
Total Liabilities & Owner' Equity	47,305,567.79	49,927,768.65

Income Statement

For the year of 2009

Enterprise:Changle Salcon Raw 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		
Profits on sales		
Income from other operations		
Less:operating expense		
Less:General and administrative expenses	-513,644.03	-47,302.81
Less:Financial expenses		
Operating profit	513,644.03	47,302.81
Investment income		
Subsidies income		
Non-operating income		
Less:Non-operating expenses		
Total profit before tax	513,644.03	47,302.81
Less:Income tax		
Net profit	513,644.03	47,302.81

Cash Flows Statement

For the year of 2009

Enterprise:Changle Salcon Raw Water Co., Ltd.

Monetary Unit:CNY

Item	Amount
Cash Flow From Operating Activities	
Cash received from sales of good&services	
Cash received from tax return	
Cash received from other operating activities	
Sub-total of cash inflows	
Cash paid for goods & services	
Cash paid to staffs & paid on behalf of staff	
Taxes payment	
Other cash paid relating to operating activities	
Sub-total of cash outflows	
Net cash flows from operating activities	
Cash Flow From Investing Activities	
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	
Sub-total of cash inflows	
Cash paid to acquired fixed assets.intangible assets and other long-term assets	11,741,921.94
Cash paid to invest	
Cash paid to other activities relating to investment	144,942.90
Sub-total of cash outflows	11,886,864.84
Net cash flows from investing activities	-11,886,864.84
Cash Flow From Financing Activities	
Cash Flow From drawing on capital	3,223,172.51
Cash Flow From borrowings	
Cash received from other financing activities	2,181,555.91
Sub-total of cash inflows	5,404,728.42
Loans payable	
Cash payment of interest expenses and dividends	
Other cash payment relating to financial activities	
Sub-total of cash outflows	
Net cash flows from financing activities	5,404,728.42
Effect of foreign exchange rate changes on cash	
Net Increase in Cash & Cash Equivalents	-6,482,136.42

Cash Flows Statement

For the year of 2009

Enterprise:Changle Salcon Raw Water Co., Ltd.

Monetary Unit:CNY

Supplemental informations	
Reconciliation of net profit to cash flows from operating activities	
Net profit	513,644.03
Add:provision for loss on realization of fixed assets	
Depreciation of fixed assets	
Amortization of intangible assets	
Amortization of long-term prepayed expenses	-513,894.03
Decrease of prepayed expenses(less:increase)	250.00
Increase of accrued expenses(less:decrease)	
Losses on disposal of fixed assets,intangible assets and other long-term assets	
Losese on scrapping of fixed assets	
Financial expenses	
Losses on investments(less:gain)	
Deferred tax credit(less:debit)	
Decrease of inventories(less:increase)	
Decrease of operating receivables(less:increase)	
Increase of operating payables(less:decrease)	
Others	
Net cash flows from operating activities	
Other investment & financial activities not relating to cash inflows/outflows	
Debit convert into capital	
Convertible bond due in 1 year	
Fixed assets under leasehold	
Net Increase in Cash & Cash Equivalents	
Cash carry forward	27,174,860.81
Less: cash bring forward	33,656,997.23
Add:cash equivalents bring forward	
Less: cash equivalent carry forward	
Net Increase in Cash & Cash Equivalents	-6,482,136.42

Notes to the Financial Statements

Part one

Main introduction of the company

Changle Salcon Raw Water Company Limited (hereafter as the Company) was incorporated on June 12, 2008 and approved by the documents Wei Wai Jing Mao Wai Zi Zi [2008] No.183 issued by Weifang Municipal Bureau of Industrial and Commercial Administration. Its sole shareholder is Salcon Shandong (HK) limited. On May 23, 2008, the Company received the Shang Wai Zi Lu Fu Wei Zi [2008] No.0783 approval certificate and received Corporate Business License on October 20, 2009, the registered number is 370700400012292. The registered capital is USD8.68 million and the paid-in capital is USD 6.79199 million and the Company's legal representative is Mr. How See Hock. Its main operation scope list as: produce and sale of raw water and other business related to water supply (Where the above operating scope relates to state special provisions or qualifications, comply with the state provisions or qualifications).

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 the provisions of the 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 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 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

The main assets annual depreciation rates are as follows:

Categories	Useful year at least	Annual depreciation rate	Residual percent of book value	Remark
Motor vehicle	8	11.25%	10%	
Office equipment	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	December 31, 2008	December 31, 2009
Cash on hand	544.00	1,478.60
Cash in bank	3,656,453.23	7,173,382.21
Other monetary fund	30,000,000.00	20,000,000.00
Total	33,656,997.23	27,174,860.81

2. Fixed assets and accumulated depreciations

The book value of fixed assets

APPENDIX III

Categories	December 31, 2008	Increase	Decrease	December 31, 2009
Motor vehicle	215,248.00			215,248.00
Electrical equipment	13,500.00	4,830.00		18,330.00
Total	228,748.00	4,830.00		233,578.00

Accumulated depreciation

Categories	December 31, 2008	Increase	Decrease	December 31, 2009
Motor vehicle	8,093.32	24,279.96		32,373.28
Electrical equipment	849.18	3,431.32		4,280.50
Total	8,942.50	27,711.28		36,653.78
Net value of fixed assets	219,805.50			196,924.22

3. Construction in progress

Categories	December 31, 2008	Increase	Decrease	December 31, 2009
Construction and installation project	2,994,135.00	2,424,950.62		5,419,085.62
Material equipment	6,994,229.70	642,128.00		7,636,357.70
Requisition and demolition	214,676.40	2,258,780.70		2,473,457.10
Prepaid investment	1,689,868.63	1,450,013.37		3,139,882.00
Other	1,272.00			1,272.00
Total	11,894,181.73	6,775,872.69		18,670,054.42

4. Intangible assets

Category	December 31, 2008	Increase	Amortization	December 31, 2009	The remaining years
Software	13,750.00		3,000.00	10,750.00	3.58
Total	13,750.00		3,000.00	10,750.00	

5. Tax Payable

APPENDIX III

Tax	December 31, 2008	December 31, 2009
Individual Income Tax	1,624.97	1,829.30
Total	1,624.97	1,829.30

6. Paid-in Capital

Investor	December 31, 2009 USD	Proportion of equity
Salcon Shandong (HK) Limited	6.79199million	100%
Total	6.79199million	100%

Part Four**Contingencies**

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

Part Five**Committed events**

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

Changle Salcon Raw Water Company Limited

January 7, 2010

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

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

1.2 BRIEF HISTORY AND BUSINESS

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

1.3 SHARE CAPITAL

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

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

For the purpose of the Proposed Internal Restructuring, the authorised share capital of Linyi 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 Linyi will increase to 40.35 million ordinary shares of HKD1.00 each.

1.4 SUBSTANTIAL SHAREHOLDERS

Linyi 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 Linyi is Salcon Asia and Salcon respectively.

1.5 DIRECTORS

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

Name	Designation	Nationality
Dato' Seri Goh Eng Toon	Director	Malaysian
Loh Boon Sue	Director	Malaysian

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

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1.6 LIST OF SUBSIDIARY AND ASSOCIATED COMPANIES

Details of the subsidiary companies of Linyi are as follows:

Subsidiary company	Date/Place of incorporation	Effective equity interest %	Registered capital RMB	Principal activities
Linyi Water	7 November 2005/ PRC	60	59,999,964	Management and operation of water production and distribution of water
<i>Held by Linyi Water</i>				
Linyi Runcheng Water	3 July 1993/ PRC	100	120,000	Installation of urban water pipelines

Linyi does not have any associated companies.

1.7 DETAILS OF BUSINESS/ ASSETS OWNED

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

1.8 FINANCIAL INFORMATION

1.8.1 Summary financial information

The summary financial information of the Linyi 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	HKD	HKD	HKD
Turnover	-	-	-	-
LBT	(32,566)	(118,686)	(116,020)	(595,505)
LAT	(32,566)	(118,686)	(116,020)	(595,505)
Loss after tax and minority interest	(32,566)	(118,686)	(116,020)	(595,505)
Gross LPS (HKD)	(32,566)	(118,686)	(116,020)	(595,505)
Net LPS (HKD)	(32,566)	(118,686)	(116,020)	(595,505)
Paid-up capital	1	1	1	1
Shareholders' funds	(356,785)	(475,471)	(591,491)	(1,186,995)
NL	(356,785)	(475,471)	(591,491)	(1,186,995)
NL per share (HKD)	(356,785)	(475,471)	(591,491)	(1,186,995)
Current ratio (times)	0.0019	0.0019	0.0019	0.0019
Total borrowings (all interest-bearing debts)	-	-	-	-
Gearing ratio (times)	-	-	-	-

1.8.2 Commentary on past performance

Linyi is an investment holding company and has been recording losses since incorporation to the 9 months FPE 30 September 2010 as no dividends have been paid by its subsidiary. The said losses are also due to administrative and operating expenses incurred such as legal and professional fees, audit and other statutory fees.

The LBT for the FYE 31 December 2010 is approximately HKD794,007 (based on the extrapolated LBT for the 9 months FPE 30 September 2010) whereby the LBT has increased by approximately 584.37% as compared to the FYE 31 December 2009. This was mainly due to the unrealised exchange loss of advances from its holding company.

1.8.3 Accounting policies adopted

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

1.8.4 Audit qualification

The financial results of Linyi 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 Linyi with its subsidiaries. The non-compliance is only in regard to the fact that no consolidated financial statements had been prepared to include the results of its subsidiaries. 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 Linyi 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 Linyi for the past three (3) FYE 31 December 2009 to include the results of its subsidiaries. The financial statements of Linyi 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 Linyi for the FYE 31 December 2009

The audited financial statements of Linyi 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 Linyi for the FYE 31 December 2009.)

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