

THAI TAP WATER SUPPLY COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2005 AND 2004

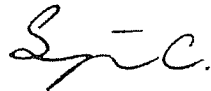
Report of Independent Auditor

To The Board of Directors and Shareholders of
Thai Tap Water Supply Company Limited

I have audited the balance sheets of Thai Tap Water Supply Company Limited as at 31 December 2005 and 2004, and the related statements of earnings and changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management as to their correctness and the completeness of the presentation. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thai Tap Water Supply Company Limited as at 31 December 2005 and 2004, and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles.



Siraporn Ouaanunkun

Certified Public Accountant (Thailand) No. 3844

Ernst & Young Office Limited

Bangkok : 23 February 2006

THAI TAP WATER SUPPLY COMPANY LIMITED

BALANCE SHEETS

AS AT 31 DECEMBER 2005 AND 2004

(Unit : Baht)

	<u>Note</u>	<u>2005</u>	<u>2004</u>
ASSETS			
CURRENT ASSETS			
Cash and deposits at financial institutions	3	387,594,639	162,814,087
Current investment	4	285,000,000	-
Trade accounts receivable		126,432,813	81,378,094
Accrued income		-	196,347,439
Other receivable - related party	8	10,285,516	6,193,388
Other current assets			
Interest receivable		4,542,039	4,542,039
Prepaid insurance expense		1,663,083	1,155,777
Prepaid expense		2,709,357	1,841,484
Withholding tax deducted at source		-	3,981,240
Others		2,215,538	1,532,933
TOTAL CURRENT ASSETS		<u>820,442,985</u>	<u>459,786,481</u>
NON-CURRENT ASSETS			
Property, plant and equipment, net	5	9,536,449,624	9,753,937,056
Other non-current assets			
Withholding tax deducted at source		4,034,953	21,270
Others		36,400	2,500
TOTAL NON-CURRENT ASSETS		<u>9,540,520,977</u>	<u>9,753,960,826</u>
TOTAL ASSETS		<u><u>10,360,963,962</u></u>	<u><u>10,213,747,307</u></u>

The accompanying notes are an integral part of the financial statements.

THAI TAP WATER SUPPLY COMPANY LIMITED

BALANCE SHEETS (Continued)

AS AT 31 DECEMBER 2005 AND 2004

(Unit : Baht)

	Note	<u>2005</u>	<u>2004</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade accounts payable			
Related parties	8	85,610,437	54,084,458
Other companies		10,505,913	-
Retention for construction			
Related parties	8	6,600,000	8,580,601
Other companies		2,079,540	-
Current portion of long-term loans			
from financial institutions	6	140,000,000	140,000,000
Other current liabilities			
Accrued expenses		31,942,835	10,643,769
Unbilled output tax		8,944,190	18,574,135
Value added tax payable		6,386,509	3,101,993
Others		1,077,094	982,282
TOTAL CURRENT LIABILITIES		<u>293,146,518</u>	<u>235,967,238</u>
NON-CURRENT LIABILITIES			
Long-term loans from financial institutions,			
net of current portion	6	<u>6,720,000,000</u>	<u>6,860,000,000</u>
TOTAL NON-CURRENT LIABILITIES		<u>6,720,000,000</u>	<u>6,860,000,000</u>
TOTAL LIABILITIES		<u>7,013,146,518</u>	<u>7,095,967,238</u>

The accompanying notes are an integral part of the financial statements.

THAI TAP WATER SUPPLY COMPANY LIMITED

BALANCE SHEETS (Continued)

AS AT 31 DECEMBER 2005 AND 2004

(Unit : Baht)

	<u>Note</u>	<u>2005</u>	<u>2004</u>
SHAREHOLDERS' EQUITY			
Share capital			
Registered			
30,000,000 ordinary shares of Baht 100 each		3,000,000,000	3,000,000,000
Issued and paid up			
30,000,000 ordinary shares of Baht 100 each, fully paid		3,000,000,000	3,000,000,000
Retained earnings			
Appropriated - statutory reserve	<i>10</i>	17,881,973	-
Unappropriated		329,935,471	117,780,069
TOTAL SHAREHOLDERS' EQUITY		<u>3,347,817,444</u>	<u>3,117,780,069</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>10,360,963,962</u>	<u>10,213,747,307</u>

The accompanying notes are an integral part of the financial statements.

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 DIRECTORS

THAI TAP WATER SUPPLY COMPANY LIMITED
 STATEMENTS OF EARNINGS
 FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Unit : Baht)

	<u>Note</u>	<u>2005</u>	<u>2004</u>
REVENUES			
Sales of treated water		1,356,031,216	571,963,054
Income from sales of treated water			
under pre-sale agreement	7	-	316,574,974
Interest income		4,216,563	709,090
Other income		-	662,977
TOTAL REVENUES		<u>1,360,247,779</u>	<u>889,910,095</u>
EXPENSES			
Cost of sales of treated water		628,129,544	220,288,487
Cost of sales of treated water			
under pre-sale agreement	7	-	53,774,471
Directors' remuneration		1,300,000	619,065
Selling and administrative expenses		50,886,305	26,473,772
TOTAL EXPENSES		<u>680,315,849</u>	<u>301,155,795</u>
EARNINGS BEFORE INTEREST EXPENSES		<u>679,931,930</u>	588,754,301
INTEREST EXPENSES		<u>(344,894,555)</u>	<u>(156,181,507)</u>
NET EARNINGS FOR THE YEAR	<i>12</i>	<u><u>335,037,375</u></u>	<u><u>432,572,794</u></u>
BASIC EARNINGS PER SHARE			
Net earnings		<u>11.17</u>	<u>14.56</u>
Weighted average number of ordinary shares (shares)		<u>30,000,000</u>	<u>29,711,264</u>

The accompanying notes are an integral part of the financial statements.

THAI TAP WATER SUPPLY COMPANY LIMITED
 STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Unit : Baht)

	Issued and paid-up share capital	Retained earnings		Total
		Appropriated - statutory reserve	Unappropriated	
Balance - beginning of year 2004	2,812,000,000	-	(314,792,725)	2,497,207,275
Called up ordinary shares	188,000,000	-	-	188,000,000
Net earnings for the year	-	-	432,572,794	432,572,794
Balance - end of year 2004	<u>3,000,000,000</u>	<u>-</u>	<u>117,780,069</u>	<u>3,117,780,069</u>
Net earnings for the year	-	-	335,037,375	335,037,375
Appropriated to statutory reserve (Note 10, 11)	-	17,881,973	(17,881,973)	-
Dividend payment (Note 11)	-	-	(105,000,000)	(105,000,000)
Balance - end of year 2005	<u><u>3,000,000,000</u></u>	<u><u>17,881,973</u></u>	<u><u>329,935,471</u></u>	<u><u>3,347,817,444</u></u>

The accompanying notes are an integral part of the financial statements.

THAI TAP WATER SUPPLY COMPANY LIMITED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Unit : Baht)

	<u>2005</u>	<u>2004</u>
Cash flows from (used in) operating activities		
Net earnings for the year	335,037,375	432,572,794
Adjustments to reconcile net earnings to net cash provided by (paid from) operating activities :		
Depreciation	223,766,219	99,762,202
Loss on disposal of equipment	4,299	-
	<hr/> 558,807,893	<hr/> 532,334,996
Decrease (increase) in operating assets		
Trade accounts receivable	(45,054,719)	(81,378,094)
Accrued income	196,347,439	(196,347,439)
Other receivable - related party	(4,092,128)	(6,193,388)
Other current assets	1,923,456	38,986,170
Other non-current assets	(4,047,583)	-
Increase (decrease) in operating liabilities		
Trade accounts payable - other companies	10,505,913	-
Trade accounts payable - related parties	31,525,979	54,084,458
Other current liabilities	15,048,449	9,250,933
Net cash from operating activities	<hr/> 760,964,699	<hr/> 350,737,636
Cash flows from (used in) investing activities		
Increase in current investment	(285,000,000)	-
Decrease in advance payment for construction - related parties	-	21,787,760
Increase in property, plant and equipment	(6,541,654)	(817,116,920)
Proceeds from disposal of equipment	258,568	-
Decrease in construction payables	-	(202,944,954)
Increase in retention for construction	98,939	5,376,861
Net cash used in investing activities	<hr/> (291,184,147)	<hr/> (992,897,253)

The accompanying notes are an integral part of the financial statements.

THAI TAP WATER SUPPLY COMPANY LIMITED
 STATEMENTS OF CASH FLOWS (Continued)
 FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004
 (Unit : Baht)

	<u>2005</u>	<u>2004</u>
Cash flows from (used in) financing activities		
Cash received from share subscription receivables	-	40,000,000
Cash received from called up of share capital	-	188,000,000
Increase (decrease) in long-term loans from financial institutions	(140,000,000)	570,000,000
Dividend payment	(105,000,000)	-
Net cash from (used in) financing activities	<u>(245,000,000)</u>	<u>798,000,000</u>
Net increase in cash and cash equivalents	224,780,552	155,840,388
Cash and cash equivalents at beginning of year	<u>162,814,087</u>	<u>6,973,700</u>
Cash and cash equivalents at end of year	<u><u>387,594,639</u></u>	<u><u>162,814,088</u></u>
 Supplemental cash flows information		
Cash paid during the year for		
Interest expenses (2004 : consist of interest payment for operating and interest payment for project cost which was capitalised as part of property, plant and equipment)	344,650,034	374,404,910
Corporate income tax and withholding tax deducted at source	290,895	3,976,540

The accompanying notes are an integral part of the financial statements.

THAI TAP WATER SUPPLY COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005 AND 2004

1. GENERAL INFORMATION

Thai Tap Water Supply Company Limited was incorporated as a limited company under Thai laws and operated in Thailand. The Company's parent company is CH. Karnchang Public Company Limited. The Company is engaged in the production and sell of treated water in Nakhon Pathom and Samut Sakhon in accordance with the rights granted under the "Water Purchase and Sales Agreement" made with the Provincial Waterworks Authority, dated 21 September 2000, for a period of 30 years as from the Actual Commencement Date.

On 25 September 2003, the Company and the Provincial Waterworks Authority entered into a "Water Purchase Agreement Prior to Commencement Date". Under the agreement, the pre-sales of water commenced from 5 January 2004 to 20 July 2004. The Company commenced the sales of treated water under Water Purchase Agreement on 21 July 2005.

The Company's registered office is located at 30/10 Moo 12, Rai Khing, Sam Phran, Nakhon Pathom.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting standards enunciated under the Accounting Profession Act B.E.2547.

Significant accounting policies adopted by the Company are summarised below :

2.1 Revenues and expenses recognition

a) Sales of treated water/ Sales of treated water under pre-sale agreement

Sales of treated water are the invoiced value, excluding value added tax, when goods are delivered and title passed to customers, after deducting discount and allowance.

b) Other revenues and expenses recognition

Other revenues and expenses are recognised on an accrual basis.

2.2 Trade accounts receivable

Trade accounts receivable are stated at the net realisable value.

2.3 Property, plant and equipment and depreciation

Property, plant and equipment are stated at costs less accumulated depreciation. Depreciation for assets not used for production of treated water is calculated by reference to their costs on the straight-line method over the estimate useful lives of 5 years.

Assets for production of treated water consist of construction cost of water treatment plant and system, and related interest expenses and financial cost. The Company has been adopting the unit of throughput method of depreciation to depreciate such assets for production of treated water to be costs of sales of treated water in the earnings statement basing on the following unit of throughput depreciation formula :

$$\begin{aligned} \text{Depreciation for the period} &= \frac{\text{Total assets for production of treated water} \times}{\text{Percentage of production of treated water for the period}} \\ \text{Percentage of production of} &= \frac{\text{Current period's actual production of treated water}}{\text{(Accumulated actual production of treated water up to current period +} \\ \text{treated water for the period} &\quad \text{Projected production of treated water during the remaining} \\ &\quad \text{concession period)}} \\ \text{Net assets for production of} &= \text{Total assets for production of treated water - Accumulated depreciation} \\ \text{treated water} & \end{aligned}$$

No depreciation is charged for land.

2.4 Capitalisation of interest cost

Interest cost on borrowings for use in construction of assets for production of treated water, is capitalised as part of the cost of assets and will be ceased when the project is completed.

2.5 Foreign currencies

Foreign currency transactions incurred during the year are translated into Baht at the rates ruling on the transaction dates. Monetary assets and liabilities dominated in foreign currency outstanding on the balance sheet date are translated into Baht at the rates ruling on the balance sheet date.

Exchange gains and losses incurred before the commencement of sales of treated water are capitalised as part of assets for production of treated water during construction. Exchange gains and losses incurred after the commencement of sales of treated water are included in determining earnings.

2.6 Financial derivative instruments

The Company occasionally entered into forward exchange contracts to reduce its exposure from exchange rate fluctuation risk. Premiums or discounts (the difference between the spot exchange rate and the forward exchange rate at inception of the contracts) are deferred and amortised over the contract lives using the straight-line method.

The amortisations incurred before the commencement of sales of treated water are capitalised as part of assets for production of treated water during construction. The amortisations incurred after the commencement of sales of treated water are included in determining earnings.

2.7 Employee benefits

During 2005, the Company and its employees have jointly established a provident fund as approved by the Ministry of Finance in accordance with Provident Fund Act B.E. 2530. The fund is monthly contributed to by employees at the rate of 5 percent of their basic salaries and by the Company at the same rate, and will be paid to the employees upon termination in accordance with the rules of the Company's provident fund. The fund is managed by TMB Bank Public Company Limited.

2.8 Earnings per share

Earnings per share as presented in the earnings statement is basic earnings per share, which is determined by dividing the net earnings for the year by the weighted average number of ordinary shares held by outside shareholders in issue during the year.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks and deposits with financial institutions with an original maturity of 3 months or less since the deposit date.

2.10 Use of accounting estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates for certain accounting transactions, affecting amounts reported in the financial statements and notes related thereto. Subsequent actual results may differ from these estimates.

3. CASH AND DEPOSITS AT FINANCIAL INSTITUTIONS

The Company has pledged its right to receive deposits from bank accounts with outstanding balances as at 31 December 2005 of approximately Baht 387.6 million (2004 : Baht : 162.8 million) with a group of lenders to secure long-term loans of the Company.

4. CURRENT INVESTMENT

As at 31 December 2005, current investment represents investments in certificates of deposit of a local bank, which is subject to interest at a rate of 2.50 percent per annum and matures within 6-month period in May 2006. The certificates of deposit are pledged with a group of lenders to secure long-term loans of the Company.

5. PROPERTY, PLANT AND EQUIPMENT

(Unit : Baht)

	Land	Assets for production of treated water	Furniture and office equipment	Vehicles	Tools	Total
Cost						
31 December 2004	301,150,902	9,546,709,066	2,131,468	5,279,321	-	9,855,270,757
Addition	-	-	1,921,254	3,828,000	792,400	6,541,654
Disposal	-	-	(42,671)	(1,200,000)	-	(1,242,671)
31 December 2005	<u>301,150,902</u>	<u>9,546,709,066</u>	<u>4,010,051</u>	<u>7,907,321</u>	<u>792,400</u>	<u>9,860,569,740</u>
Accumulated depreciation						
31 December 2004	-	98,608,739	707,207	2,017,755	-	101,333,701
Depreciation for the year	-	221,826,069	647,469	1,252,736	39,945	223,766,219
Depreciation of disposal	-	-	(23,092)	(956,712)	-	(979,804)
31 December 2005	<u>-</u>	<u>320,434,808</u>	<u>1,331,584</u>	<u>2,313,779</u>	<u>39,945</u>	<u>324,120,116</u>
Net book value						
31 December 2004	<u>301,150,902</u>	<u>9,448,100,327</u>	<u>1,424,261</u>	<u>3,261,566</u>	<u>-</u>	<u>9,753,937,056</u>
31 December 2005	<u>301,150,902</u>	<u>9,226,274,258</u>	<u>2,678,467</u>	<u>5,593,542</u>	<u>752,455</u>	<u>9,536,449,624</u>
Depreciation of the years as included in the earnings statements						
2004						<u>99,762,202</u>
2005						<u>223,766,219</u>

The Company has mortgaged land and assets for production of treated water with a group of lenders to secure the loan facilities obtained from the group of lenders.

6. LONG-TERM LOANS FROM FINANCIAL INSTITUTIONS

The Company has entered into long-term loans agreement with a group of domestic lenders formed by 3 commercial banks with a line of credit amounting to totaling Baht 7,000 million dividing to Baht 5,200 million Tranche A Facility and Baht 1,800 million Tranche B Facility. The interest rates for these loans are 7.75 percent per annum for Tranche A Facility and 8.25 percent per annum for Tranche B for the period as from May 2001 to October 2003, Minimum Loan Rate (MLR) for the period until the actual commencement date of sales occurred, MLR - 1% for the period of three years after the actual commencement date of sales occurred, and MLR or MLR - 1% (depend on certain conditions in the loan agreement) for the remaining periods. The loan principal is repayable on a quarterly basis commencing in January 2005. The loan repayment schedule for each year is as follows.

<u>Year</u>	<u>Loan repayment</u>
2005	2.00 percent
2006	2.00 percent
2007	10.00 percent
2008	14.34 percent
2009	14.34 percent
2010	14.34 percent
2011	14.34 percent
2012	14.34 percent
2013	14.30 percent

These loans are secured by the mortgage of the Company's land and construction thereon, the pledge of the Company's share certificates, its rights under the sales of treated water contract, its rights to receive deposits from bank accounts, its rights to receive benefit from insurance policies.

As at 31 December 2005, the Company had classified 2 percent of loans, or the amount of Baht 140 million, as current portion of long-term loans from financial institutions.

7. SALES OF TREATED WATER UNDER PRE-SALE AGREEMENT

On 25 September 2003, the Company and the Provincial Waterworks Authority entered into a "Water Purchase and Sale Agreement Prior to Commencement Date". Under the agreement, the Provincial Waterworks Authority agreed to purchase treated water prior to the effective date of the "Water Purchase Agreement" dated 21 September 2000. The pre-sale period commenced from 5 January 2004 to 20 July 2004.

8. RELATED PARTY TRANSACTIONS

During the years, the Company had significant business transactions with its related parties (related by way of shareholding or common shareholders and/or common directors). Such transactions, which have been concluded on the terms and basis as determined by the Company and those related parties, are under the normal course of business of the Company. The transactions are summarised belows :

	(Unit : Million Baht)		
	<u>2005</u>	<u>2004</u>	<u>Pricing policy</u>
Construction of project (Included as part of property, plant and equipment)	-	534.1	Based on contract
Cost of production of treated water	384.5	156.4	Based on contract
Management fees	2.0	4.6	Agreed between parties

The outstanding balances of the above transactions have been shown as separate items in the balance sheets as follows :

	(Unit : Baht)	
	<u>2005</u>	<u>2004</u>
<u>Other receivable - related party</u>		
- Water Flow Company Limited	10,285,516	6,193,388
	<u>10,285,516</u>	<u>6,193,388</u>
<u>Trade payables - related parties</u>		
- CH. Karnchang Public Company Limited	63,749,693	2,914,887
- Thames Water International (Thailand) Limited	-	167,254
- Water Flow Company Limited	21,860,744	48,322,830
- Thames Water International Service Limited	-	2,679,487
	<u>85,610,437</u>	<u>54,084,458</u>

	(Unit : Baht)	
	<u>2005</u>	<u>2004</u>
<u>Retention for construction - related parties</u>		
- CH. Karnchang Public Company Limited	6,600,000	6,600,000
- United KG Water Projects Pty Limited	-	1,980,601
	<u>6,600,000</u>	<u>8,580,601</u>

9. NUMBER OF EMPLOYEES AND RELATED COSTS

	<u>2005</u>	<u>2004</u>
Number of employees at end of year (Persons)	14	10
Employee costs during the year (Thousand Baht)	10,693	3,884

During the current year, the Company contributed Baht 0.1 million to the provident fund which is included in the above employee costs.

10. STATUTORY RESERVE

According to the Section 1202 of the Thai Civil and Commercial Code, in a year when the Company pays a dividend, it is required to set aside a statutory reserve of at least 5% of its net profit, until such reserve reaches 10% of the Company's registered share capital. The statutory reserve is not available for dividend distribution.

11. DIVIDEND PAYMENT

On 15 August 2005, a meeting of the Company's Board of Directors approved the payment of an interim dividend of Baht 3.5 per share, a total of Baht 105 million, to its shareholders from the earnings for the period as from 1 January 2005 to 30 June 2005 and approved the appropriation of Baht 17.9 million to the statutory reserve. The dividend was paid on 19 August 2005.

12. PROMOTIONAL PRIVILEGES

The Company was granted the promotional privileges under Thai Investment Promotion Act B.E. 2520 approved by the Board of Investment under certificates No. 1382(2)/2545, dated 19 June 2002, for production of treated water. Subject to certain imposed conditions, the main privileges include the following :

- Exemption of import duty on imported machinery according to specified condition.
- Exemption from corporate income tax on earnings from promotional privileges operation for a period of eight years from the date on which operating income is first derived.

Net earnings for the years ended 31 December 2005 and 2004 are divided into promoted and non-promoted operations as follows :

	(Unit : Baht)					
	Promoted operations		Non-promoted operations		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Sales of treated water	1,356,031,216	571,963,054	-	-	1,356,031,216	571,963,054
Income from sales of treated water under pre-sale agreement	-	-	-	316,574,975	-	316,574,975
Interest income	1,479,919	143,392	2,736,644	565,698	4,216,563	709,090
Other income	-	-	-	662,977	-	662,977
Total revenues	1,357,511,135	572,106,446	2,736,644	317,803,650	1,360,247,779	889,910,096
Expenses						
Cost of sales of treated water	628,129,544	220,288,487	-	-	628,129,544	220,288,487
Cost of sales of treated water under pre-sale agreement	-	-	-	53,774,471	-	53,774,471
Directors' remuneration	1,300,000	619,065	-	-	1,300,000	619,065
Selling and administrative expenses	50,886,305	11,460,656	-	15,013,116	50,886,305	26,473,772
Total expenses	680,315,849	232,368,208	-	68,787,587	680,315,849	301,155,795
Earnings before interest expenses	677,195,286	339,738,238	2,736,644	249,016,063	679,931,930	588,754,301
Interest expenses	(344,894,555)	(156,181,507)	-	-	(344,894,555)	(156,181,507)
Net earnings for the year	332,300,731	183,556,731	2,736,644	249,016,063	335,037,375	432,572,794

No corporate income tax is payable on net earnings on non-promoted operations for the year ended 31 December 2005 and 2004 since tax loss brought forward from previous years exceeds net earnings for the year.

13. BANK GUARANTEES

As at 31 December 2005, there were outstanding bank guarantees of Baht 61.0 million (2004 : Baht 60.5 million) issued by banks on behalf of the Company in respect of certain performance bonds as required in the normal course of business of the Company.

14. DISCOUNT ON SALES OF TREATED WATER/DISCOUNT FROM PURCHASE OF TREATED WATER

14.1) The Water Purchase and Sale Agreement between the Company and the Provincial Waterworks Authority stipulates that the Company has to grant a compensation to the Provincial Waterworks Authority for the cost saving as a result of the Company not being required to supply shortfall quantities. The compensation is calculated by multiplying the amount by which the actual quantity of treated water purchased is less than the minimum offtake quantity by the discount rate stipulated in the agreement. Under the agreement, compensation is to be accumulated until the Company has paid all indebtedness due to the lender under the long-term loans agreement, and discharged all obligations thereunder. Thereafter, the Company is to pay the accrued compensation to the Provincial Waterworks Authority by means of a deduction from the treated water charges the Provincial Waterworks Authority has to pay the Company. However, the Company's management believes that the probability that contingent liabilities to be paid to the Provincial Waterworks Authority in the future is rarely to be occurred. The Company does not record such compensation as a discount payment on sales of treated water in the account.

14.2) The Operation and Maintenance Agreement between the Company and a related company stipulates that the related company is to grant a compensation to the Company for the cost saving as a result of the related company not being required to supply shortfall quantities. The compensation is calculated by multiplying the amount by which the actual quantity of treated water purchased is less than the minimum offtake quantity by the discount rate stipulated in the agreement. Under the agreement, the compensation is to be accumulated until the Company has paid all indebtedness due to the lender under the long-term loans agreement, and discharged all obligations thereunder. Thereafter, the related company is to pay the accrued compensation to the Company by means of a deduction from the treated water charges the Company has to pay the related company. However, the Company's management believes that the probability that the related company will has to pay this compensation to the Company in the future is rarely to be occurred. The Company does not record such compensation as a discount received from purchase of treated water in the account.

15. LITIGATION

In October 2004, the Provincial Waterworks Authority filed a statement of claim against the Company with the Thai Arbitration Institute requesting the arbitrators to order the Company to pay all expenses in production and distribution of water to the public under the Water Purchase Agreement between the Provincial Waterworks Authority and the Company.

In February 2005, the Company filed a statement of defense and counterclaim against the Provincial Waterworks Authority requesting the arbitrators to order the Provincial Waterworks Authority to pay an annual rental fee for land used for the installation of a water main in a highway area for a Local Distribution Network (amounted of approximately Baht 13 million per annum).

At present, both parties are under negotiation in order to find amicable solution to the matter in dispute. The arbitration proceedings have not yet commenced.

However, no provision for loss as a result of the dispute was set aside in the accounts since the Company's management believes that no material financial damage will result.

16. SUBSEQUENT EVENTS

16.1 On 10 January 2006, an extraordinary general meeting of the Company's shareholders passed resolutions in respect of the following:

- a) Approved a purchase of ordinary shares of Waterflow Company Limited from its existing shareholder equal to 99.99 percent of the registered share capital of that company (formerly these number of shares had been held by related companies). The agreed purchase price was not over Baht 7,000 per share, or total of not more than Baht 700 million. This price is approximated to the value appraised by an independent financial advisor.
- b) Approved an increase in the Company's registered share capital from Baht 3,000 million to Baht 3,250 million, through the issuance of 2.5 million ordinary shares with a par value of Baht 100 each to its existing shareholders, in proportion to their shareholding, at an offer price of Baht 290 per share, totaling of Baht 725 million.

16.2 On 30 December 2005, the Board of Directors' Meeting No. 18/2005 resolved to approve the payment of interim dividends to the Company's shareholders, from its operation for the period as from 1 July 2005 to 31 December 2005. However, given the fact that the Company has not yet known the exact figures, therefore, it is resolved that the Board of Directors shall consider the amount of such interim dividends when the figures can be ascertained as at the closing date of the Company's accounting year on 31 December 2005.

Resulting from such Meeting, on 23 January 2006, the Board of Directors' Meeting No. 1/2006 resolved to approve the payment of interim dividends for the said period at the rate of Baht 3.15 per share, totaling Baht 94.5 million, to the shareholders whose names are listed on the Share Register Book as at 31 December 2005, whereby the Company shall pay such interim dividends on 19 May 2006.

17. FINANCIAL INFORMATION BY SEGMENT

The Company's operations involve principally a single industry segment, the production and sell of treated water, which is not yet in commercial operation and are carried on in the single geographic area of Thailand. As a result, all of the revenues, operating profits (losses) and assets as reflected in these financial statements pertain to the aforementioned industry segment and geographic area.

18. FINANCIAL INSTRUMENTS

18.1 Financial risk management and policies

The Company is exposed to risks from changes in market interest rates and currency exchange rates, and from nonperformance of contractual obligations by counterparties. The Company does not hold or issue derivative instruments for speculative or trading purposes.

18.2 Interest rate risk

The interest rate risk is the risk that future movements in market interest rates will affect the results of the operations and its cash flows. The Company's exposure to interest rate risk relates primarily to its deposits with financial institutions and long-term loans from financial institutions. Since the majority of these financial assets are short-term and interests on its long-term liabilities are charged at rates which closed to market interest rate, the Company does not use derivative financial instruments to hedge such risk. The details of loans are set out in Note 6.

18.3 Fair value

Since the majority of the financial assets are short-term and that the loans carry interest at rates close to market rates, the management believes that the Company's fair value of financial assets and liabilities do not materially differ from their carrying value.

19. PRESENTATION

The presentation of the financial statements has been made in compliance with the stipulations of the Notification of the Department of Business Development dated 14 September 2001, issued under the Accounting Act B.E. 2543.

20. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Board of Directors on 23 February 2006.