

THAI TAP WATER SUPPLY PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY  
(FORMERLY KNOWN AS "THAI TAP WATER SUPPLY COMPANY LIMITED")  
REPORT AND CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2006 AND 2005

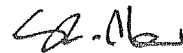
**Report of Independent Auditor**

To The Board of Directors and Shareholders of  
Thai Tap Water Supply Public Company Limited  
(Formerly known as "Thai Tap Water Supply Company Limited")

I have audited the accompanying consolidated balance sheet of Thai Tap Water Supply Public Company Limited and its subsidiary as at 31 December 2006, the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and the separate financial statements of Thai Tap Water Supply Public Company Limited for the same period. These financial statements are the responsibility of the management of the Company and its subsidiary as to their correctness and the completeness of the presentation. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of Thai Tap Water Supply Company Limited for the year ended 31 December 2005, as presented herein for comparative purposes, were audited in accordance with generally accepted auditing standards by another auditor in my office, who expressed an unqualified opinion on those statements under her report dated 23 February 2006.

I conducted my audit 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 audit provides 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 Public Company Limited and its subsidiary and of Thai Tap Water Supply Public Company Limited as at 31 December 2006, the results of their operations, and cash flows for the year then ended, in accordance with generally accepted accounting principles.



Supachai Phanyawattano

Certified Public Accountant (Thailand) No. 3930

THAI TAP WATER SUPPLY PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY  
(FORMERLY KNOWN AS "THAI TAP WATER SUPPLY COMPANY LIMITED")

BALANCE SHEETS

AS AT 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	Note	Consolidated	The Company Only	
		2006	2006	2005
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	7	356,130,305	352,958,595	387,594,639
Current investment	8	695,000,000	670,000,000	285,000,000
Trade accounts receivable	9	217,595,545	217,595,545	126,432,813
Other receivable - subsidiary	6	-	4,572,068	10,285,516
Raw materials and supplies	10	6,685,038	5,737,789	-
Other current assets				
Interest receivable		10,222,979	10,222,979	4,542,039
Prepaid expenses		18,003,842	17,887,051	4,372,440
Others		3,023,104	1,732,761	2,215,538
<b>TOTAL CURRENT ASSETS</b>		<b>1,306,660,813</b>	<b>1,280,706,788</b>	<b>820,442,985</b>
<b>NON-CURRENT ASSETS</b>				
Investments accounted for under equity method				
- subsidiary	4, 11	-	96,574,850	-
Property, plant and equipment, net	12	9,355,964,279	9,293,249,488	9,536,449,624
Other non-current assets				
Withholding tax deducted at source		4,272,135	4,272,135	4,034,953
Others		15,048,400	15,036,400	36,400
<b>TOTAL NON-CURRENT ASSETS</b>		<b>9,375,284,814</b>	<b>9,409,132,873</b>	<b>9,540,520,977</b>
<b>TOTAL ASSETS</b>		<b>10,681,945,627</b>	<b>10,689,839,661</b>	<b>10,360,963,962</b>

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

THAI TAP WATER SUPPLY PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY  
(FORMERLY KNOWN AS "THAI TAP WATER SUPPLY COMPANY LIMITED")

BALANCE SHEETS (Continued)

AS AT 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	Note	Consolidated	The Company Only	
		<u>2006</u>	<u>2006</u>	<u>2005</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Trade accounts payable				
Related parties	6	260,000	4,550,992	85,610,437
Other companies		31,502,770	31,056,270	10,505,913
Retention payable				
Related party	6	-	-	6,600,000
Other companies		2,149,711	2,149,711	2,079,540
Current portion of long-term loans				
from financial institutions	13	700,000,000	700,000,000	140,000,000
Other current liabilities				
Accrued expenses		18,427,688	18,179,751	31,942,835
Unbilled output tax		9,940,045	9,698,301	8,944,190
Value added tax payable		8,145,427	8,145,427	6,386,509
Others		1,659,320	1,198,543	1,077,094
TOTAL CURRENT LIABILITIES		<u>772,084,961</u>	<u>774,978,995</u>	<u>293,146,518</u>
NON-CURRENT LIABILITIES				
Retention - subsidiary	6	-	5,000,000	-
Long-term loans from financial institutions,				
net of current portion	13	6,020,000,000	6,020,000,000	6,720,000,000
TOTAL NON-CURRENT LIABILITIES		<u>6,020,000,000</u>	<u>6,025,000,000</u>	<u>6,720,000,000</u>
TOTAL LIABILITIES		<u>6,792,084,961</u>	<u>6,799,978,995</u>	<u>7,013,146,518</u>

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

THAI TAP WATER SUPPLY PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY  
(FORMERLY KNOWN AS "THAI TAP WATER SUPPLY COMPANY LIMITED")

BALANCE SHEETS (Continued)

AS AT 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	Note	Consolidated	The Company Only	
		2006	2006	2005
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	14			
Registered				
3,990,000,000 ordinary shares of Baht 1 each (2005 : 30,000,000 ordinary shares of Baht 100 each)		3,990,000,000	3,990,000,000	3,000,000,000
Issued and fully paid up				
3,250,000,000 ordinary shares of Baht 1 each (2005 : 30,000,000 ordinary shares of Baht 100 each)		3,250,000,000	3,250,000,000	3,000,000,000
Share premium		475,000,000	475,000,000	-
Retained earnings				
Appropriated - statutory reserve	15	51,602,277	51,602,277	17,881,973
Unappropriated		713,621,255	713,621,255	329,935,471
Difference on reorganization of business of group companies	11	(600,362,866)	(600,362,866)	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>3,889,860,666</b>	<b>3,889,860,666</b>	<b>3,347,817,444</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>10,681,945,627</b>	<b>10,689,839,661</b>	<b>10,360,963,962</b>

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

.....  
DIRECTORS  
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THAI TAP WATER SUPPLY PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY  
(FORMERLY KNOWN AS "THAI TAP WATER SUPPLY COMPANY LIMITED")

INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	Note	Consolidated	The Company Only	
		2006	2006	2005
<b>REVENUES</b>				
Sales of treated water	16	1,697,801,777	1,697,801,777	1,356,031,216
Interest income		24,384,643	23,621,011	4,216,563
<b>TOTAL REVENUES</b>		<u>1,722,186,420</u>	<u>1,721,422,788</u>	<u>1,360,247,779</u>
<b>EXPENSES</b>				
Cost of sales of treated water		511,551,944	509,479,580	628,129,544
Selling and administrative expenses	17	99,212,635	97,459,083	52,186,305
Share of loss from investments accounted for under equity method		-	3,062,284	-
<b>TOTAL EXPENSES</b>		<u>610,764,579</u>	<u>610,000,947</u>	<u>680,315,849</u>
<b>INCOME BEFORE INTEREST EXPENSES</b>		1,111,421,841	1,111,421,841	679,931,930
<b>INTEREST EXPENSES</b>		(437,015,753)	(437,015,753)	(344,894,555)
<b>NET INCOME FOR THE YEAR</b>	19	<u>674,406,088</u>	<u>674,406,088</u>	<u>335,037,375</u>
<b>BASIC EARNINGS PER SHARE</b>				
Net income	20	<u>0.21</u>	<u>0.21</u>	<u>0.11</u>
Weighted average number of ordinary shares (shares)		<u>3,211,482,384</u>	<u>3,211,482,384</u>	<u>3,000,000,000</u>

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

THAI TAP WATER SUPPLY PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY  
(FORMERLY KNOWN AS "THAI TAP WATER SUPPLY COMPANY LIMITED")

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

(Unit : Baht)

	Consolidated					
	Issued and paid-up		Retained earnings		Difference on reorganization of business of group companies	Total
	share capital	Share premium	Appropriated - statutory reserve	Unappropriated		
Balance as at 31 December 2005	3,000,000,000	-	17,881,973	329,935,471	-	3,347,817,444
Issuance of additional ordinary shares (Note 14)	250,000,000	475,000,000	-	-	-	725,000,000
Net income for the year	-	-	-	674,406,088	-	674,406,088
Appropriated to statutory reserve (Note 15)	-	-	33,720,304	(33,720,304)	-	-
Difference on reorganization of business of group companies (Note 11)	-	-	-	-	(600,362,866)	(600,362,866)
Dividend payment (Note 23)	-	-	-	(257,000,000)	-	(257,000,000)
Balance as at 31 December 2006	<u>3,250,000,000</u>	<u>475,000,000</u>	<u>51,602,277</u>	<u>713,621,255</u>	<u>(600,362,866)</u>	<u>3,889,860,666</u>

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

THAI TAP WATER SUPPLY PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY  
(FORMERLY KNOWN AS "THAI TAP WATER SUPPLY COMPANY LIMITED")

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	The Company Only					Total
	Issued and paid-up		Retained earnings		Difference on reorganization of business of group companies	
			Appropriated - statutory reserve	Unappropriated		
share capital	Share premium					
Balance as at 31 December 2004	3,000,000,000	-	-	117,780,069	-	3,117,780,069
Net income for the year	-	-	-	335,037,375	-	335,037,375
Appropriated to statutory reserve (Note 23)	-	-	17,881,973	(17,881,973)	-	-
Dividend payment (Note 23)	-	-	-	(105,000,000)	-	(105,000,000)
Balance as at 31 December 2005	3,000,000,000	-	17,881,973	329,935,471	-	3,347,817,444
Issuance of additional ordinary shares (Note 14)	250,000,000	475,000,000	-	-	-	725,000,000
Net income for the year	-	-	-	674,406,088	-	674,406,088
Appropriated to statutory reserve (Note 15)	-	-	33,720,304	(33,720,304)	-	-
Difference on reorganization of business of group companies (Note 11)	-	-	-	-	(600,362,866)	(600,362,866)
Dividend payment (Note 23)	-	-	-	(257,000,000)	-	(257,000,000)
Balance as at 31 December 2006	<u>3,250,000,000</u>	<u>475,000,000</u>	<u>51,602,277</u>	<u>713,621,255</u>	<u>(600,362,866)</u>	<u>3,889,860,666</u>

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



THAI TAP WATER SUPPLY PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY  
(FORMERLY KNOWN AS "THAI TAP WATER SUPPLY COMPANY LIMITED")

CASH FLOW STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	Consolidated	The Company Only	
	<u>2006</u>	<u>2006</u>	<u>2005</u>
<b>Cash flows from (used in) operating activities</b>			
Net income for the year	674,406,088	674,406,088	335,037,375
Adjustments to reconcile net income to net cash provided by (paid from) operating activities :			
Depreciation	255,555,773	252,368,450	223,766,219
Share of loss from investments accounted for under equity method	-	3,062,284	-
Loss on disposal of equipment	771,626	-	4,299
Unrealized gain on exchange	(184,339)	(184,339)	-
	<u>930,549,148</u>	<u>929,652,483</u>	<u>558,807,893</u>
Decrease (increase) in operating assets			
Trade accounts receivable	(91,162,732)	(91,162,732)	(45,054,719)
Accrued income	-	-	196,347,439
Other receivable - subsidiary	34,089,732	5,713,448	(4,092,128)
Raw materials and supplies	(3,668,982)	(5,737,789)	-
Other current assets	(18,804,563)	(18,712,774)	1,923,456
Other non-current assets	(215,157)	(237,182)	(4,047,583)
Increase (decrease) in operating liabilities			
Trade accounts payable - related parties	(96,824,481)	(81,059,445)	31,525,979
Trade accounts payable - other companies	5,067,353	20,550,357	10,505,913
Other current liabilities	(18,782,313)	(11,128,606)	15,048,449
Retention - subsidiary	-	5,000,000	-
Net cash from operating activities	<u>740,248,005</u>	<u>752,877,760</u>	<u>760,964,699</u>

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

THAI TAP WATER SUPPLY PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY  
(FORMERLY KNOWN AS "THAI TAP WATER SUPPLY COMPANY LIMITED")

CASH FLOW STATEMENTS (Continued)

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	Consolidated	The Company Only	
	<u>2006</u>	<u>2006</u>	<u>2005</u>
<b>Cash flows from (used in) investing activities</b>			
Increase in current investment	(410,000,000)	(385,000,000)	(285,000,000)
Net cash payments for acquisition of investments in subsidiary (Note 11)	(660,539,317)	(700,000,000)	-
Increase in equipment	(9,362,501)	(9,168,314)	(6,541,654)
Proceeds from disposal of equipment	1,534,969	-	258,568
Cash paid for deposits for purchase of land	(15,000,000)	(15,000,000)	-
Increase (decrease) in retention payable	(6,345,490)	(6,345,490)	98,939
Net cash used in investing activities	<u>(1,099,712,339)</u>	<u>(1,115,513,804)</u>	<u>(291,184,147)</u>
<b>Cash flows from (used in) financing activities</b>			
Cash received from issuance of additional ordinary shares	725,000,000	725,000,000	-
Repayment of long-term loans from financial institutions	(140,000,000)	(140,000,000)	(140,000,000)
Dividend paid	(257,000,000)	(257,000,000)	(105,000,000)
Net cash from (used in) financing activities	<u>328,000,000</u>	<u>328,000,000</u>	<u>(245,000,000)</u>
Net increase (decrease) in cash and cash equivalents	(31,464,334)	(34,636,044)	224,780,552
Cash and cash equivalents at beginning of period	<u>387,594,639</u>	<u>387,594,639</u>	<u>162,814,087</u>
Cash and cash equivalents at end of period	<u><u>356,130,305</u></u>	<u><u>352,958,595</u></u>	<u><u>387,594,639</u></u>
<b>Supplemental cash flows information</b>			
Cash paid during the year for			
Interest expenses	435,401,918	435,401,918	344,650,034
Corporate income tax and withholding tax deducted at source	7,450,496	143,703	290,895

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

THAI TAP WATER SUPPLY PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY  
(FORMERLY KNOWN AS "THAI TAP WATER SUPPLY COMPANY LIMITED")

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

**1. GENERAL INFORMATION**

Thai Tap Water Supply Public Company Limited ("the Company") was incorporated as a limited company under the Civil and Commercial Code on 11 September 2000 and registered the change of its status to a public company limited under the Public Limited Companies Act B.E. 2535 on 6 July 2006. The Company operates in Thailand and its major shareholder is CH. Karnchang Public Company Limited, which was also incorporated in Thailand. The Company is principally engaged in the production and sale of treated water to the Provincial Waterworks Authority (PWA) in the Amphur Nakorn Chaisri, Amphur Sam Pran, and Amphur Budha Monthon areas of Nakhon Pathom and the Amphur Muang and Amphur Kratumban areas of Samut Sakhon, under the "Water Purchase Agreement" made with the PWA dated 21 September 2000, which covers a period of 30 years as from the Actual Commencement Date (21 July 2004), and under the Concession to operate treated water granted by the Ministry of Natural Resources and Environment (the concessionaire) for a period of 25 years commencing 11 March 2005. The Company has to comply with certain conditions as stipulated in the Water Purchase Agreement and the Concession.

Under the water supply concession, when the Company has completed half of the concession period, if the government or the local government agency wish to purchase the water production business of the Company, the concessionaire is entitled to cancel the concession in order to purchase it, or permit the relevant local government agency to purchase it, at market price. However, it must provide the Company with advance notice of six months of such action.

The Company's registered address is 30/10 Moo 12, Budha Monthon 5 Road, RaiKhing, Sam Pran, Nakhon Pathom.

## **2. BASIS OF PREPARATION**

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

The financial statements have been prepared on a historical cost basis except where otherwise disclosed in the accounting policies.

## **3. BASIS OF CONSOLIDATION**

3.1 The consolidated financial statements for the year ended 31 December 2006 include the financial statements of Thai Tap Water Supply Public Company Limited and WaterFlow Company Limited ("the subsidiary"). The Company acquired a 100 percent interest in the subsidiary in March 2006. The subsidiary was incorporated in Thailand and its principal activity is operation and maintenance of a water supply project.

Assets of the subsidiary as included in the consolidated financial statements as at 31 December 2006 comprise 1 percent of the total and there are no revenues of the subsidiary included in the consolidated financial statements for the year ended 31 December 2006.

3.2 Material balances and transactions between the Company and the subsidiary company have been eliminated from the consolidated financial statements.

3.3 Investment in the subsidiary company as recorded in the Company's books of account is eliminated against the equity of the subsidiary company.

3.4 Results of operations of the subsidiary have been included in the consolidated financial statements from the effective date of acquisition.

#### **4. ADOPTION OF NEW ACCOUNTING STANDARDS**

In October 2006, the Federation of Accounting Professions issued Notification No. 26/2006 regarding Accounting Standard No. 44 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" (Amendment No. 1), under which investments in subsidiaries, jointly controlled entities and associates are to be presented in the separate financial statements under the cost method rather than the equity method. Entities which are not ready to adopt the cost method in 2006 can continue to use the equity method through the end of 2006 and adopt the cost method as from 1 January 2007.

In this regard, the Company has elected to adopt the change in 2007. Adoption of the change in 2007 will necessitate the restatement of the Company's 2006 separate financial statements to be presented for comparative purposes along with the financial statements for 2007. The restatement will have the effect of increasing net income in the separate income statement for 2006 by approximately Baht 3.1 million and increasing net worth in the balance sheet at 31 December 2006 by approximately Baht 3.1 million.

#### **5. SIGNIFICANT ACCOUNTING POLICIES**

##### **5.1 Revenues and expenses recognition**

###### **a) Sales of treated water**

Sales of treated water are recognised when the water is supplied to the Provincial Waterworks Authority, and comprise the invoiced value, excluding value added tax, of the treated water supplied, after deducting discounts and allowances.

###### **b) Interest income**

Interest income is recognised as interest accrues based on the effective rate method.

###### **c) Other revenues and expenses recognition**

Other revenues and expenses are recognised on an accrual basis.

##### **5.2 Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand, cash at bank, and all highly liquid investments with an original maturity of three months or less and not subject to withdrawal restrictions.

##### **5.3 Trade accounts receivable**

Trade accounts receivable are stated at the net realisable value. Allowance for doubtful accounts is provided for the estimated losses that may be incurred in collection of receivables. The allowance is generally based on collection experiences and analysis of debtor aging.

#### 5.4 Raw materials and supplies

Raw materials and supplies are valued at the lower of cost (first - in first - out method) and net realisable value and are charged to treated water production costs whenever consumed.

#### 5.5 Investments in subsidiary

Investments in subsidiary (in the separate financial statements of the Company) are accounted for under the equity method. Under this method, investments are recorded at cost and for each subsequent period are adjusted to incorporate the Company's proportionate share of the operating results of the subsidiary.

#### 5.6 Property, plant and equipment and depreciation

Land is stated at cost. Building and equipment are stated at cost less accumulated depreciation and allowance for loss on impairment of assets (if any). Depreciation for assets is generally calculated by reference to their costs on the straight-line basis over estimated useful lives of 3 years and 5 years. However depreciation of assets used for production of treated water is calculated using the units-of-production method, based on the following formula:

$$\text{Depreciation for the period} = \text{Net assets for production of treated water at the beginning of period} \times \text{Percentage of treated water produced in the period}$$

$$\text{Percentage of treated water Produced in the period} = \frac{\text{Current period's actual production of treated water}}{(\text{Actual production of treated water for the period} + \text{Projected total production of treated water over the remaining term of the Water Purchase Agreement})}$$

$$\text{Net assets for production of treated water as at the beginning of the period} = \text{Total assets for production of treated water} - \text{Accumulated depreciation as at the beginning of the period}$$

Assets for production of treated water consist of costs of construction of a water treatment plant and system, and related interest expenses and financial costs.

No depreciation is charged for land.

Depreciation is included in determining income.

## **5.7 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 or when the construction is suspended until active development resumes.

## **5.8 Related party transactions**

Related parties comprise enterprises and individuals that control, or are controlled by, the Company, whether directly or indirectly, or which are under common control with the Company.

They also include associated companies and individuals which directly or indirectly own a voting interest in the Company that gives them significant influence over the Company, key management personnel, directors and officers with authority in the planning and direction of the Company's operations.

## **5.9 Foreign currencies**

Foreign currency transactions are translated into Baht at the exchange rates ruling on the transaction dates. Assets and liabilities denominated in foreign currencies outstanding at the balance sheet date are translated into Baht at the exchange rates ruling on the balance sheet date.

Gains and losses on exchange incurred before the commencement of sales of treated water are capitalised as part of assets for production of treated water during construction. Gains and losses on exchange incurred after the commencement of sales of treated water are included in determining income.

## **5.10 Impairment of assets**

The Company and the subsidiary assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, an estimate is made of the asset's recoverable amount. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement. An asset's recoverable amount is the higher of fair value less costs to sell and value in use.

## **5.11 Employee benefits**

Salary, wages, bonuses and contributions to the social security fund and provident fund are recognised as expenses when incurred.

## 5.12 Income Tax

Income tax is provided for in the accounts based on the taxable profits determined in accordance with tax legislation.

## 5.13 Use of accounting estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions in certain circumstances, affecting amounts reported in these financial statements and related notes. Actual results could differ from these estimates.

## 6. RELATED PARTY TRANSACTIONS

During the years, the Company and its subsidiary had significant business transactions with related parties. These transactions, which have been concluded on commercial terms and bases agreed upon in the ordinary course of businesses between the Company and those companies. Below is a summary of those transactions.

(Unit : Million Baht)

	Consolidated	The Company Only		Pricing Policy
	<u>2006</u>	<u>2006</u>	<u>2005</u>	
<u>Transactions with subsidiary company</u>				
(eliminated from the consolidated financial statements)				
Cost of production of treated water	-	42.0	-	Contract prices
<u>Transactions with related parties</u>				
Cost of production of treated water	-	-	384.5	Contract prices
Management fees	-	-	2.0	Agreed between parties
Selling and administrative expenses	0.3	-	-	Contract prices



The balances of the accounts as at 31 December 2006 and 2005 between the Company and those related companies are as follows:

	(Unit : Baht)		
	Consolidated	The Company Only	
	<u>2006</u>	<u>2006</u>	<u>2005</u>
<b><u>Other receivable - subsidiary</u></b>			
- WaterFlow Company Limited	-	4,572,068	10,285,516
	-	<b>4,572,068</b>	<b>10,285,516</b>
<b><u>Trade accounts payables - related parties</u></b>			
<b><u>Subsidiary</u></b>			
- WaterFlow Company Limited	-	4,550,992	21,860,744
	-	4,550,992	21,860,744
<b><u>Related company</u></b>			
- CH. Karnchang Public Company Limited	260,000	-	63,749,693
	260,000	-	63,749,693
	<b>260,000</b>	<b>4,550,992</b>	<b>85,610,437</b>
<b><u>Retention payable - related party</u></b>			
- CH. Karnchang Public Company Limited	-	-	6,600,000
	-	-	<b>6,600,000</b>
<b><u>Retention - subsidiary</u></b>			
- WaterFlow Company Limited	-	5,000,000	-
	-	<b>5,000,000</b>	-

#### **Directors and management's remuneration**

In 2006 the Company and the subsidiary paid salaries and bonus to their directors and management totaling Baht 4.8 million (The Company only : Baht 4.8 million) (2005 : The Company only : Baht 1.3 million).

#### **7. CASH AND CASH EQUIVALENTS**

The Company has pledged its right to receive deposits from bank accounts with outstanding balances as at 31 December 2006 of approximately Baht 353.0 million (2005 : Baht : 387.6 million) with a group of lenders to secure long-term loans of the Company. The Company is able to withdraw these deposits for the use of regular operating expenses.

## 8. CURRENT INVESTMENT

The balances of current investment as at 31 December 2006 and 2005 comprise:

	(Unit : Baht)		
	Consolidated	The Company Only	
	<u>2006</u>	<u>2006</u>	<u>2005</u>
Fixed deposits	695,000,000	670,000,000	-
Certificates of deposit	-	-	285,000,000
<b>Total</b>	<b>695,000,000</b>	<b>670,000,000</b>	<b>285,000,000</b>

Fixed deposits represent the three-month period to twelve-month period fixed deposits, carrying interest between 4 and 5.125 percent per annum. Certificates of deposit, carrying interest at 2.50 percent per annum and have maturities of 6 months, matured during the second quarter of the current year.

As at 31 December 2006, the Company has pledged fixed deposits total Baht 670 million to secure long-term loans of the Company (2005 : certificates of deposit amounting to Baht 285 million).

## 9. TRADE ACCOUNTS RECEIVABLE

As at 31 December 2006 and 2005, the outstanding balance of trade accounts receivable was over due less than 3 months.

## 10. RAW MATERIALS AND SUPPLIES

	(Unit : Baht)		
	Consolidated	The Company Only	
	<u>2006</u>	<u>2006</u>	<u>2005</u>
Raw materials	3,030,981	3,030,981	-
Spare parts	3,654,057	2,706,808	-
<b>Total</b>	<b>6,685,038</b>	<b>5,737,789</b>	<b>-</b>

## 11. INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD - SUBSIDIARY

These represent investments in ordinary shares in the following subsidiary.

<u>Company's name</u>	The Company Only			Carrying amounts based on equity method
	As at 31 December 2006			
	Paid-up Capital	Shareholding percentage	Cost	
	Percent			
WaterFlow Company Limited	10,000,000	100	700,000,000	96,574,850

### WaterFlow Company Limited

On 27 February 2006, the Company purchased 100,000 ordinary shares of WaterFlow Company Limited from its then shareholders (these shares had formerly been held by related companies but had already been sold) at a price of Baht 7,000 per share, or for a total of Baht 700 million. This represents 100 percent of the share capital of that company. The share price is close to the value appraised by an independent financial advisor. However, since this purchase of the shares is made for the purpose of restructuring the organization of the group companies, the Company reflected the results of the share purchase in the current fiscal year and recorded the difference between the acquisition cost of the investment and the attributable net book value of the subsidiary, amounting to Baht 600.36 million, as a separate item in shareholders' equity under the caption "Difference on reorganization of business of group companies" and has included the financial statements of this subsidiary in the consolidated financial statements from March 2006.

Valuation of acquired assets and liabilities as at the acquisition date of investment in WaterFlow Company Limited can be summarised below.

	(Unit : Baht)
Cash and cash equivalents	39,460,683
Trade account receivable	23,804,216
Other current assets	4,331,401
Other non-current assets	34,025
Property, plant and equipment	68,014,522
Trade accounts payable	(27,403,548)
Other current liabilities	(8,604,165)
Total net assets	<u>99,637,134</u>
Add : Difference on reorganization of business of group companies	<u>600,362,866</u>
Cash payments for acquisition of investments in subsidiary	700,000,000
Less : Cash and cash equivalents of subsidiary	<u>(39,460,683)</u>
Net cash payments for acquisition of investments in subsidiary	<u><u>660,539,317</u></u>

## 12. PROPERTY, PLANT AND EQUIPMENT

(Unit: Baht)

	Consolidated					Total
	Land	Assets for production of treated water	Furniture and office equipment	Motor vehicles	Tools	
<b>Cost :</b>						
31 December 2005	301,150,902	9,546,709,066	4,010,051	7,907,321	792,400	9,860,569,740
Additions	-	682,243	1,347,378	1,100,000	6,232,880	9,362,501
Disposals	-	-	(71,600)	(3,605,173)	-	(3,676,773)
Acquisitions of subsidiary during the year	54,732,500	=	5,578,952	7,102,678	7,000,765	74,414,895
31 December 2006	355,883,402	9,547,391,309	10,864,781	12,504,826	14,026,045	9,940,670,363
<b>Accumulated depreciation :</b>						
31 December 2005	-	320,434,808	1,331,584	2,313,779	39,945	324,120,116
Depreciation for the year	-	249,409,669	2,118,358	2,477,502	1,550,244	255,555,773
Depreciation on disposals	-	-	(31,958)	(1,338,220)	-	(1,370,178)
Acquisitions of subsidiary during the year	-	-	2,111,983	2,145,354	2,143,036	6,400,373
31 December 2006	-	569,844,477	5,529,967	5,598,415	3,733,225	584,706,084
<b>Net book value :</b>						
31 December 2005	301,150,902	9,226,274,258	2,678,467	5,593,542	752,455	9,536,449,624
31 December 2006	355,883,402	8,977,546,832	5,334,814	6,906,411	10,292,820	9,355,964,279
<b>Depreciation for the year :</b>						
2005 (Baht 221.9 million included in manufacturing cost, and the balance in selling and administrative expenses)						223,766,219
2006 (Baht 251.1 million included in manufacturing cost, and the balance in selling and administrative expenses)						255,555,773

(Unit: Baht)

The Company Only						
	Land	Assets for production of treated water	Furniture and office equipment	Motor vehicles	Tools	Total
<b>Cost :</b>						
31 December 2005	301,150,902	9,546,709,066	4,010,051	7,907,321	792,400	9,860,569,740
Additions	-	682,243	1,306,071	1,100,000	6,080,000	9,168,314
31 December 2006	301,150,902	9,547,391,309	5,316,122	9,007,321	6,872,400	9,869,738,054
<b>Accumulated depreciation :</b>						
31 December 2005	-	320,434,808	1,331,584	2,313,779	39,945	324,120,116
Depreciation for the year	--	249,409,669	1,035,335	1,559,596	363,850	252,368,450
31 December 2006	-	569,844,477	2,366,919	3,873,375	403,795	576,488,566
<b>Net book value :</b>						
31 December 2005	301,150,902	9,226,274,258	2,678,467	5,593,542	752,455	9,536,449,624
31 December 2006	301,150,902	8,977,546,832	2,949,203	5,133,946	6,468,605	9,293,249,488
<b>Depreciation for the year :</b>						
2005 (Baht 221.9 million included in manufacturing cost, and the balance in selling and administrative expenses)						223,766,219
2006 (Baht 250 million included in manufacturing cost, and the balance in selling and administrative expenses)						252,368,450

The Company has mortgaged land and assets for production of treated water with a total net book value as at 31 December 2006 of Baht 9,279 million with a group of lenders to secure the loan facilities obtained from the group of lenders.

### 13. LONG-TERM LOANS FROM FINANCIAL INSTITUTIONS/CURRENT PORTION OF LONG-TERM LOANS FROM FINANCIAL INSTITUTIONS

(Unit: Baht)

	Consolidated	The Company Only	
	2006	2006	2005
Long-term loans	6,720,000,000	6,720,000,000	6,860,000,000
Less : Current portion	(700,000,000)	(700,000,000)	(140,000,000)
Long-term loans, net of current portion	6,020,000,000	6,020,000,000	6,720,000,000

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 fixed-term bank deposits of the Company and the share certificates for the Company's shares, and the assignment of the Company's rights under the sales of treated water contract, its rights to funds deposited in bank accounts, and the beneficiary rights under insurance policies.

The loan agreements contain covenants that, among other things, require the Company to maintain certain debt to equity ratio.

#### 14. SHARE CAPITAL

On 10 January 2006, an Extraordinary General Meeting of the Company's shareholders passed a resolution approving the increase of the Company's registered share capital from Baht 3,000 million to Baht 3,250 million through the issuance of 2.5 million new ordinary shares with a par value of Baht 100 each to existing shareholders at an offer price of Baht 290 per share, or a total of Baht 725 million. The Company registered the increase in its registered share capital to Baht 3,250 million with the Ministry of Commerce on 27 February 2006.

On 23 June 2006, an Extraordinary General Meeting of the Company's shareholders passed a resolution approving a change in the par value of the Company's shares, such that they would be split from 32.5 million ordinary shares of Baht 100 each into 3,250 million ordinary shares of Baht 1 each. The Company registered the change in the par value of its shares with the Ministry of Commerce on 6 July 2006.

On 26 September 2006, an Extraordinary General Meeting of the Company's shareholders passed a resolution approving the increase of the Company's registered share capital from Baht 3,250 million to Baht 3,990 million through the issuance of 740 million new ordinary shares with a par value of Baht 1 each. The allocation of the additional ordinary shares is to be as follows:

- 1) 40 million ordinary shares are to be allocated and offered, in whole or in part, to directors, management, and employees of the Company and the subsidiary at a price equivalent to book value as at the latest fiscal year-end. These may be offered on one or several occasions. Any ordinary shares remaining after the allocation are to be allocated by means of public offerings. These offers may be in Thailand and/or abroad and made on one or several occasions, in whole or in part. In this regard, the Board of Directors or any persons assigned by the Company's Board of Directors is granted the authority to determine the allocation of offering rights, and all details and conditions in respect of the number of ordinary shares to be offered on each occasion, the offer period, the payment of the share price and the offer price, including the allocation of any ordinary shares remaining after the offering rights and the listing of the Company's ordinary shares as securities on the Stock Exchange of Thailand.
- 2) 700 million ordinary shares are to be allocated and offered, in whole or in part, to the public. These may be offered on one or several occasions. Any shares remaining after this allocation are to be allocated, in whole or in part, by means of private placement and/or to institutional investors, in accordance with the relevant Notifications of the Securities and Exchange Commission, on one or several occasions.

In this regard, the Board of Directors or any persons assigned by the Company's Board of Directors are granted the authority to arrange all significant matters in relation to the issuance and offer of these shares, including the determination of the number of ordinary shares to be offered on each occasion, the offer period, the payment of the share price and the offer price, together with the listing of the Company's ordinary shares as securities on the Stock Exchange of Thailand.

On 24 October 2006, the Company registered an increase in its share capital to Baht 3,990 million, comprising 3,990 million ordinary shares of Baht 1 each, with the Ministry of Commerce. The Company has yet to allot these new ordinary shares.

#### 15. STATUTORY RESERVE

Pursuant to Section 116 of the Public Limited Companies Act B.E. 2535, the Company is required to set aside to a statutory reserve at least 5 percent of its net income after deducting accumulated deficit brought forward (if any), until the reserve reaches 10 percent of the registered capital. The statutory reserve is not available for dividend distribution.

#### 16. SALES OF TREATED WATER

Sales of treated water as presented in the income statements for the years ended 31 December 2006 and 2005 included revenues from the Provincial Waterworks Authority amounting to Baht 69.4 and 114.5 million, respectively, which were received because actual quantities of water purchased by the Provincial Waterworks Authority over stipulated periods of 6 months were lower than the minimum offtake quantity to which it has committed under the "Water Purchase Agreement".

#### 17. SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses in the income statement for the year ended 31 December 2006 included the penalty amounting to Baht 22.8 million for the delay in payment of rental fee for land used for the installation of water distribution pipes.

#### 18. NUMBER OF EMPLOYEES AND RELATED COSTS

	Consolidated	The Company Only	
	<u>2006</u>	<u>2006</u>	<u>2005</u>
Number of employees at end of year (persons)	102	36	14
Employee costs for the year (Thousand Baht)	40,482	21,252	10,693



## **19. PROMOTIONAL PRIVILEGES**

The Company has received promotional privileges from the Board of Investment for production of treated water, pursuant to the promotion certificate No. 1382(2)/2545 issued on 19 June 2002. Subject to certain imposed conditions, the main privileges include the following:

- Exemption of import duty on imported machinery under specified condition.
- Exemption from corporate income tax on net income from promoted operations for a period of eight years from the date the promoted operations commenced generating revenues (21 July 2004).

All sales of treated water of the Company for 2006 and 2005 are sales from promoted operations.

No corporate income tax is payable on the net income from non-promoted operations for the years ended 31 December 2006 and 2005 since tax losses brought forward exceed net income for the years.

## **20. EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net income for the year by the weighted average number of ordinary shares in issue during the year after reflecting the effect of the share split as discussed in Note 14.

For comparative purposes, the prior year's basic earnings per share has been recalculated to reflect the impact of the share split as mentioned above.

## **21. FINANCIAL INFORMATION BY SEGMENT**

The Company's and the subsidiary's operations involve a single industry segment, the production and sell of treated water and are carried on in the single geographic area of Thailand. As a result, all of the revenues, operating profits (losses) and assets reflected in these financial statements pertain to the aforementioned industry segment and geographic area.

## **22. PROVIDENT FUND**

The Company, the subsidiary and their employees have jointly established a provident fund in accordance with the Provident Fund Act B.E. 2530. The Company, the subsidiary and their employees contribute to the fund monthly at the rate of 5 percent of basic salary. The fund, which is managed by TMB Bank Public Company Limited, will be paid to employees upon termination in accordance with the fund rules. During the year 2006, the Company and the subsidiary contributed Baht 981,089 (The Company only : Baht 603,556) (2005 : The Company only Baht 134,795) to the fund.

## 23. DIVIDENDS

<u>Dividends</u>	<u>Approved by</u>	<u>Total Dividends</u>	(Unit : Baht) <u>Dividend per share</u>
An interim dividend from the earnings of the promoted operations for the period from 1 January 2005 to 30 June 2005, and approval for the appropriation of Baht 17.9 million to the statutory reserve.	Board of Directors' meeting on 15 August 2005 and Annual General Meeting of the Company's shareholders on 24 March 2006	105,000,000	3.50
Total dividend for 2005		<u>105,000,000</u>	
An interim dividend from the earnings of the promoted operations for the period from 1 July 2005 to 31 December 2005 to the shareholders listed in the share register as at 31 December 2005.	Board of Directors' meeting on 23 January 2006 and Annual General Meeting of the Company's shareholders on 24 March 2006	94,500,000	3.15
An interim dividend from the earnings of the promoted operations for the period from 1 January 2006 to 30 June 2006 to the shareholders listed in the share register as at 22 August 2006.	Board of Directors' meeting on 18 August 2006	162,500,000	0.05
Total dividend for 2006		<u>257,000,000</u>	

## 24. COMMITMENTS AND CONTINGENT LIABILITIES

### 24.1 Capital commitments

As at 31 December 2006, the Company had capital commitments of Baht 76.7 million, relating to purchase of land.

### 24.2 Service commitments

- a) As at 31 December 2006, the Company had commitments under a service agreement with a financial advisory company whereby the Company is required to pay service fees amounting to Baht 1.0 million and underwriting fees calculated at a certain percentage of securities sales.
- b) The Company has entered into an operation and maintenance agreement with the subsidiary, whereby the subsidiary is to manage the production and supply of treated water and maintenance. Under the conditions of the agreement, the Company is to pay service fees at a rate stipulated in the agreement.

### **24.3 Bank guarantees**

As at 31 December 2006, there were outstanding bank guarantees of approximately Baht 66 million issued by the banks on behalf of the Company in respect of certain performance bonds as required in the normal course of business.

### **24.4 Litigation**

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

Subsequently, in February 2005, the Company filed a statement of defense and a counterclaim against the Provincial Waterworks Authority, requesting the arbitrators to order the Provincial Waterworks Authority to pay the Department of Highways annual rental for land in a highway area used for the installation of a water mains for a local distribution network. Such rental amounted to approximately Baht 13 million per annum.

At present, both parties are attempting to negotiate a fair resolution of the matters in dispute. The arbitration proceedings have not yet commenced.

During the second quarter of the current year, the Company paid the Department of Highways rental for land use totaling Baht 58.9 million, including penalties. No provision for loss as a result of the dispute has been set aside in the accounts since the Company's management believes that no material financial loss will result.

## **25. DISCOUNT ON SALES OF TREATED WATER**

The Water Purchase Agreement between the Company and the Provincial Waterworks Authority stipulates that the Company has to pay 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 and later paid to the Provincial Waterworks Authority by means of a deduction against treated water charges for quantities in excess of the minimum offtake quantity that the Provincial Waterworks Authority has to pay the Company, beginning when the Company has paid all indebtedness due to the lenders under the long-term loans agreement, and discharged all obligations thereunder. However, since the amount of compensation payable is immaterial the Company has not recorded it as a deduction against sales in the accounts.

## 26. FINANCIAL INSTRUMENTS

### 26.1 Financial risk management

The Company's and the subsidiary's financial instruments, as defined under Thai Accounting Standard No. 48 "*Financial Instruments: Disclosure and Presentations*", principally comprise cash and cash equivalents, current investment, trade accounts receivable, trade accounts payable and long-term loans. The financial risks associated with these financial instruments and how they are managed is described below.

#### **Credit risk**

The Company is exposed to credit risk primarily with respect to trade accounts receivable and there is a high concentration of risk since the Company has only one customer, the Provincial Waterworks Authority. However, because the Provincial Waterworks Authority is a government agency, the Company does not expect to incur material financial losses. The maximum exposure to credit risk is limited to the carrying amounts of receivables as stated in the balance sheet.

#### **Interest rate risk**

The Company's and the subsidiary's exposures to interest rate risk relate primarily to their cash at financial institutions and long-term borrowings. However, since most of the Company's and the subsidiary's financial assets and liabilities bear floating interest rates or fixed interest rates which are close to the market rate, the interest rate risk is expected to be minimal.

Significant financial assets and liabilities as at 31 December 2006 classified by type of interest rates are summarized in the table below, with those financial assets and liabilities that carry fixed interest rates further classified based on the maturity date, or the repricing date if this occurs before the maturity date.

	Consolidated						Interest rate (% p.a.)
	Fixed interest rates			Floating interest rate	Non- interest bearing	Total	
	Within 1 year	1-5 years	Over 5 years				
	(Million Baht)						
<b>Financial assets</b>							
Cash and cash equivalents	-	-	-	356	-	356	0.75
Current investment	695	-	-	-	-	695	4.25 - 5.25
Trade accounts receivable	-	-	-	-	218	218	-
	695	-	-	356	218	1,269	
<b>Financial liabilities</b>							
Trade accounts payable	-	-	-	-	32	32	-
Long-term loans	-	-	-	6,720	-	6,720	MLR - 1%
	-	-	-	6,720	32	6,752	
<b>The Company Only</b>							
	Fixed interest rates			Floating interest rate	Non- interest bearing	Total	Interest rate (% p.a.)
	Within 1 year	1-5 years	Over 5 years				
	(Million Baht)						
	<b>Financial assets</b>						
Cash and cash equivalents	-	-	-	353	-	353	0.75
Current investment	670	-	-	-	-	670	4.25 - 5.25
Trade accounts receivable	-	-	-	-	218	218	-
	670	-	-	353	218	1,241	
<b>Financial liabilities</b>							
Trade accounts payable	-	-	-	-	36	36	-
Long-term loans	-	-	-	6,720	-	6,720	MLR - 1%
	-	-	-	6,720	36	6,756	

#### Foreign currency risk

The Company and the subsidiary do not consider themselves exposed to foreign currency risk because they have no significant foreign currency transactions, and no financial assets denominated in foreign currencies outstanding at the balance sheet date. The Company had financial liabilities denominated in foreign currencies outstanding at the balance sheet date but the amount was immaterial.

## **26.2 Fair values of financial instruments**

Since the majority of the Company's and the subsidiary's financial assets are short-term and the significant financial liabilities of the Company comprise long-term loans bearing interest at rates close to market rates, the fair values of these financial assets and liabilities are not expected to differ materially from the amounts presented in the balance sheets.

A fair value is the amount for which an asset can be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair value is determined by reference to the market price of the financial instrument or by using an appropriate valuation technique, depending on the nature of the instrument.

## **27. SUBSEQUENT EVENTS**

On 12 March 2007, the meeting of the Board of Directors passed a resolution to propose a dividend payment for the year 2006 of Baht 0.10 per share to the Annual General Meeting of the Company's shareholders for their approval. The Company paid an interim dividend of Baht 0.05 per share on 15 September 2006 and will pay a final dividend of Baht 0.05 per share within May 2007. The payment of the final dividend is dependent on an approval being granted by the shareholders.

## **28. RECLASSIFICATION**

Certain amounts in the financial statements for the year ended 31 December 2005 have been reclassified to conform to the current year's classifications, with no effect on previously reported net income or shareholders' equity.

## **29. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were authorised for issue by the Company's Board of Directors on 12 March 2007.