

THAI TAP WATER SUPPLY COMPANY LIMITED
REPORT AND INTERIM FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIODS ENDED 31 MARCH 2005 AND 2004

Review Report of Independent Auditor


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

I have reviewed the accompanying balance sheet of Thai Tap Water Supply Company Limited as at 31 March 2005, and the related statements of earnings, changes in shareholders' equity and cash flows for the three-month periods ended 31 March 2005 and 2004. These financial statements are the responsibility of the Company's managements as to their correctness and the completeness of the presentation. My responsibility is to issue a report on these financial statements based on my reviews.

I conducted my reviews in accordance with the auditing standard applicable to review engagements. This standard requires that I plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of the Company's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. I have not performed an audit and, accordingly, I do not express an audit opinion.

Based on my reviews, nothing has come to my attention that causes me to believe that the accompanying financial statements are not presented fairly, in all material respects, in accordance with generally accepted accounting principles.

I have previously audited the financial statements of Thai Tap Water Supply Company Limited for the year ended 31 December 2004 in accordance with generally accepted auditing standards and expressed an unqualified opinion on those statements under my report dated 4 February 2005. The balance sheet as at 31 December 2004, as presented herein for comparative purposes, formed an integral part of the financial statements which I audited and reported on. I have not performed any other audit procedures subsequent to the date of that report.



Siraporn Ouuanunkun

Certified Public Accountant (Thailand) No. 3844

Ernst & Young Office Limited

Bangkok : 24 August 2005

THAI TAP WATER SUPPLY COMPANY LIMITED

BALANCE SHEETS

(Unit : Thousand Baht)

	<u>Note</u>	<u>31 March 2005</u> (Unaudited but reviewed)	<u>31 December 2004</u> (Audited)
ASSETS			
CURRENT ASSETS			
Cash and deposits at financial institutions	2	366,553	162,814
Trade accounts receivable		101,008	81,378
Accrued income		74,206	196,348
Other receivable - related party	6	7,115	6,193
Value added tax refundable		169	790
Other current assets			
Prepaid insurance expense		993	1,156
Undued input tax		641	596
Others		21,823	10,535
TOTAL CURRENT ASSETS		<u>572,508</u>	<u>459,810</u>
NON-CURRENT ASSETS			
Property, plant and equipment, net	3	<u>9,699,500</u>	<u>9,753,937</u>
TOTAL NON-CURRENT ASSETS		<u>9,699,500</u>	<u>9,753,937</u>
TOTAL ASSETS		<u><u>10,272,008</u></u>	<u><u>10,213,747</u></u>

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

THAI TAP WATER SUPPLY COMPANY LIMITED

BALANCE SHEETS (Continued)

(Unit : Thousand Baht)

	<u>Note</u>	<u>31 March 2005</u> (Unaudited but reviewed)	<u>31 December 2004</u> (Audited)
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade accounts payable - related parties	6	35,307	54,084
Retention for construction			
Related parties	6	8,581	8,581
Other companies		25	-
Current portion of long-term loans			
from financial institutions	4	140,000	140,000
Other current liabilities			
Unbilled output tax		7,074	18,574
Accrued expenses		13,002	10,644
Others		4,446	4,084
TOTAL CURRENT LIABILITIES		<u>208,435</u>	<u>235,967</u>
NON-CURRENT LIABILITIES			
Long-term loans from financial institutions, net of current portion	4	<u>6,825,000</u>	<u>6,860,000</u>
TOTAL NON-CURRENT LIABILITIES		<u>6,825,000</u>	<u>6,860,000</u>
TOTAL LIABILITIES		<u>7,033,435</u>	<u>7,095,967</u>

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

THAI TAP WATER SUPPLY COMPANY LIMITED

BALANCE SHEETS (Continued)

(Unit : Thousand Baht)

	<u>31 March 2005</u>	<u>31 December 2004</u>
	(Unaudited but reviewed)	(Audited)
SHAREHOLDERS' EQUITY		
Share capital		
Registered		
30,000,000 ordinary shares of Baht 100 each	<u>3,000,000</u>	<u>3,000,000</u>
Issued and paid up		
30,000,000 ordinary shares, fully paid	3,000,000	3,000,000
Retained earnings	<u>238,573</u>	<u>117,780</u>
TOTAL SHAREHOLDERS' EQUITY	<u>3,238,573</u>	<u>3,117,780</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>10,272,008</u>	<u>10,213,747</u>

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

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 DIRECTORS

(UNAUDITED BUT REVIEWED)

THAI TAP WATER SUPPLY COMPANY LIMITED

STATEMENTS OF EARNINGS

FOR THE THREE-MONTH PERIODS ENDED 31 MARCH 2005 AND 2004

(Unit : Thousand Baht, except earnings per share expressed in Baht)

	<u>Note</u>	<u>2005</u>	<u>2004</u>
REVENUES			
Sales of treated water		334,973	-
Income from sales of treated water			
under pre-sale agreement	5	-	144,124
Interest income		-	376
TOTAL REVENUES		<u>334,973</u>	<u>144,500</u>
EXPENSES			
Cost of sales of treated water		124,090	-
Cost of sales of treated water			
under pre-sale agreement	5	-	6,443
Selling and administrative expenses		7,157	7,301
TOTAL EXPENSES		<u>131,247</u>	<u>13,744</u>
EARNINGS BEFORE INTEREST EXPENSES		203,726	130,756
INTEREST EXPENSES		<u>(82,933)</u>	<u>-</u>
NET EARNINGS FOR THE PERIOD	7	<u>120,793</u>	<u>130,756</u>
BASIC EARNINGS PER SHARE			
Net earnings (Baht)		<u>4.03</u>	<u>4.53</u>
Weighted average number of ordinary shares (shares)		<u>30,000,000</u>	<u>28,894,738</u>

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

(UNAUDITED BUT REVIEWED)

THAI TAP WATER SUPPLY COMPANY LIMITED
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE-MONTH PERIODS ENDED 31 MARCH 2005 AND 2004

(Unit : Thousand Baht)

	Issued and paid-up share capital	Retained earnings (deficit)	Total
Balance - as at 1 January 2004	2,812,000	(314,793)	2,497,207
Called up ordinary shares	160,000	-	160,000
Net earnings for the period	-	130,756	130,756
Balance - as at 31 March 2004	<u>2,972,000</u>	<u>(184,037)</u>	<u>2,787,963</u>
Balance - as at 1 January 2005	3,000,000	117,780	3,117,780
Net earnings for the period	-	120,793	120,793
Balance - as at 31 March 2005	<u>3,000,000</u>	<u>238,573</u>	<u>3,238,573</u>

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

(UNAUDITED BUT REVIEWED)

THAI TAP WATER SUPPLY COMPANY LIMITED
 STATEMENTS OF CASH FLOWS
 FOR THE THREE-MONTH PERIODS ENDED 31 MARCH 2005 AND 2004

(Unit : Thousand Baht)

	<u>2005</u>	<u>2004</u>
Cash flows from (used in) operating activities		
Net earnings for the period	120,793	130,756
Adjustments to reconcile net earnings to net cash provided by (paid from) operating activities :		
Depreciation	54,513	169
	<u>175,306</u>	<u>130,925</u>
Decrease (increase) in operating assets		
Trade accounts receivable	102,512	(60,664)
Other receivable - related party	(922)	-
Value added tax refundable	621	14,375
Prepaid insurance expenses	163	3,122
Other current assets	(11,333)	(19,654)
Increase (decrease) in operating liabilities		
Trade accounts payable - related party	(18,777)	3,266
Unbilled output tax	(11,500)	3,969
Accrued expenses	2,358	(16,076)
Other current liabilities	362	(2,334)
Net cash from operating activities	<u>238,790</u>	<u>56,929</u>
Cash flows from (used in) investing activities		
Decrease in advance payment for construction - related parties	-	7,108
Increase in property, plant and equipment	(76)	(582,862)
Increase in construction payables	-	64,389
Increase in retention for construction	25	83
Net cash used in investing activities	<u>(51)</u>	<u>(511,282)</u>

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

(UNAUDITED BUT REVIEWED)

THAI TAP WATER SUPPLY COMPANY LIMITED
STATEMENTS OF CASH FLOWS (Continued)
FOR THE THREE-MONTH PERIODS ENDED 31 MARCH 2005 AND 2004

(Unit : Thousand Baht)

	<u>2005</u>	<u>2004</u>
Cash flows from (used in) financing activities		
Increase (decrease) in long-term loans from financial institutions	(35,000)	495,000
Cash received from share subscription receivables	-	40,000
Cash received from called up of share capital	-	160,000
Net cash from (used in) financing activities	<u>(35,000)</u>	<u>695,000</u>
Net increase in cash and cash equivalents	203,739	240,647
Cash and cash equivalents at beginning of period	<u>162,814</u>	<u>6,974</u>
Cash and cash equivalents at end of period	<u><u>366,553</u></u>	<u><u>247,621</u></u>
Supplemental cash flows information		
Cash paid during the period 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)	82,933	97,212
Withholding tax deducted at source	-	874

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

(UNAUDITED BUT REVIEWED)

THAI TAP WATER SUPPLY COMPANY LIMITED
NOTES TO INTERIM FINANCIAL STATEMENTS
31 MARCH 2005 AND 2004

1. GENERAL INFORMATION

1.1 Basis for preparation of interim financial statements

These interim financial statements are prepared in accordance with Accounting Standards Pronouncement No. 41 "Interim financial statements", with the Company choosing to present condensed interim financial statements. However, additional line items are presented in the balance sheets and the statements of earnings, changes in shareholders' equity and cash flows to bring them into line with the full format used in the annual financial statements.

These interim financial statements are intended to provide information additional to that included in the latest annual financial statements. Accordingly, they focus on new activities, events, and circumstances so as not to duplicate information previously reported. These interim financial statements should therefore be read in conjunction with the latest annual financial statements.

1.2 Significant accounting policies

The interim financial statements are prepared using the same accounting policies and methods of computation as were used for the financial statements for the year ended 31 December 2004.

2. CASH AND DEPOSITS AT FINANCIAL INSTITUTIONS

The Company has pledged its right to receive deposits from bank accounts with outstanding balances as at 31 March 2005 of approximately Baht 366.5 million (31 December 2004 : Baht 162.8 million) with a group of lenders to secure long-term loans obtained from the group of lenders.

3. PROPERTY, PLANT AND EQUIPMENT

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.

(UNAUDITED BUT REVIEWED)

4. 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 March 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.

5. 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.

(UNAUDITED BUT REVIEWED)

6. RELATED PARTY TRANSACTIONS

During the periods, the Company had significant business transactions with its related parties. 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 :

	For the three-month periods		Pricing policy
	ended 31 March		
	<u>2005</u>	<u>2004</u>	
Construction of project (Included as part of property, plant and equipment)	-	447.7	Based on contract
Cost of production of treated water	64.8	3.3	Based on contract
Management fees	1.1	1.1	Agreed between parties
Directors' remuneration	0.2	0.2	Board resolution

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

	(Unit : Thousand Baht)	
	31 March 2005	31 December 2004
<u>Other receivable - related party</u>		
Water Flow Company Limited	7,115	6,193
	<u>7,115</u>	<u>6,193</u>

(UNAUDITED BUT REVIEWED)

(Unit : Thousand Baht)

	31 March 2005	31 December 2004
<u>Trade accounts payable - related parties</u>		
- CH. Karnchang Public Company Limited	2,354	2,915
- Thames Water International (Thailand) Limited	358	167
- Water Flow Company Limited	30,476	48,323
- Thames Water International Service Limited	2,119	2,679
	<u>35,307</u>	<u>54,084</u>
<u>Retention for construction - related parties</u>		
- CH. Karnchang Public Company Limited	6,600	6,600
- United KG Water Projects Pty Limited (Formerly known as "Thames Water Projects (Australia) Company Limited")	1,981	1,981
	<u>8,581</u>	<u>8,581</u>

7. 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.

8. BANK GUARANTEES

As at 31 March 2005, there were outstanding bank guarantees of Baht 60.5 million (31 December 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.

(UNAUDITED BUT REVIEWED)

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

9.1) 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 lenders 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.

9.2) 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 lenders 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.

(UNAUDITED BUT REVIEWED)

10. LITIGATION

In October 2004, the Provincial Waterworks Authority ("PWA") submitted a dispute with the Company to the Thai Justice Arbitration Institute, for arbitration with regard to the responsibility for the payment of 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). The dispute is now at the stage of setting up an arbitration committee.

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.

11. SUBSEQUENT EVENT

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 1 January 2005 to 30 June 2005 and approved the appropriation of Baht 17.9 million to the statutory reserve. The dividend was scheduled to be paid on 19 August 2005.

12. 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.

13. APPROVAL OF INTERIM FINANCIAL STATEMENTS

These interim financial statements have been approved by the Company's directors.