

(Translation)

November 14, 2008

Subject Opinion of Independent Financial Advisor Concerning the Disposition of Assets and the  
Connected Transactions

To Shareholders of Thai Tap Water Supply Public Company Limited

According to the Board of Directors Meeting of Thai Tap Water Supply Plc. (the "Company" or "TTW") No. 8/2008 which held on 22<sup>nd</sup> November 2008, passed the resolutions to propose that the Extra Ordinary General Meeting of Shareholders No. 1/2008 to consider and approve the engagement with CH. Karnchang Plc. ("CK") to carry out the construction for plant enhancement in order to increase the Company's existing production capacity from 320,000 m<sup>3</sup>/day to 440,000 m<sup>3</sup>/day, in the amount not exceeding Baht 640 million (excluding VAT).

The above engagement of CK, as a major shareholder of the Company, holding 35.31 of paid-up capital as of September 30, 2008, is considered a connected transaction relating to assets or services in accordance with Section 89/12 of the Securities and Exchange Act B.E. 2552 (the "Securities Act") and the Notification of the Board of Governors of the Stock Exchange of Thailand regarding Disclosure of Information and Others Acts of Listed Companies concerning the Connected Transaction B.E. 2546 (as amended) and the Amendment as per the Notification of the Capital Market Supervisory Board Tor. Jor. 21/2551, Re : Connected Transactions Rules. The total volume of such transaction is 12.36 per cent of net tangible assets according to the consolidated financial statements of the Company and its subsidiary companies ending June 30, 2008 (there were connected transaction between the Company and CK during six months in the amount of Baht 18.15 million or equivalent to 0.48 of net tangible asset. In case of, cluding this trascation, the accumulated trascations it will be Baht 658.14 million or equivalent to 12.84 of net tangible asset). In this regard, the Company is required to seek approval for the transaction from its shareholders' meeting with no less than three-fourths of the total votes of the shareholders or their proxies (if any) present at the meeting and having voting rights, excluding shareholders with vested interests.

In view of the above, the Board of Directors resolved for the appointment of us, ACL Securities Co., Ltd., as the Independent Financial Advisor ("Financial Advisor") to give the opinions concerning the price fairness and transaction reasonableness and also to opine to the Audit Committee and/or the shareholders related to the connected transaction.

ACL Securities Co., Ltd., as a Financial Advisor approved by the Office of the Securities and Exchange Commission (the “SEC”) and also independent from the Company, has studied the information related to this transactions including the Board of Directors’ resolutions, Information Memorandum concerning the Transactions which has been disclosed to the Stock Exchange of Thailand (the “SET”), financial statements and management accounts, list of shareholders, Certificate of Incorporation, Memorandum of Association, operation agreements, budget, financial projections and assumptions, interviews with executives and related persons, visits TTW’s site and assessment to the industry overview and other economic factors. Our opinions expressed herein have been based on the assumptions that the information and documents obtained from the Company and the information has been disclosed to the SET.

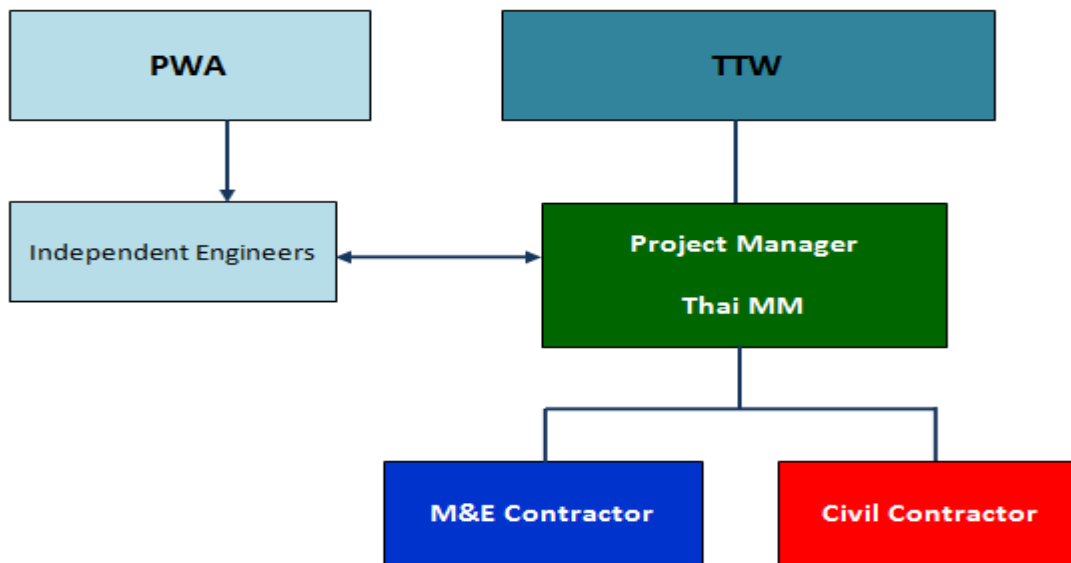
The opinion of the Financial Advisor presented is based on the assumption that information and documents provided are true and correct, while the analysis is done based on the economic condition and the information at the time of the study. Should there be any future significant changes that may have material adverse impacts on this opinion, the Financial Advisor may not be able to substantiate the impacts of such significant changes on the Company and its shareholders. Besides, the Financial Advisor provides its opinion on the engagement of CK to carry out the construction for plant enhancement in order to increase the Company's existing production capacity transaction only, and therefore, all other connected transactions incurred before this transaction are excluded from this opinion.

#### Executive Summary

Thai Tap Water Supply Plc. (“The Company”) will enter into a connected transaction with CH. Karnchang Plc. (“CK”), its major shareholder with 35.31% stake and having common directors, namely 1. Mr. Plew Trivisvavet, 2. Mr. Narong Sangsuriya, 3. Mr. Prasert Marittanaporn, and 4. Mr. Sombat Kitjalaksana. According to the latest Information Memorandum submitted to the Stock Exchange of Thailand (“SET”) on October 31, 2008, the Company is under negotiations to enter into a new Water Purchase and Sale Agreement (“PSA”) with the Provincial Waterworks Authority (“PWA”), the conclusion of which is expected by the end of 2008. Thus, the Company has to make preparation by implementing a plant enhancement and construction project to increase its production capacity from the existing 320,000 cu.m./day to 440,000 cu.m./day at a total investment cost of up to Bt. 1.3 billion. The investment cost breakdown is 1. civil construction cost of up to Bt. 640 million, 2. mechanical & electrical cost of up to Bt. 422 million, and 3. other relevant costs. The Company will engage CK to handle the civil construction works, and such engagement is regarded as a connected transaction. Thus, the Company has appointed the Independent Financial Advisor (“IFA”) to give opinions on the transaction, and will hold a shareholders’ meeting to request the shareholders’ approval of the transaction.

Opinion of the IFA

After studying all the documents and information relevant to the transaction, we, the IFA, view that the shareholders should approve this connected transaction. This is based on the grounds that at present the Company's distribution of tap water to PWA has almost met its full production capacity of 320,000 cu.m./day. Meanwhile, the Company and PWA are going to conclude a new PSA for a minimum offtake quantity of up to 100,000 cu.m./day by the end of 2008. The construction of a plant to serve the expansion of the production capacity will take around 18 months before completion, counting from the signing date of the PSA and the contractor engagement agreement. In view of this, the Company has to make all the preparations to ensure that it will meet the timeframe to accommodate the new PSA. Thai MM, the project manager, has forecasted a total project budget of Bt. 663.42 million. With negotiations undertaken all along with CK, CK eventually proposed a final contract price of Bt. 638.93 million. We consider such proposed final price reasonable in line with normal course of business transactions. Tentative project management structure is as follows:



However, we have conducted cash flow projection for the new project that features the expansion of water production capacity by up to 100,000 cu.m./day (compared with the capacity expansion by 120,000 cu.m./day, i.e. from 320,000 cu.m./day to 440,000 cu.m./day, as disclosed in the Information Memorandum, coming from expanded capacity of 100,000 cu.m./day plus a required reserve of 7% of the minimum offtake quantity by PWA, which is equal to 20,000 cu.m./day) throughout the projection period covering January 2009 – 2034 when the existing PSA with PWA will expire. The internal rate of return calculated by us has come out in a range of 9.95-11.73% and net present value Bt. 275.08 million - Bt. 572.90 million. However, it is noted that the cash flow projection has been undertaken on a

conservative basis. Future tap water distribution rate of the Company should actually be higher than the assumption in the projection taking into account the following:

1. The quality of groundwater has been deteriorating due to penetration of saltwater from the sea, the closure of groundwater wells not in accord with the standard procedure, and excessive groundwater pumping until that there is only low quality groundwater remaining in the wells, as groundwater comes from both good and bad quality water from various sources. To get quality groundwater, one needs to dig a well with at least 400 m. in depth, which would cost around Bt. 1.5 million. Thus, most households cannot afford to dig their own groundwater wells for individual household use as it would not be worthwhile.
2. There has been increasing requirement for the Company's tap water distribution every year, averaging over 40,000 cu.m./day over the past five years. Moreover, there are certain large water consumers in the service areas that have not yet used tap water, namely 1. Mahidol University, around 3,000 cu.m./day, 2. Samut Sakhon Municipality, and 3. Krathum Baen Municipality. At least 20,000 cu.m./day groundwater is expected to be consumed by households in the two municipalities at present.
3. Tap water is one of the life essentials. If there are water users and consumers in the service areas, they will definitely use the Company's tap water as the Company is the sole tap water provider in such areas and no transportation of tap water from other sources is allowed according to the prescribed regulations.

In view of the above, although the rate of return of the project is not so high based on the cash flow projection under the assumption that the projected water distribution rate in the first years of production and operations may be lower than the actual demand for water consumption over the same period. Also, the estimated water tariff under the expansion project is anticipated to be lower than that under the existing PSA due to the cost of construction of the expanded plant being lower than that of the construction in the water production plant start-up a few years ago. We view that the Company has the capabilities to distribute tap water in the volume close to that from the expanded capacity expansion, i.e. 100,000 cu.m./day in the initial period of the production under the expansion project. In such case, the rate of return should level up later on. In conclusion, with due consideration of all the factors involved, we view that the Company has the capabilities to implement this tap water expansion project due to the above-nil net present value of the project, the rate of return higher than cost of capital, and a rather short payback period. Therefore, the shareholders should approve this connected transaction.

## 1. Characteristics and details of connected transactions

### 1.1. Types and sizes of transactions

#### 1.1.1 The connected transaction

The engagement of CK to carry out the construction of for plant enhancement in order to increase the Company's existing production capacity from 320,000 m<sup>3</sup>/day to 440,000 m<sup>3</sup>/day, in the amount not exceeding Baht 640 million (excluding VAT), if calculated in accordance with Section 89/12 of the Securities Act and pursuant to the SET Notification, Re: Rules, Procedures and Disclosure on Connected Transactions of Listed Companies and and the Amendment as per the Notification of the Capital Market Supervisory Board Tor. Jor. 21/2551, Re : Connected Transactions Rules, would be 12.36 per cent of the value of net tangible assets according to the consolidated financial statements of the Company and its subsidiary companies ending June 30, 2008 ((there were connected transaction between the Company and CK during six months in the amount of Baht 18.15 million or equivalent to 0.48 of net tangible asset. In case of, cluding this trascation, the accumulated trascations it will be Baht 658.14 million or equivalent to 12.84 of net tangible asset). The calculation of trasaction size is as follows:

$$\begin{aligned} &= \frac{\text{Total value of consideration} * 100}{\text{Net tangible assets}} \\ &= \frac{640 * 100}{5,179} \\ &= 12.36 \end{aligned}$$

In this regard, the transaction size exceeds 3% of the Company's net tangible assets. Therefore, before entering into transaction between the Company and CK, the Company is required to seek approval from its shareholders' meeting with no less than three-fourths of the total votes of the shareholders or their proxies (if any) present at the meeting and having voting rights, excluding shareholders with vested interests.

#### 1.1.2 The acquisition and disposition of assets

The engagement of CK to carry out the civil work for plant enhancement, if calculated pursuant to the SET Notification, Re: Rules, Procedures and Disclosure on Acquisition or Disposition of Assets of Listed Companies, according to the transaction value basis, would represent 7.07 per cent. of the value of remuneration compared with total assets of

the Company according to the consolidated financial statements of the Company and its subsidiary companies ending June 30, 2008. The calculation of transaction size is as follows:

$$= \frac{\text{Total value of consideration paid} * 100}{\text{Total assets of TTW}}$$

$$= \frac{1,300 * 100}{18,374}$$

$$= 7.07$$

The size of transaction represents 7.07% of consolidated total assets of the Company based on the latest reviewed financial statement as of June 30, 2008 which is less than 15%. Therefore, the Company does not require disclosing this transaction to the SET and/or the SEC.

## 1.2 Value of remuneration

The Company will make any payment for the construction works in the amount not exceeding Baht 640 million to CK by cheque upon completion of installment of works. The funds will come from issuance of debentures and/or borrowing from financial institutions and/or the Company's working capital.

## 1.3 Connected persons

1.3.1 CK is a major shareholder of the Company holding 1,408,777,400 shares, or 35.31 per cent of paid-up capital according to the Company's share register book as of September 30, 2008.

1.3.2 List of common directors between the Company and CK are as follows:

Connected Persons	Position in the Company	Position in CK
1. Mr. Plew Trivisvavet	Chairman of the BOD	President and CEO
2. Mr. Narong Sangsuriya	Director and Chairman of the Executive Committee	Director and Senior Executive Vice President
3. Mr. Prasert Marittanaporn	Director	Director and Senior Executive Vice President
4. Mr. Sombat Kitjalaksana	Director	Director and Senior Executive Vice President (Business Development)

#### 1.4 Details of the civil construction under the expansion project

The engagement of CK as the civil contractor at the contract price of up to Bt. 640 million (exclusive of VAT) is in a manner that CK will be a turnkey contractor, covering engineering, procurement and construction (EPC) works. The portion other than civil works, i.e. mechanical and electrical works, would be contracted to S. Napa (Thailand) Co., Ltd., which is not a related party to the Company, at the contract price of up to Bt. 422 million (exclusive of VAT). Coupled with other relevant expenses, the total project cost would be Bt. 1.3 billion.

There will be some constraints in the Company's plant enhancement through the improvement of and addition of equipment to the existing infrastructures at the Banglen production plant in that, implementation of each work system will be made concurrently within an 18 months period, hence a constraint as the Company would have to proceed with the production and distribution of water in parallel with the new project implementation so that tap water distribution to the public would not be disrupted. Therefore, the following guidelines would be adopted for the expansion project:

##### 1. Water Treatment Process

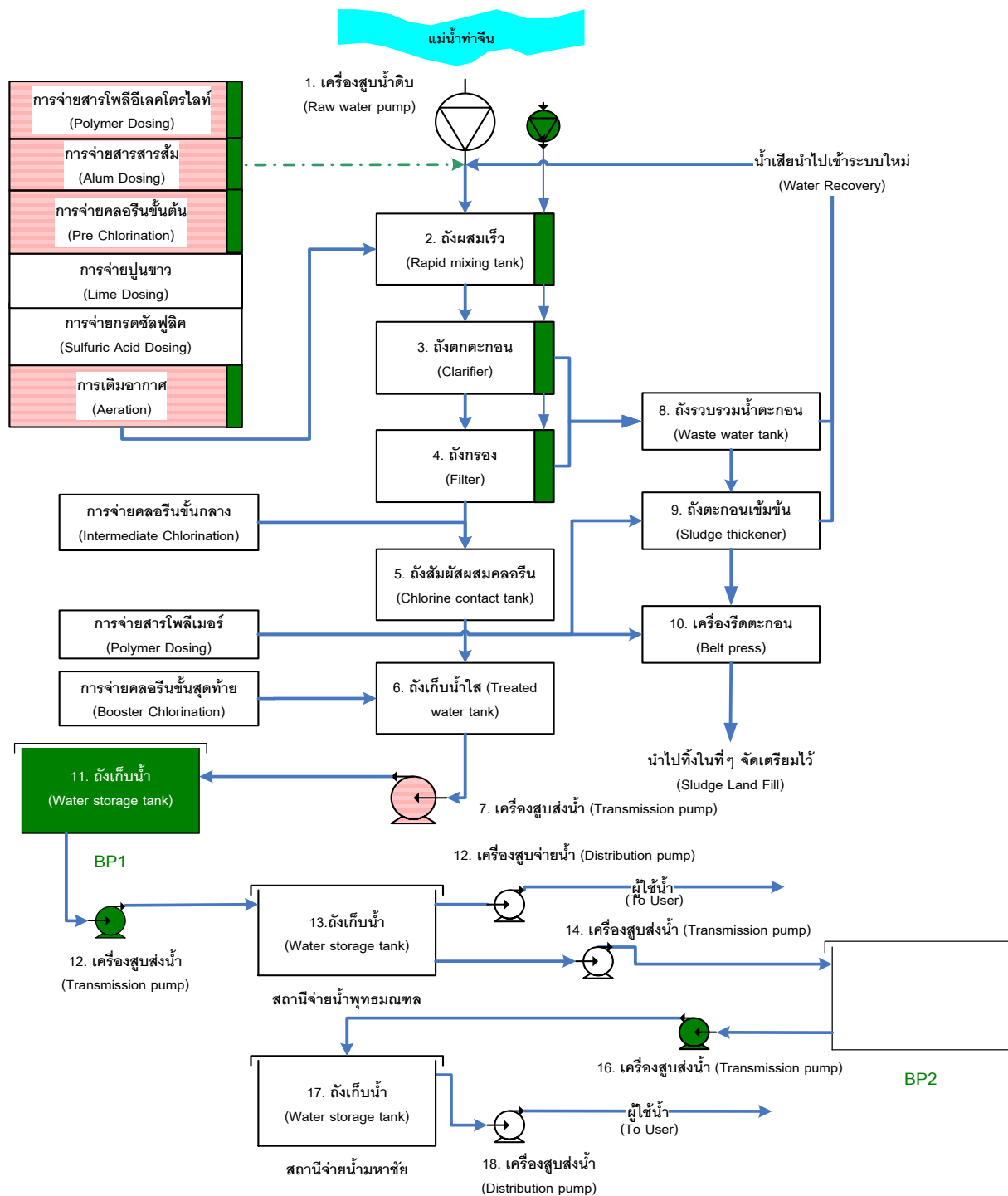
- 1.1 Modification of the raw water sump pit and installation of a new raw water pump
- 1.2 Construction of a new Rapid Mixing Tank for the enhanced system
- 1.3 Construction of a new Sludge Blanket Clarifier Tank and enhancement of the existing sludge drainage channels
- 1.4 Construction of two new Rapid Gravity Filter Tanks for spare capacity in the backwash process
- 1.5 Modification and enhancement of the chlorination and chemical feeding system
- 1.6 Modification and enhancement of the aeration system
- 1.7 Modification and enhancement of the electrical and instrument systems
- 1.8 Modification and enhancement of the electrical power backup system
- 1.9 Installation of an additional Treated Water Pump
- 1.10 Provision of additions and enhancements to the Surge Protection Systems
- 1.11 Modification of the SCADA System
- 1.12 Relocation and modification of related buildings
- 1.13 Removal and modification of related infrastructure such as retaining walls, service roads and foot paths

2. Construction of Salaya Booster Pumping station (BP1). The site is 17 kilometres from the Water Treatment Plant. The area is 10 rai 2 ngan 54 sq.w. (4,254 sq.w.) and it is located at Tambon Klong Yong, Budthamonthol District, Nakorn Pathom Province. The concept of this

station to increase the water delivery system from Banglen Water Treatment Plant to Buthamonthol Pumping Station up to 450 MLD (from existing 320 – 340 MLD), maximum delivery capacity. The construction works are as follows;

- 2.1 Construction of a water storage tank with a size of 36,000 cu.m.
  - 2.2 Construction of a machinery house with details as follows;
    - Pump Room
    - Staff Office
    - SCADA Room
    - Control Panel Room
  - 2.3 Construction of a Surge Protection System
  - 2.4 Construction of a 115 kv power supply substation and Ring Main Unit
  - 2.5 Construction of infrastructure such as site drainage, overflow system, service road, retaining wall and fence, street light and fire protection system
  - 2.6 Installation of a pumping system (by the M&E contractor)
  - 2.7 Installation of a SCADA System
3. Construction of Kratumban Booster Pumping station (BP2).The site is 12 kilometers from Buthamonthol Pumping Station. The area is 14 rai 3 ngan 64 sq.w. (5,964 sq.w.) 14.91 Rai and is located at Tambon Klong Ma Deua, Kratumban District, Samut Sakorn Province. The concept of this station to increase the water delivery system from Buthamonthol Pumping Station to Mahachai Pumping Station up to 200 MLD (from existing 140 – 160 MLD), maximum delivery capacity. The construction works are as follows;
- 3.1 Construction of a water storage tank with a size of 20,000 cu.m.
  - 3.2 Construction of a machinery house with details as follows;
    - Pump Room
    - Staff Office
    - SCADA Room
    - Control Panel Room
  - 3.3 Construction of a Surge Protection System
  - 3.4 Construction of a Ring Main Unit and power supply system
  - 3.5 Construction of infrastructure such as site drainage, overflow system, service road, retaining wall and fence, street light and fire protection system.
  - 3.6 Installation of a pumping system (by the M&E contractor)
  - 3.7 Installation of a SCADA System





ภาพแสดง Flow Chart โครงการขยายกำลังการผลิต ระยะที่ 1

- หมายเหตุ
- ไม่ปรับปรุง (Existing)
  - งานปรับปรุงจากระบบเดิม (Modify Work)
  - งานก่อสร้างใหม่ (New Construction Work)

## 2. Profiles of Thai Tap Water Supply Plc. and CH. Karnchang Plc.

### 2.1 Background - Thai Tap Water Supply Plc. (“the Company”)

The Company operates a public service business engaging in production and distribution of tap water to the Provincial Waterworks Authority (“PWA”) in the service areas of the districts of Nakhon Chaisi, Sam Phran and Buddhamonthon in Nakhon Pathom province, and the districts of Muang Samut Sakhon and Kathum Baen in Samut Sakhon province to replace groundwater consumption of the public and tap water production from PWA’s groundwater wells, and also to increase tap water production volume to sufficiently serve the consistently increasing consumer demand, which would subsequently solve land subsidence and saltwater penetration problems in accordance with the government policy.

The Company was established on September 11, 2000 with an initial registered and paid capital of Bt. 3.99 billion (par value of Bt. 1 per share). On September 21, 2000, the Company entered into a Water Purchase and Sale Agreement (“PSA”) with PWA for a contract term of 30 years and on a Build-Own-Operate (“BOO”) basis. That is, the Company carries out construction of the tap water production and distribution systems to serve consumers with a maximum production capacity of 320,000 cu.m./day as of February 27, 2008, which is the highest capacity compared with other private tap water business operators in Thailand. The Company maintains the ownership of the tap water production and distribution systems to serve consumers and no transfers of which to PWA are required. The minimum offtake quantity (“MOQ”) by PWA under the PSA will increase during the contract term of 30 years as follows:

Beginning	Ending	MOQ (cu.m./day)
July 21, 2004	July 20, 2006	200,000
July 21, 2006	July 20, 2008	250,000
July 21, 2008	July 20, 2034 (PSA expiry)	300,000

Tap water tariff used in the calculation of the purchase and sale volume in each month shall be determined in the PSA, counting from the first date of actual water purchase and sale, PWA will pay for water supply from the Company monthly. The tariff rate used as the calculation base is water tariff in 1999 at Bt. 13.900000 per cu.m. (currently Baht 22.751945 per cu.m.) exclusive of VAT, adjustable every January 1 of each year. The calculation formula is as below:

$$P_{n+1} = P_n \times \left\{ 1 + \frac{(CPI_n - CPI_{n-1})}{CPI_{n-1}} \right\} \times K$$

N	Year before the year of adjustment of water tariff
$P_{n+1}$	Water tariff as of January 1 in year n+1 with unit in cu.m., and the 7 <sup>th</sup> decimal discarded
$P_n$	Water tariff as of January 1 in year n and with value from the beginning until December 31, 1999 being Bt. 13.900000 per cu.m.
$CPI_{n-1}$	General consumer price index (CPI) of central region for December as of year n-1 and with beginning value in December 1998 being 128.1
$CPI_n$	General consumer price index (CPI) of central region for December as of year n (*)
K	Fixed value in adjustment of water tariff (K) which is: 1.030000 for year 1 to year 7 (2000-2006) 1.02500 for year 8 to year 10 (2007-2009) 1.01000 for year 11 to year 14 (2010-2013) 1.00000 for year 15 (2014) onward
(*)	In case in December of any year (n), the CPI has not yet been announced by the authority for use in water tariff calculation (January 1 of year n+1), the water tariff rate of the month in the following year will be based on the rate of the foregoing year until the CPI has officially been announced and then it would be used for the rate calculation. However, if adjustment can be made as seen proper, the water tariff in each month will be adjusted to the rate justifiable for that month, the shortage of which will be covered by the buyer counting from January 1 of year n+1 until the date of rate adjustment. Value of adjustment to compensate for the water tariff will be equal to the volume of water obtained in year n+1 at the tariff rate equal to $P_n$ multiplied by the difference between $P_n$ and $P_{n+1}$

Besides the PSA, the Company obtained a concession from Ministry of Natural Resource and Environment on March 11, 2005 for a concession term of 25 years to produce tap water to serve the above five districts in two provinces.

The Company operates its tap water business with engagement of WaterFlow Co., Ltd. ("WaterFlow"), its wholly owned subsidiary with a registered and paid capital of Bt. 10 million, to carry out the production operations and distribution to PWA.

On June 29, 2007, the Company took up 10,698,283 ordinary shares of Pathum Thani Water Co., Ltd. ("PTW") at Bt. 340 per share, representing 89.15% of PTW's total paid capital. On December 18, 2007, the Company additional bought PTW shares for another 8.85% at Bt. 340 per share. Total equity investment in PTW is Bt. 3,998.3 million. With such equity investment by

the Company, PTW has become its subsidiary company. The difference between the share acquisition price and the share fair value has been recorded by the Company as the charge on the right to the tap water production and distribution worth Bt. 3,169.1 million.

PTW operates the tap water business in the same manner as the Company. On August 31, 1995, PTW entered into an agreement for the operations of tap water production and distribution to PWA for a contract term of 25 years beginning on October 15, 1998 and ending October 14, 2023 on a Build-Own-Operate-Transfer (“BOOT”) basis. That is, PTW carries out construction of the tap water production and distribution systems, and transfers the distribution system to PWA as of the date of operational commencement. The production system will become under the ownership of PWA upon the end of the contract term of 25 years. PWA purchases tap water from PTW for distribution to the public in the service areas of the districts of Pathum Thani – Rangsit in Pathum Thani province. The maximum production capacity as of February 27, 2008 is 308,000 cu.m./day (comprising installed production capacity of 288,000 cu.m./day and additional production capacity of 20,000 cu.m./day), which is the second largest among private tap water business operators in Thailand following the Company. The MOQ is determined by PWA on a yearly basis, each being at least not lower than that in the previous year. During 2007-2008, PTW's MOQ is 260,000 cu.m./day. Water tariff payable by PWA is adjustable annually according to the consumer price index. On September 15, 2006, PTW entered into a PSA with PWA for additional construction of water production system to raise the water production and distribution volume for PWA by 70,000 cu.m./day in response to the higher demand for tap water in the service areas.

Besides the agreement for the operations of tap water production and distribution to PWA, PTW obtained a concession from Ministry of Interior on January 13, 2000 for a concession term of 25 years to produce tap water to serve the districts of Pathum Thani – Rangsit in Pathum Thani province..

Since January 26, 2007, PTW has operated its tap water business with engagement of BJT Water Co., Ltd. (“BJT”), its wholly owned subsidiary with a registered and paid capital of Bt. 50 million, to carry out the production operations and distribution to PWA.

## 2.2 Risk factors

The key risk factors in the tap water production capacity expansion project and those in overall are as concluded below:

### 2.2.1 Risks associated with the expansion project

Risk of failure to sign the PSA with PWA

As at present the Company is still under the negotiation with PWA regarding the PSA for the expansion project, the Company will be exposed to the risk of failure to sign the PSA.

Risk of failure to operate as planned after completion of construction under expansion

As construction under the expansion project is construction of medium sized infrastructures, which require expertise and some test-run before the operations, it would be possible that in the initial period some systems may not be able to function smoothly as targeted.

Risk of lower-than-projected water distribution volume

In the initial period of operations, the number of water consumers or the water distribution volume may not come out as projected before the start of operations, which may impact the Company's operating results, revenues and financial status.

2.2.2 Risks associated with legal documents for business operations

Risk of termination of Water Purchase and Sale Agreement ("PSA")

The PSA no. 189/2543 between the Company and PWA may be construed as breaching the Act on Private Participation in State Undertaking, B.E. 2535 (1992) ("Private Participation Act") as detailed below:

The Council of State in 1997 ruled on PWA's contracting of private entities to invest and build the entire water production system and sell it to PWA for the latter's distribution to the public that it was not required to be undertaken under the Private Participation Act provided that, in such production and sale of water to PWA, only the private company, not PWA, was responsible for the profit and loss to be incurred, and PWA had not transferred any of its legal rights to such private company. Assistance or coordination might be provided by PWA in the private company's procurement of raw water for water production, but payment for such raw water supply must be made by the private company itself. In view of this, the case raised was the undertaking by the private company itself and the procurement of raw water for water production was not made under any state license or permission. Concession awarded or entitlement for the private company to use natural resources or state property, and PWA's purchase of water from the private company were undertaken under the commercial contract in a civil and normal business operation manner. Hence PWA did not put forward the said PSA to the

Cabinet for consideration and approval according to the proceeding under the Private Participation Act.

The Company may not represent whether the Cabinet would order the Council of State to review the legal issue relating to the PSA to see if it was in compliance with the Private Participation Act, and in case of a review, whether the ruling would change or not. Any change of the ruling may impact the validity of the PSA, hence material effect on the Company's business operations, revenues and financial status. In such case, as PWA is the Company's sole customer, the Company would need a new customer to purchase its water supply, and an amendment to the conditions in the concession would be required to conform with the new PSA.

#### Risk of mismatching of the concession and PSA terms

The term of the concession awarded to the Company for its water production business covers only 25 years (ending March 10, 2030) while that of the PSA no. 189/2543 between the Company and PWA is 30 years (ending July 20, 2034). The Company may not represent that the concession term would be extended or whether it would be informed of the extension approval result before the expiry date. If the Company fails to get the concession renewal for its water production during the lapse of the mismatched time, it may be in breach of the PSA being unable to produce and sell water to PWA under the PSA. This would pose significant impact on its operations, revenues and financial status.

Even if the concession is renewed, the period allowed for its water production may not match the period of its water sale to PWA under the PSA. Meantime, although the PSA allows the Company to request a renewal upon mutual consent of the contract parties, the Company may not represent whether the renewal would be under the conditions unchanged or changed in salient points from those under the expiring PSA. Moreover, provided that the PSA is not renewed and a new water buyer has to be sought, the Company may have to bear increased expenses and investment in machinery and equipment to respond to the new buyer's requirement, hence impact on its operations, revenues and financial status.

#### Risk of receiving notice to terminate PSA and/or entitlement document

The Company and PTW may be subject to any notice to terminate the PSA and/or the entitlement document if there are any incidents as stated in the PSA and/or the entitlement document. Before any termination, PWA shall send a written notice to the

Company and/or PTW for the latter to perform in compliance with the relevant agreement within a period prescribed. If the Company and/or PTW fails to do as prescribed, PWA shall then be entitled to terminate the agreement. In exercising its right to terminate the PSA and/or entitlement document, PWA may foreclose the security the Company and/or PTW has placed with PWA. Besides, PWA shall be entitled to demand any damages or expenses arising from the Company's and/or PTW's failure to perform as prescribed. This may materially impair the Company's business operations and financial status.

#### 2.2.3 Risks associated with water business concession

##### Risk of no concession extension or new concession awarding due to service area expansion or production capacity increase requirement by Ministry of Natural Resource and Environment

Concession extension or new concession awarding for new service areas or capacity expansion are subject to final judgment and decision solely by the concession awardee. The Company may not represent whether it and/or PTW would be granted concession extension or new concession. Even with concession extension or new concession awarded, no representation may be made as to whether there would be any changes in conditions or any additional conditions, which may impact the Company's and/or PTW's business operation potential, revenues and profitability.

#### 2.2.4 Risks associated with business operations

##### Risk of failure to get permission to use land areas for bulk transmission main (BTM) pipelining

The Company may not represent whether each authority units in charge of the areas of the BTM and local distribution network (LDN) pipelining would charge fees for the land utilization at appropriate rates, and whether such authority units would allow third parties to make use of such land areas or construct any buildings covering the pipelining areas, which might damage the BTM pipelines or hinder repair and maintenance thereof. In case the Company and PTW cannot utilize the land areas for pipelining or they have to pay high utilization charges or repair and maintenance of BTM pipelines cannot be made in a proper period of time, there may be negative impacts on the Company's and PTW's business operations, financial status and business prospects.

##### Risk from raw water sources

(a) Raw water pumping capacity to serve water production

PTW has pumped raw water from the Chao Phraya River in the volume exceeding the limit approved by the Board of National Water Resource since September 2006, and would stop excess pumping once the new water production plan is opened. However, at present, no any government agency is empowered to put a charge on PTW as no legal provisions apply. There is also no provision regarding the power of putting charges on the persons not complying with the conditions pertaining to the permission for water pumping under the Regulation of the Office of the Prime Minister regarding National Water Resource Management B.E. 2550 (2007). The Company may not represent whether the Board of National Water Resource would request cooperation from the authority empowered to oversee PTW's business operations to issue an order for PTW to stop excess water pumping, which would impact its revenues and operating results.

(b) Availability of raw water sources and procurement of back-up sources

The volume of raw water in various sources depends on several uncontrollable factors. The Company and PTW have so far not yet acquired any reserve sources as building a system to accommodate such back-up sources would require high investment cost. Although it is provided in the PSA between the Company and PWA that PWA agrees to pay compensation to the Company in case the Company cannot produce tap water in a minimum offtake quantity contracted with PWA as a result of the failure to procure other raw water sources of the similar quality to the existing source, the Company may not represent that the raw water supply from such source would be sufficient to serve the Company's and PTW's tap water production with either the current production capacity and the capacity to be expanded in the future. It may also not represent whether it would be able to acquire any reserve sources, hence material impact on the business operations and business prospects of the Company and PTW.

(c) Cost of raw water

Although no expenses are currently borne by the Company and PTW in pumping raw water from the existing two natural sources, the Company may not represent whether there would be any future promulgation of law governing the determination and charging of fees on raw water pumping from such sources, which would push up cost of tap water production of the Company and PTW. However, according to a



provision in the PSA, in case there are charges on raw water pumping which would raise cost of production of the Company and PTW, the Company may fully collect from PWA for such additional expenses, while PTW may adjust the tap water tariff in the line with the higher cost only upon mutual agreement with PWA. If no agreement can be reached, dispute settlement process shall be applied. Any determination and charging of raw water fees by the authorities may impact PTW's business, financial status, operating results and business prospects if no agreement can be reached with PWA.

(d) Risk of dependence on one sole customer

The Company and PTW will totally sell their tap water production output to PWA for further distribution to the public. No direct sales to the public through PWA's LDN pipes can be made. Thus, there is a risk of dependence on one sole customer.

## 2.3 Nature of business operations

### 2.3.1 Characteristics of service

The Company has entered into the Water Purchase and Sale Agreement ("PSA") with PWA for a period of 30 years starting July 21, 2004 and ending July 20, 2034. Under the PSA, PWA will purchase tap water from the Company for distribution to the public in the districts of Sam Phran and Nakhon Chaisi of Nakhon Pathom province, and the entire province of Samut Sakhon. Its tap water production is carried under a concession awarded by Ministry of Natural Resource and Environment on March 11, 2005 covering a 25-year term for its water business operations in the districts of Sam Phran, Nakhon Chaisi and Buddhamonthon of Nakhon Pathom province, and the districts of Krathum Baen and Muang Samut Sakhon of Samut Sakhon province. The Company pumps raw water from the Tha Chin River for use in the tap water production. The tap water produced is distributed by the bulk transmission main (BTM) from the production plant at Banglen district of Nakhon Pathom province to the Company's two distribution stations, i.e. Buddhamonthon distribution station and Mahachai distribution station, and the water will then be pumped through the local distribution network (LDN) for further distribution to the public in the service areas of Sam Phran, Omnoi and Samut Sakhon water offices.

Formerly, in the water production, the Company entered into an agreement to engage WaterFlow Co., Ltd. ("WaterFlow") to carry out water production, repair and maintenance, and production control and distribution. On February 27, 2006, the Company took up all

the ordinary shares of WaterFlow from Advance Assets Associates Ltd., another juristic person, and thus WaterFlow has become a subsidiary of the Company. On April 1, 2006, the Company amended the agreement between the Company and WaterFlow to reflect the change of WaterFlow's status to a subsidiary of the Company, namely being a production unit of the Company instead.

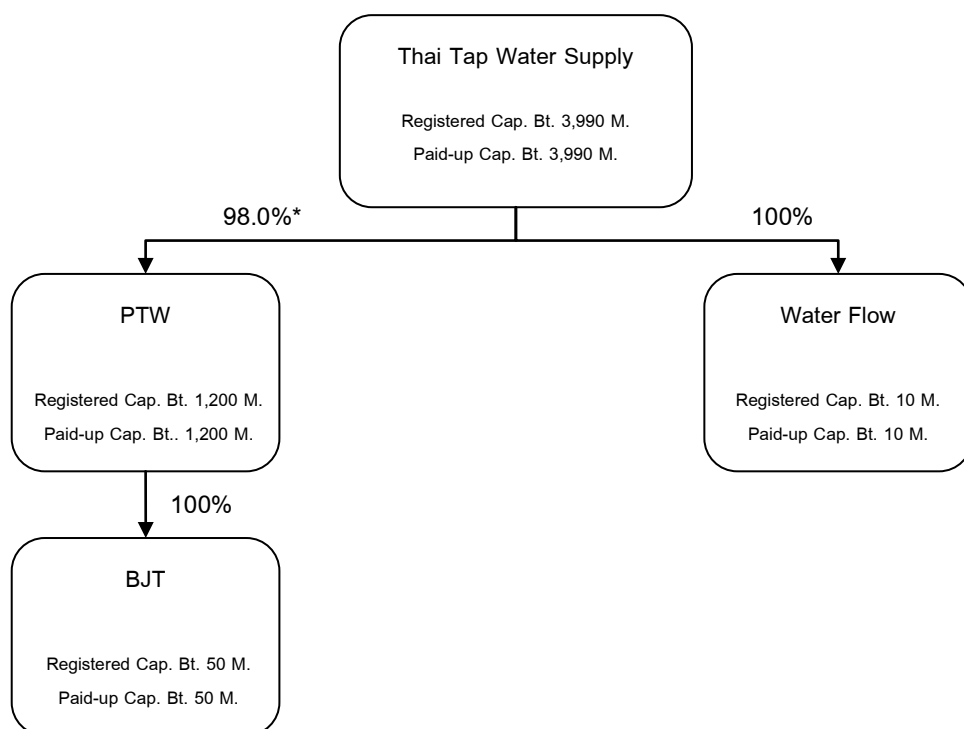
On June 29, 2007, the Company acquired ordinary shares of Pathum Thani Water Co., Ltd. ("PTW") in an amount of 89.15% of the latter's total paid shares. With such share acquisition, PTW has become a subsidiary of the Company. PTW also produces and distributes tap water to PWA in the same manner as the Company. On August 31, 1995, PTW entered into the agreement to produce and distribute tap water to PWA for a contract term of 25 years from October 15, 1998 to October 14, 2023. PWA purchases tap water from PTW for distribution to the public in the service areas of Pathum Thani and Rangsit districts of Pathum Thani province. PTW was awarded a concession for tap water business by Ministry of Interior on January 13, 2000 for a term of 25 years. Tap water production of PTW starts from pumping raw water from the Chao Phraya River into the production plant in Sam Khok district, Pathum Thani province. The water produced is distributed through the BTM to PTW's three distribution stations, i.e. Rangsit, Thammasat and Pathum Thani distribution stations, and the water will then be pumped through the LDN owned by PWA for distribution to the public in the service areas of Pathum Thani and Rangsit water offices. Due to the rising demand for tap water in the service areas, PTW on September 15, 2006 entered into a PSA with PWA to increase the volume of tap water to be purchased by PWA from PTW by another 70,000 cu.m./day, which would serve consumption in the areas of Rangsit water office.

PTW formerly entered into an operations and maintenance agreement to engage Pathum Thani Operations Co., Ltd. ("OPCO") to carry out the production. OPCO subsequently subcontracted such production and operations to BJT Water Co., Ltd. ("BJT"). On January 26, 2007, PTW terminated the agreement with OPCO and paid a compensation of Bt. 385 million to OPCO. It then acquired all ordinary shares of BJT worth Bt. 305 million. An operations and maintenance agreement was entered into by PTW and BJT for the latter to carry out PTW's production, maintenance, production control and distribution of tap water.

On December 18, 2007, the Company acquired additional ordinary shares of PTW from CK and Capital Rice Co., Ltd., totaling 1,061,452 shares or 8.85% of the issued and paid shares of PTW. At present, the Company's total shareholding in PTW is 98.0%.

Group Structure of Thai Tap Water Supply Plc.

as of October 31, 2008



*Notes : \* The Provincial Waterworks Authority and minority shareholders hold 2 per cent of remaining portion.*

### 2.3.2 Industry situation

Of the country's total precipitation of 800,000 million cubic meters per year, only 200,000 million cubic meters fall into rivers, canals, and swamps, while as little as 36,000 million cubic meters or 4.5% flow into underground water sources, compared with the nationwide water consumption (source : Department of Water Resources) of 98,756 cubic meters in 2010. It is evident that such natural water supply is somewhat limited and the usable water is steadily declining in both quantity and quality, hence likely aggravating the problem of annual shortage of usable quality water.

Presently, there are 81 private water suppliers across the country with a combined production capacity of 1.1 million cubic meters per day. They can be classified by either business size or location as follows:

Regions	No. of Entrepreneurs				Total Capacity (m <sup>3</sup> /day)	Concession Period (years)				
	Small	Medium	Large	Total		5	10	15	25	Total
North	9	1	-	10	8,484	6	3	-	1	10
Middle	52	6	7	65	1,091,388	55	-	2	8	65
Northeast	1	-	-	1	930	1	-	-	-	1
South	4	1	-	5	15,075	4	-	-	1	5
<b>Total</b>	<b>66</b>	<b>8</b>	<b>7</b>	<b>81</b>	<b>1,115,877</b>	<b>66</b>	<b>3</b>	<b>2</b>	<b>10</b>	<b>81</b>

Source: Department of Water Resources as at August 31, 2007.

Notes: 1. Small water supply system means capacity not more than 3,000 m<sup>3</sup>/day and number of user not more than 2,000.

2. Medium water supply system means capacity between 3,001 and 15,000 m<sup>3</sup>/day and number of user between 2,001 and 8,000.

3. Large water supply system means capacity more than 15,000 m<sup>3</sup>/day and number of user more than 8,000.

Among the entire 81 private operators, TTW and PTW are the largest operator with total production capacity of 628,000 m<sup>3</sup>/day and have obtained the highest minimum off-take quantity from PWA, in total MOQ of 560,000 m<sup>3</sup>/day, accounting for 89.17 per cent of their total capacity. However, summary of qualified competitors with the Company and PTW are as follows:

	TTW	PTW	EGCOMP Tara Co., Ltd.	Universal Utilities Co., Ltd.	Industrial Water Resources Management	R.E.Q. Water Services Co., Ltd.
Concession area	Nakorn Pathom Samut Sakhon	Pathum Thani	Rajaburi Samut Songkram	Bangpakong Chachengsao Nakornsawan Sataheab Samui Rayong	Chonburi	Phuket
Total investment (Baht million)	8,375	4,300	650	2,706	200	697
Maximum production capacity	320,000	308,000	36,000	186,600	18,000	16,000
Minimum off-take quantity (m <sup>3</sup> /day)	300,000	260,000	32,300	100,580	10,000	16,000
% of MOQ compared with total production capacity	93.75	84.42	89.72	53.90	55.56	100.00

Notes : According to operation agreement (as of December 2007)

## 2.4 Revenue structure

The Company and its subsidiary companies earn income solely from tap water production and distribution to PWA. The Company started to generate income on January 5, 2004 until July 20, 2004, regarded as a pre-sale period (a period before the operations under the PSA), bringing in Bt. 316.57 million. The income generation under the PSA commenced on July 21, 2004.

PTW started its pre-sale production and distribution on September 11, 1998. Income generation under the agreement to produce and distribute tap water to PWA commenced on October 15, 1998.

Meantime, BJT, a subsidiary of PTW, earned income partly from its provision of tap water system and waste water system maintenance services for Amata City Industrial Estate and Amata Nakorn Industrial Estate.

### Revenue structures of the Company and subsidiary companies

(Unit: Bt. million)

	Company only				Company and subsidiaries <sup>(1)</sup>					
	2004		2005		2006 <sup>(5)</sup>		2007 <sup>(6)</sup>		End of Q3/08 <sup>(6)</sup>	
	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%
Income from tap water business										
- TTW (Company)	571.96	64.27	1,356.03	99.69	1,697.80	98.58	1,986.65	75.74	1,720.40	64.45
- PTW							580.38	22.12	900.00	33.71
Pre-sale income from tap water sale <sup>(2)</sup>	316.58	35.58	-	-	-	-	-	-	-	-
Service income <sup>(3)</sup>	-	-	-	-	-	-	23.04	0.88	25.90	0.97
Other income <sup>(4)</sup>	1.37	0.15	4.22	0.31	24.39	1.42	33.16	1.26	23.30	0.87
Total revenues	889.91	100.00	1,360.25	100.00	1,722.19	100.00	2,623.23	100.00	2,669.60	100.00

**Notes :** <sup>(1)</sup> Data on revenue structures come from real financial statements of the Company and subsidiaries.

<sup>(2)</sup> The Company's income from tap water business from January 5, 2004 until July 20, 2004.

<sup>(3)</sup> Income from tap water production to serve Amata Nakorn by BJT, a subsidiary of PTW.

<sup>(4)</sup> Mainly interest income.

<sup>(5)</sup> Including revenue from Water Flow in the Company's revenue.

<sup>(6)</sup> Including revenue from Water Flow in the Company's revenue and revenue from BJT in PTW's revenue.

## 2.5 Financial and operational performances

2.5.1 Summary of TTW's financial status and performances audited by Ernst & Young as of 31 December 2005, with Khun Siraphorn Uaanantakul, CPA no. 3844 as the auditor and as of 31 December 2006 – 2007 and as of 30 September 2008, with Khun Supachai Phanyawattano, CPA no. 3930 as the auditor are as follows:

(Unit : Baht Million)

Consolidated Financial Statements	Audited			Reviewed
	31 Dec 05	31 Dec 06	31 Dec 07	30 Sep 08
Current assets				
Cash and cash equivalents	387.60	356.13	674.90	1,079.74
Current investments	285.00	695.00	847.26	594.98
Trade accounts receivable	126.43	217.60	292.70	330.49

(Unit : Baht Million)

Consolidated Financial Statements	Audited			Reviewed
	31 Dec 05	31 Dec 06	31 Dec 07	30 Sep 08
Other current assets	21.41	37.93	142.89	345.03
<b>Total current assets</b>	<b>820.44</b>	<b>1,306.66</b>	<b>1,957.75</b>	<b>2,350.24</b>
Non-current assets				
Property, plant and equipment, net	9,536.45	9,355.96	9,196.86	8,992.35
Assets for production of treated water that must be transferred at end of concession, net	-	-	4,258.20	4,168.55
Rights to produce and sell treated water, net	-	-	3,079.62	2,933.28
Other non-current assets	4.07	19.32	188.72	7.89
<b>Total non-current assets</b>	<b>9,540.52</b>	<b>9,375.28</b>	<b>16,723.40</b>	<b>16,102.07</b>
<b>Total assets</b>	<b>10,360.96</b>	<b>10,681.94</b>	<b>18,681.15</b>	<b>18,452.31</b>
Current liabilities				
Bank overdrafts and short-term loans	-	-	3,004.84	14.90
Current portion of long-term loans	140.00	700.00	1,411.80	1,547.63
Other current liabilities	153.15	72.08	288.43	128.45
<b>Total current liabilities</b>	<b>293.15</b>	<b>772.08</b>	<b>4,705.07</b>	<b>1,690.98</b>
Non-current liabilities				
Long-term loans from financial institutions, net of current portion	6,720.00	6,020.00	9,261.31	8,218.12
<b>Total non-current liabilities</b>	<b>6,720.00</b>	<b>6,020.00</b>	<b>9,261.31</b>	<b>8,218.12</b>
<b>Total liabilities</b>	<b>7,013.15</b>	<b>6,792.08</b>	<b>13,966.38</b>	<b>9,909.10</b>
Registered and Paid-up capital	3,000.00	3,250.00	3,290.00	3,990.00
Retained earning	347.82	765.22	1,522.77	2,491.62
Difference on reorganization of business of group companies	-	(600.36)	(600.36)	(600.36)
Minority interest – equity attributable of minority	-	-	19.36	24.18
<b>Total shareholders' equity</b>	<b>3,347.82</b>	<b>3,889.86</b>	<b>4,714.77</b>	<b>8,543.20</b>
<b>Total liabilities and shareholders' equity</b>	<b>10,360.96</b>	<b>10,681.94</b>	<b>18,681.15</b>	<b>18,452.31</b>
Total revenues	1,360.25	1,722.19	2,623.23	2,669.55
Total cost of sales	628.13	496.14	780.80	867.27
Selling and administrative expenses	52.19	105.06	158.05	133.59
Amortisation of rights to produce and sell treated water	-	-	89.49	146.34
Interest expenses	(344.89)	(437.02)	(637.64)	(542.13)
<b>Net profit (loss)</b>	<b>335.04</b>	<b>674.41</b>	<b>943.21</b>	<b>975.66</b>
Minority interests of the subsidiaries	-	-	(23.16)	(6.82)
<b>Net profit (loss) per share (Baht)</b>	<b>0.11</b>	<b>0.21</b>	<b>0.28</b>	<b>0.27</b>

(Unit : Baht Million)

Consolidated Financial Statements	Audited			Reviewed
	31 Dec 05	31 Dec 06	31 Dec 07	30 Sep 08
Book value per share (Baht)	111.59	1.20	1.43	2.14

*Notes: TTW has changed its par value from Baht 100 to Baht 1 per share on 6<sup>th</sup> July 2006.*

### Analysis of operating results

#### Total assets

Total assets according to the consolidated financial statements as of December 31, 2006 and 2007 amounted to Bt. 10,681.94 million and Bt. 18,681.15 million respectively. The increase as of December 31, 2007 came from the rise in cash and cash equivalent of Bt. 318.76 million, short-term investment of Bt. 152.26 million, accounts receivable of Bt. 75.11 million, and construction advance payment to related company due to increase in the volume of tap water distribution in the past year as well as increase in other current assets totaling Bt. 39.53 million.

There were also major non-current asset items that contributed significantly to the increase in total assets, i.e. committed deposit at bank amounting to Bt. 18,448 million aimed to be used to accommodate principal and interest payment under the long-term loan agreement of a subsidiary company, assets in water production to be transferred upon the end of the agreement term worth Bt. 4,258.20 million, and right to water production and distribution in a net amount of Bt. 3,079.62 million as a result of the Company's acquisition of PTW in 2007 which led to the increase in accounts receivable as earlier mentioned.

Total assets according to the consolidated financial statements as of September 30, 2008 dropped from those in the consolidated financial statements as of December 31, 2007 by Bt. 228.84 million as resulted from major non-current asset items, amortization of assets in water production of PTW which are to be transferred to PWA after the end of the agreement term of 25 years, and amortization of the right to water production and distribution.

#### Total liabilities and shareholders' equity

According to the consolidated financial statements as of December 31, 2006 and 2007, total liabilities accounted for Bt. 6,792.08 million and Bt. 13,966.37 million respectively. The increase as of the end of 2007 stemmed from the rise in the long-term loans from financial institutions net of current portion of Bt. 711.80 million and the long-term loans from financial institutions net of over 1-year portion of Bt. 3,241.31 million. Such long-term loans were granted under loan agreements with syndication lenders all of which were local banks. O/D and short-term loans also increased Bt. 3,004.84 million because in 2007 the

Company borrowed loans from local financial institutions to finance its acquisition of PTW ordinary shares in a proportion of 98% of PTW's paid capital.

Total liabilities dropped from Bt. 13,966.37 million as of the end of 2007 to Bt. 9,909.10 million as of the end of September 30, 2008 due to such major items as repayments of O/D and short-term loans from financial institutions of Bt. 2,989.94 million after the Company's fund raising through new share offering and repayments of long-term loans of Bt. 907.36 million, etc.

Shareholders' equity according to the financial statements as of December 31, 2006 and 2007 was exhibited with retained earnings amounting to Bt. 765.22 million and Bt. 1,522.77 million respectively. Retained earnings increased in 2007 attributable to a net profit of Bt. 920.05 million recorded in this year (excluding net profit on the part of manority interest of subsidiary company amounting to Bt. 23.16 million). Retained earnings increased from Bt. 1,522.77 million as of the end of 2007 to Bt. 2,491.62 million as of the end of September 2008. The increase in the first nine months of 2008 stemmed from a net profit of Bt. 968.84 million recorded in this period (excluding net profit on the part of manority interest of subsidiary company amounting to Bt. 6.82 million).

#### Revenues

Total revenues in 2006 and 2007 amounted to Bt. 1,722.19 million and Bt. 2,623.23 million respectively. Main items were income from water sales of Bt. 1,697.80 million and Bt. 2,567.03 million respectively. The increase in income from water sales since 2006 was a result of the increase in sales volume and adjustment of water tariff to Bt. 21.48 per cu.m. under the PSA and also the integration of PTW's and BJT's income during July 1 - December 31, 2007 as part of income from water sales in the 2007 income statement. Other income was also recorded at Bt. 24.38 million in 2006 and Bt. 56.20 million in 2007, coming mainly from income from service.

For 9-month periods of 2007 and 2008, total revenues amounted to Bt. 1,802.65 million and Bt. 2,669.55 million respectively, representing an increase of Bt. 866.90 million or 48.09% year-on-year. Major item was the increase in income from water sales of Bt. 854.15 million due to the rise in sales volume in the period. This accorded with the provision in the PSA regarding MOQ in that PWA has to purchase tap water supply from the Company by another 50,000 cu.m./day beginning July 21, 2008. Another major item was the adjustment of water tariff chargeable on PWA from Bt. 21.481579 per cu.m. in 2007 to Bt. 22.751945 per cu.m. in 2008.

#### Net profit

The Company's net profit was Bt. 674.41 million in 2006 and Bt. 920.05 million in 2007. Net profit margin was 39.16% and 35.07% respectively. The net profit increase was attributable mainly to the rise in the



income from water sales (as detailed above) and the integration of PTW's and BJT's income during July 1 - December 31, 2007 as part of income from water sales in the 2007 income statement, contributing to the Company's better operating results. However, net profit margin dropped as interest payment in 2007 moved up Bt. 200.63 million due to the recording of PTW's interest payment in the Company's consolidated financial statements.

For 9-month periods of 2007 and 2008, the Company's net profit was recorded at Bt. 683.40 million and Bt. 968.84 million respectively (excluding net profit on the part of minority interest of subsidiary company amounting to Bt. 10.96 million and Bt. 6.82 million respectively). The net profit went up Bt. 281.29 million due to the increase in water sales volume and the adjustment of water tariff from Bt. 21.481579 per cu.m. to Bt. 22.751945 per cu.m. (as detailed in the above section).

## 2.5.2 Key financial ratios

Consolidated Financial Statements	Audited			Reviewed 30 Sep 08
	31 Dec 05	31 Dec 06	31 Dec 07	
<b>Liquidity ratios:</b>				
Current ratio (times)	2.80	1.69	0.42	1.24
Quick ratio (times)	2.73	1.64	0.39	1.19
Cash Flow ratio (times)	2.88	1.39	0.36	0.42
Receivables turnover (times)	13.05	9.87	10.15	8.34
Inventory turnover period (times)	-	148.43	75.07	54.51
Account payable turnover (times)	8.36	7.76	17.22	21.30
Collection period (days)	27.97	36.98	35.96	32.85
Inventory period (days)	-	2.46	4.86	5.03
Payment period (days)	43.64	47.04	21.19	12.86
Cash cycle (days)	(15.67)	(7.60)	19.63	25.61
<b>Profitability ratios:</b>				
Gross profit margin (%)	53.68	70.78	69.85	67.23
Operating Profit (%)	49.99	65.09	60.80	57.03
Cash to Earnings Ratio (%)	111.92	66.04	61.69	91.60
Net Profit Margin (%)	24.63	39.16	35.07	36.29
Return on equity (%)	10.36	18.64	21.39	15.13
<b>Efficiency ratios:</b>				
Return on assets (%)	3.26	6.41	6.27	7.06
Return on Fixed assets (%)	5.79	9.84	11.58	14.05
Assets turnover (times)	0.13	0.16	0.18	0.19
<b>Financial ratios:</b>				
Debt to equity ratio	2.09	1.75	2.96	1.16

Consolidated Financial Statements	Audited			Reviewed 30 Sep 08
	31 Dec 05	31 Dec 06	31 Dec 07	
Interest coverage (times)	3.21	2.70	2.51	3.36
Contingent liabilities coverage ratio (times)	1.42	0.49	0.18	1.20
Dividend Payout Ratio (%)	31.34	38.11	17.66	N/A

### Liquidity

The Company recorded increase in cash from Bt. 356.13 million in 2006 to Bt. 674.89 million in 2007. Net cash flows went up from cash inflows from operating activity of Bt. 983.82 million thanks to improving working performance as a result of operating profit growth from 2006 and integration of cash flows from operating activity of PTW in which the Company made equity investment in 2007, as well as cash inflows from financing activity of around Bt. 3,695.81 million. Financing activity was mainly in borrowing from financial institutions for use in acquisition of ordinary shares of PTW, making it become a subsidiary, in an amount of Bt. 3,998.3 million (comprising short-term loans of Bt. 3,000 million and long-term loans of Bt. 998.3 million), increase in loans from financial institutions for PTW of Bt. 683.9 million (net of reduction of O/D from banks) and new share offering of Bt. 48 million, offset by repayments of long-term loans of the Company of Bt. 871.9 million and its dividend payment of Bt. 162.5 million. This was aligned with cash obtained from investing activity which dropped from 2006 as in 2007 the Company used funds to invest in PTW and BJT, its subsidiaries, in a net amount of Bt. 3,498.49 million (additional details in note no. 12 to financial statements for 2007 regarding investment in subsidiaries)

For 9-month periods of 2007 and 2008, the Company's cash surged from Bt. 541.47 million in 2007 to Bt. 1,079.74 million in 2008 over the corresponding periods. Net cash flows increased from net cash flows obtained from operating activity of about Bt. 1,394.49 million owing to the growth in the normal business operations of the Company. Another contributing factor was the Company's business restructuring with the above-mentioned additional investment. Net cash flows obtained from investing activity was around Bt. 54.87 million which was opposite to the drop in cash flows from financing activity. This was because in the 9-month period of 2008, the Company repaid O/D and short-term loans from financial institutions amounting to Bt. 2,989.94 million and long-term loans from financial institutions of Bt. 979.36 million. Despite the receipt of funds from new share offering, part of the funds had to be used to make repayment of loans from financial institutions.

As regards key financial ratios, for the year ended December 31, 2007, the Company's current ratio dropped from 1.69 times in 2006 to 0.42 time. Quick current ratio also dropped from 1.64 times to 0.39 time respectively. This was because the Company borrowed additional loans (short-term loans from

financial institutions). With such increase in borrowings, the Company's total liabilities to equity ratio moved up from 1.75 times in 2006 to 2.96 times in 2007.

Considering the 9-month period ended September 30, 2008 compared with the end of 2007, current ratio increased from 0.42 time to 1.24 time. Quick current ratio also moved up from 0.39 time to 1.19 time. This was attributable to the increase in cash and cash equivalents from the growth in the normal business operations of the Company, investment in subsidiaries and significant drop in short-term loans from financial institutions.

## 2.6 Shareholders

Top ten shareholders of the Company as of September 30 are as follows:

Name	No. of shares	% holding
1. CH. Karnchang Plc.	1,408,777,400	35.31
2. Mitsui Water Holdings (Thailand) Limited	1,032,500,000	25.88
3. Bangkok Expressway Plc.	368,750,000	9.24
4. HSBC (Singapore) Nominees Pte Ltd.	144,146,800	3.61
5. Thai NVDR Co., Ltd.	141,399,174	3.54
6. Bangkok Bank Plc.	73,895,000	1.85
7. Thailand Securities Depository for Depositors	58,025,100	1.45
8. Somers (U.K.) Limited	47,484,700	1.19
9. Chase Nominees Limited 1	43,351,400	1.09
10. Caceis Bank Luxembourg	38,556,000	0.97
<b>Total top ten shareholders</b>	<b>3,356,885,574</b>	<b>84.13</b>
Minority shareholders	633,114,426	15.87
<b>Total</b>	<b>3,990,000,000</b>	<b>100.00</b>

*Notes : The latest list of shareholders which provided by the Company.*

## 2.7 The Board of Directors

The Board of Directors of TTW as of November 14, 2008 is as follows:

Name	Position
1. Mr. Plew Trivisvavet *	Chairman
2. Mr. Narong Sangsuriya *	Director
3. Mr. Prasert Marittanaporn *	Director
4. Mr. Sombat Kitjalaksana *	Director
5. Mr. Yoshio Kometani	Director
6. Mr. Tomoaki Matsumoto	Director

Name	Position
7. Mr. Suvich Pungcharoen	Director
8. Mr. Techathip Sangsingkeo	Chairman of Audit Committee
9. Mr. Somnuk Chaidejsuriya	Audit Committee
10. Mr. Phairuch Mekarporn	Audit Committee
11. Mr. Sompodh Sripom	Managing Director

*Notes : \* Representative from CK*

## 2.8 Profile of CH. Karnchang Plc.

### 2.8.1 Background and nature of business operations

CK was incorporated as a limited company on November 27, 1972 with a start-up capital of Baht 1.40 million to engage in a general construction business. Initially, CK provided construction services of buildings and general civil works for main customers from the government sector such as the Royal Thai Army and the Royal Thai Air Force.

Being aware of the necessity to broaden the scope of business to ensure growth in the long run, CK in 1981 entered into a joint venture with Tokyu Construction Co., Ltd., one of the top ten contractors in Japan. By doing so, CK has benefited from technology transfer in construction and management know-how, as well as partnership with a competent strategic alliance.

CK has consistently undertaken business expansion and capital increase. CK was converted into a public company on October 10, 1994 and listed on the SET on August 3, 1995. Its current registered capital is Baht 1,450 million, of which Baht 1,446 million is paid-up capital.

### 2.8.2 Nature of business operations

CK is a contractor, mainly serving the government sector projects, whether large-scale infrastructures or buildings. It has also engaged in joint ventures in concession businesses such as expressway project 2, subway management project, and Nam Ngum 2 hydroelectric power plant designing, development, construction and operation project, each with a concession period of 25-30 years, The Nakorn-Pathom-Samut Sakorn water supply project, Pathum Thani water supply project and wastewater supply for the Phuket Municipality. Construction service revenues earned by CK from the government and the private sectors are in a proportion of 70:30.

CK's businesses are divided into three categories: production, construction and concession. Members of the CK group, comprising subsidiary, joint venture and associated companies,

are classified by the nature of their business. CK currently has seven subsidiaries, 13 joint venture companies, four associated companies, and one related company.

As of September 30, 2008, CK had total assets of Baht 24,286 million, total liabilities of Baht 19,173 million, and shareholders' equity of Baht 5,112 million, a net profit of Baht 33 and 570 million, respectively for year ended 2007 and the first nine-month of 2008.

### 2.8.3 Financial and operational performances

Summary of CK's financial status and performances audited by Ernst & Young as of December 31, 2005, with Khun Rut Chaowanakavee, CPA no. 3247 as the auditor, and for 2006 – 2007, audited consolidated financial statements and reviewed consolidated financial statements ended June 30, 2008, with Khun Siraphorn Uanantakul, CPA no. 3844 as the auditor:

(Unit : Baht Million)

Consolidated Financial Statements	Audited			Reviewed 30 Sep 08
	31 Dec 05	31 Dec 06	31 Dec 07	
Current assets				
Cash and cash equivalents	1,542.69	3,033.26	2,682.32	1,532.04
Trade account receivables unrelated parties, net	5,045.96	5,489.45	1,228.04	1,377.92
Other current assets	10,619.76	10,120.03	7,547.20	9,057.81
<b>Total current assets</b>	<b>17,208.41</b>	<b>18,642.72</b>	<b>11,457.56</b>	<b>11,967.77</b>
Non-current assets				
Investments in associated companies	4,014.01	4,674.35	4,549.03	4,688.17
Investment in related and other companies	2,611.18	2,967.35	2,918.22	2,042.32
Other non-current assets	5,989.33	4,029.48	5,550.96	5,587.41
<b>Total non-current assets</b>	<b>12,614.52</b>	<b>11,671.18</b>	<b>13,018.21</b>	<b>12,317.91</b>
<b>Total assets</b>	<b>29,822.93</b>	<b>30,313.91</b>	<b>24,475.77</b>	<b>24,285.68</b>
Current liabilities				
Bank overdrafts and short-term loans	5,510.20	3,822.85	2,664.68	2,398.81
Trade accounts payable related parties	515.34	445.59	402.10	32.53
Trade accounts payable unrelated parties	1,804.11	2,151.75	1,439.68	1,689.14
Current portion of long-term loans from financial institutions	934.93	3,897.04	655.74	250.20
Current portion of debentures	-	2,200.00	1,700.00	3,700.00
Accounts payable and loans from related parties	3,006.45	2,575.86	2,965.57	-
Other current liabilities	4,338.95	3,714.53	2,274.02	1,599.77
<b>Total current liabilities</b>	<b>16,109.98</b>	<b>18,807.62</b>	<b>12,101.79</b>	<b>9,670.45</b>
Non-current liabilities				

(Unit : Baht Million)

Consolidated Financial Statements	Audited			Reviewed
	31 Dec 05	31 Dec 06	31 Dec 07	30 Sep 08
Long-term loans, net of current portion	2,430.55	450.00	250.00	1,904.47
Debentures, net of current portion	6,000.00	5,800.00	6,094.02	6,090.60
Other non-current liabilities	353.44	454.19	338.87	1,507.83
<b>Total non-current liabilities</b>	<b>8,783.99</b>	<b>6,704.19</b>	<b>6,682.89</b>	<b>9,502.90</b>
<b>Total liabilities</b>	<b>24,893.97</b>	<b>25,511.81</b>	<b>18,784.68</b>	<b>19,173.35</b>
Registered capital	1,450.00	1,450.00	1,450.00	1,450.00
Issued and paid up	1,081.16	1,247.19	1,446.01	1,446.01
Retained earning (loss)	913.98	(688.28)	(58.08)	271.66
<b>Total shareholders' equity</b>	<b>4,928.95</b>	<b>4,802.09</b>	<b>5,691.09</b>	<b>5,112.33</b>
<b>Total liabilities and shareholders' equity</b>	<b>29,822.93</b>	<b>30,313.91</b>	<b>24,475.77</b>	<b>24,285.68</b>
Total revenues	14,954.97	21,605.29	14,918.08	10,568.07
Total cost and expenses	13,239.73	21,439.70	13,894.46	9,334.68
Interest expenses	(652.25)	(980.55)	(939.89)	(609.21)
Net profit (loss)	684.17	(1,212.84)	33.44	570.27
Net profit (loss) per share (Baht)	0.63	(1.08)	0.01	0.38
Book value per share (Baht)	4.56	3.85	3.92	3.53

*Notes : Par value is Baht 1 per share.*

Viewing CK's operations in the 9-month period ended September 30, 2008, total assets amounted to Bt. 24,286 million (major ones being cash and cash equivalents, accounts receivable - non-related company), construction work in progress, such non-current assets as long-term loans to associated company and accrued interest, and investment in associated and other companies), total liabilities Bt. 19,173 million and shareholders' equity Bt. 5,112 million.

As of December 31, 2007, CK's total assets accounted for Bt. 24,476 million, total liabilities Bt. 18,785 million and shareholders' equity Bt. 5,691 million, while as of December 31, 2006, its total assets amounted to Bt. 30,314 million, total liabilities Bt. 25,512 million and shareholders' equity Bt. 4,802 million.

CK's revenues come from three main business lines, i.e. construction contractor, distribution of construction materials and project management. For the 6-month period ended June 30, 2008, its revenues from the three main business lines were in a proportion of 90.16%, 0.49% and 0.23% of the total revenues respectively, and other income was 9.12%. For the operations as of December 31, 2007, such revenue proportion was 87.31%, 0.42% and 0.22% respectively, and other income was 12.05%.

For the 9-month period ended September 30, 2008, CK's total revenues amounted to Bt. 10,568 million, with net profit of Bt. 570 million, while in the same period of the previous year, its total revenues were Bt.

12,207 million with net profit of Bt. 248 million. For the retroactive 3 months and 9 months ended September 30, 2008 compared with the corresponding periods ended September 30, 2007, CK recorded an increase in net profit of 189.57% and 138.74% respectively. This was due to the fact that, for the retroactive 9-month period, CK gained from write-back of provision for loss on investment in joint controlled business of Bt. 408.12 million because the liabilities shared in JV BBCD declined in line with the mutual agreement with the consortium parties in the sharing of liabilities of JV BBCD (as detailed in the note to financial statement no. 8 for the 9-month period ended September 30, 2008 and letter to the SET dated May 15, 2008). For the retroactive 3-month period ended September 2008 (quarter 3 of 2008), CK recorded foreign exchange gains of Bt. 0.82 million compared with foreign exchange loss of Bt. 130.15 million in the corresponding period of 2007. CK's interest items also dropped owing to completion of large-scale construction projects and loan repayments. Its loss sharing in investment in associated company also dropped as the associated company improved in operating results.

CK's total revenues as of December 31, 2007 accounted for Bt. 14,918 million, compared with Bt. 21,605 million in the same period of the previous year. Net profit was around Bt. 14 million compared with net loss of about Bt. 1,213 million correspondingly. This was mainly because CK's net profit surged Bt. 1,227 million or 101.20% from 2006 as in 2006 there was an increase in allowances for doubtful accounts for the expense compensation of JV BBCD in an amount of Bt. 2,516 million recorded in the income statement, after the Supreme Court dismissed the judgment of the arbitrator for the Expressway and Rapid Transit Authority of Thailand ("EAT") to make payment to JV BBCD. However, JV BBCD filed a civil suit against the contract employer on February 11, 2008 to demand payment for the expenses duly paid by JV BBCD together with interest calculated until the lawsuit filing date. Court summons and statement of claim are going to be sent to the contract employer.

In 2007, CK's total revenues as shown in the consolidated financial statements dropped 30.95% as most of its past projects were duly completed and delivered in 2006. They were Suvarnabhumi gas pipeline, construction of Suvarnabhumi oil tanks, construction of SET Building (North Park), etc., as well as such mega-project as Bangphli-Suksawat (Bangphli-Bang Khun Thian) expressway of EAT, which was in the last phase and the construction of which was completed and delivery of which was made to EAT in October 2007. New projects were mostly in the stage of preparation for construction, hence no significant income to be realized. Moreover, most new projects were signed by CK. Thus, income from sales of construction materials and project management as well as dispatch of personnel to carry out the implementation dropped from those in 2006.

Other income also dropped in 2007 due mainly to the fact that, in 2006, CK gained from sales of short-term investment in TTW ordinary shares amounting to Bt. 1,256 million and it recorded income from the reversal of accrued interest of JV BBCD while in 2007 it gained from divestment of investment in PTW to

TTW amounting to Bt. 631 million, the size of which was significantly smaller than that of the gains from sales of TTW shares.

#### 2.8.4 Key financial ratios

Consolidated financial statements	Audited			Reviewed 30 Sep 08*
	31 ธ.ค. 48	31 ธ.ค. 49	31 ธ.ค. 50	
<b>Liquidity ratios:</b>				
Current ratio (times)	1.07	0.97	0.95	1.24
Quick ratio (times)	0.26	0.17	0.25	0.44
Receivables turnover (times)	5.07	3.20	3.25	4.80
Collection period (days)	72	113	111	57
Inventory turnover period (times)	44.53	89.60	26.55	18.58
Average sale period (days)	9	5	14	15
Payment period (days)	228	204	257	58
Account payable turnover (times)	1.58	1.77	1.40	4.74
Cash cycle (days)	(149)	(88)	(133)	4
<b>Profitability ratios:</b>				
Gross profit margin (%)	13.34	9.49	8.31	10.62
Net profit margin (%)	4.57	(5.61)	0.10	5.25
Return on equity (%)	14.07	(25.28)	0.28	10.27
<b>Efficiency ratios:</b>				
Return on assets (%)	2.50	(4.40)	0.05	3.04
Assets turnover (times)	0.55	0.78	0.73	0.59
<b>Financial ratios:</b>				
Debt to equity ratio (times)	5.05	5.31	3.30	3.75
Net debt to equity ratio (times)	2.28	1.85	1.47	1.32
Interest coverage (times)	(2.53)	1.39	1.07	(0.58)
Contingent liabilities coverage ratio (times)	(0.87)	0.00	0.40	(1.17)

Source : \*Thai Tap Water Supply Plc. And reviewed by the IFA.

#### Liquidity

CK recorded a drop in net cash flows, with cash and cash equivalents decreasing from Bt. 2,933.26 million in 2006 to Bt. 2,682.32 million in 2007. The drop came from cash flows used in financing activity of Bt. 3,501.08 million, as for the EAT's Bangphli-Suksawat (Bangphli-Bang Khun Thian) expressway, there was draw-down of payment for contract works from the lending banks instead of draw-down from the contract employer. The contractor employer would bear the liabilities to the banks as of the whole work delivery date. CK delivered all the project and transferred the liabilities with banks to EAT as the



employer in October 2007. With the progress in the construction work, CK obtained payments for the progress of the construction and made loan repayment together with bond redemption. CK also had net cash flows obtained from operating activity of Bt. 2,946.46 million and from investing activity Bt. 307.61 million, mainly from cash obtained from divestment of investment in associated company and gains from divestment of investment in associated company.

In view of liquidity, based on consolidated financial statements ended September 30, 2008, net cash flows dropped Bt. 1,150 million, coming from cash flows used in operating activity of around Bt. 1,441 million and cash flows used in investing activity of Bt. 1,131 million. This was attributable mainly to loans to related business of Bt. 417 million, long-term loans to associated company of Bt. 390 million, and increase in payment for land, property and equipment of Bt. 306 million. Meantime, CK recorded cash flows obtained from financing activity of around Bt. 1,417 million, mainly as a result from its bond issue of Bt. 2,000 million.

As regards key financial ratios, for the year ended December 31, 2007, CK's current ratio declined from 0.97 time in 2006 to 0.95 time, while quick current ratio picked up from 0.17 time in 2006 to 0.25 time. CK delivered its projects and transferred liabilities with banks to EAT as the contract employer in October 2007 while there was progress in the construction works and thus short-term loan repayments were made to financial institutions. As such, with the drop in loans, CK's total liabilities to equity ratio dropped from 5.31 times in 2006 to 3.30 times in 2007.

Considering the 9-month period ended September 30, 2008 compared with the end of 2007, current ratio increased from 0.95 time to 1.23 times. Quick current ratio also moved up from 0.25 time to 0.44 time due to the increase in accounts receivable. Current liabilities dropped, e.g. payables and loans from related business, advance payment from contract employer and construction payment in installment, as CK completed construction of large infrastructure projects. In overall, liabilities increased not so significantly coming from long-term loans and provision for loss on investment in joint controlled business. Hence, total liabilities to equity ratio rose from 3.30 times in 2007 to 3.75 times in 2008.

### 2.8.5 Shareholders

The major shareholders of CK as shown in share register book as at April 9, 2008, which was the latest book closure date are as follows:

Name	No. of shares	% holding
1. Mahasiri Siam Co., Ltd.	293,784,788	20.317
2. CH. Karnchang Holding Co., Ltd.	151,707,400	10.491
3. TMB Bank Plc.	90,914,200	6.287

Name	No. of shares	% holding
4. Thai NVDR Co., Ltd.	83,002,700	5.740
5. CK Office Tower Co., Ltd.	75,000,000	5.187
6. Mrs. Pranee Thongkittikul	56,163,420	3.884
7. State Street Bank and Trust Company for London	28,058,000	1.940
8. Mr. Charnnarong Vongsrinil	27,000,000	1.867
9. SCB Securities Co., Ltd. (Investment Port)	22,194,100	1.535
10. Mr. Tavorn Trivisvavet	21,277,200	1.471
11. Mr. Plew Trivisvavet	20,847,620	1.442
12. Bang Pa-in Land Development Co., Ltd.	18,935,000	1.309
13. Morgan Stanley & Co International Limited	14,580,200	1.008
14. Citibank Nominees Singapore Pte Ltd.	12,039,200	0.833
15. Mr. Prasert Trivisvavet	11,600,048	0.802
16. Mrs. Walaiporn Sorwongtrakul	8,600,000	0.595
17. Gerlach & Co.-Charles Schwab FBO Customers	8,245,400	0.570
<b>Total major shareholders</b>	<b>943,949,276</b>	<b>66.278</b>
Minority shareholders	502,062,893	34.722
<b>Total</b>	<b>1,446,012,169</b>	<b>100.000</b>

*Notes : The latest list of shareholders of CK which provided by the Company to the Financial Advisor).*

## 2.8.6 The Board of Directors

The Board of Directors of CK as of November 14, 2008 is as follows:

Name	Position
1. Mr. Aswin Kongsiri	Chairman
2. Mr. Plew Trivisvavet	Chairman of the Executive Board and CEO
3. Mr. Narong Sangsuriya	Director and Seior Executive Vice President
4. Mrs. Saikasem Trivisvavet	Director
5. Mr. Ratn Santaannop	Director
6. Mr. Prasert Marittanaporn	Director and Executive Vice President
7. Mr. Sombat Kitjalaksana	Director and Executive Vice President
8. Mr. Anukool Tuntimas	Director
9. Mr. Pavich Tongroach	Director
10. Mr. Vitoon Tejatussanasoontorn	Chairman of Audit Committee
11. Mr. Don Pramudwinai	Audit Committee
12. Mr. Thawansak Sukhawun	Audit Committee

### 3. Reasonableness of the Transaction

#### 3.1 Objective and necessity of the transaction

From the study of Thai DCI Engineering Consultant Co., Ltd. (According to the Company, this is a company with experience and expertise in the survey, feasibility study and engineering design and planning particularly for large-scale engineering works.) engaged by the Company to study demand for tap water consumption in the service areas in June 2006, total water consumption volume was 967,234 cu.m./day, of which only 19% was tap water and as high as 81% was groundwater. Thai DCI (review by the IFA compared with the Company's current water distribution volume showed similar figures) expects that groundwater consumption of industrial plants in the Company's service areas will come to an end in 2015. Since the Company's start of tap water distribution to the public in the districts of Buddhamonthon, Sam Phran and Nakhon Chaisi in Nakhon Pathom province, and the districts of Krathum Baen and Muang Samut Sakhon in Samut Sakhon province on January 5, 2004, its tap water distribution volume has consistently increased up to present. Average water distribution volume in 2008 can be classified by month as tabulated below:

Month	Average m <sup>3</sup> /day	% of total max. capacity	Month	Average m <sup>3</sup> /day	% of total max. capacity
January	274,803.29	85.88	June	302,348.98	94.48
February	286,988.90	89.68	July	298,721.23	93.35
March	298,203.77	93.19	August	294,564.06	92.05
April	289,838.45	90.57	September	294,378.07	91.99
May	301,087.19	94.09	October	300,289.89	93.84

*Source : Thai Tap Water Supply Plc.*

From the above data, if there is no action undertaken, the Company's water distribution will definitely meet the full production capacity of 320,000 cu.m./day in the near future. According to Thai DCI's assessment, consumption of water in the service areas will reach the Company's maximum production capacity in 2009 as in the following table:

Year	m <sup>3</sup> /day	Year	m <sup>3</sup> /day
2006	203,461	2011	443,717
2007	244,448	2012	503,028
2008	288,665	2013	567,074
<b>2009</b>	<b>336,843</b>	2014	636,178

Year	m <sup>3</sup> /day	Year	m <sup>3</sup> /day
2010	388,851	2015	710,671

*Source : Thai DCI Engineering Consultant Co., Ltd. and Thai Tap Water Supply Plc.*

The Company's water distribution volume in 2008 is in line with that in the finding by Thai DCI as in the above table. Although its average distribution volume is still lower than its full capacity, to be aligned with its business operation plan, the Company has submitted a request to expand its production capacity by another 100,000 cu.m./day for PWA's consideration since 2006 in order that it would be able to produce tap water to adequately serve the consumers' demand in the future. To accommodate the production capacity expansion, beside using the existing infrastructures, the Company needs construction of water pressure enhancement stations to solve water distribution problems. Tap water production under the expansion project is anticipated to start around 2010.

### 3.2 Advantages and disadvantages between making and not making the transaction which will have impacts on the Company

#### Advantages of making the transaction

1. The Company's earning of income from water sales under the expansion project in the volume up to 100,000 cu.m./day amounting to Bt. 12,669.40 million – Bt. 13,564.75 million

According to the Company's Information Memorandum on a connected transaction submitted to the SET on October 24, 2008, the Company is now under negotiation on the conditions of the PSA with PWA and is awaiting the PWA Board's consideration result of relevant issues to the PSA. Under the PSA, PWA will purchase tap water supply from the Company by an additional volume of up to 100,000 cu.m./day. On October 30, 2008, the IFA had a meeting with the Company's top executives whereby it was informed that the PSA for the expansion project to raise the production capacity was under the drafting process of PWA. The draft PSA is expected to be available to the Company around December 2008. The Company's executives said that the new PSA would have salient points similar to those of the existing one (as detailed in summary of salient points of the existing PSA in the annual disclosure form: form 56-1 for 2007 in section 2 page 211).

In view of the above, if the PSA is made between the Company and PWA, the Company will be able to earn income of a total of Bt. 12,669.40 million – Bt. 13,564.75 million from distributing tap water throughout the contract term of around 24 years (under assumption that the PSA will expire on July 20, 2034) as detailed in 4.1.2. This source of income will help boost the

Company's cash flows, net profit and earning per share. Thus, this production capacity expansion will be a benefit to the Company and its shareholders.

## 2. The Company's maintaining of its leadership status being the largest private provider of water service in Thailand

The expanded production capacity up to 100,000 cu.m./day when combined the existing production capacity of 320,000 cu.m./day (in practice, the Company can raise production capacity to 340,000 cu.m./day as maximum) and plus PTW's production capacity of 388,000 cu.m./day (former production capacity of 288,000 cu.m./day plus expanded capacity of 100,000 cu.m./day) will make the Company have a total production capacity of 808,000 cu.m./day, which would be far higher than that of Universal Utilities Co., Ltd., the second largest private provider of water service with total capacity of 186,000 cu.m./day and Ekcomtara Co., Ltd., the third largest with capacity of 36,000 cu.m./day. Hence, if the Company does not raise its production capacity this time, there may be new entrants to produce and distribute tap water supply to meet the increasing demand the Company is unable to fulfil.

## 3. The Company employing efficient and modern technology

In the construction for the expansion of capacity, the contractor will be engaged to use the standard agreement of the International Federation of Consulting Engineering ("FIDIC") in respect of both civil construction and electrical and mechanical works. Thai MM Co., Ltd. ("Thai MM") will be engaged as the engineer in the project management and construction supervision handling all the project management including engineering design using the updated technology. Such technology includes the under drain filtration system which is a state-of-the-art offering the highest filtering speed among its kind in Thailand. The Company is the country's first tap water producer using such technology. In addition, under the expansion project, the Company will have the SCADA (Supervisory Control and Data Acquisition), which is a water distribution control system, moved to be installed at the bulk transmission main enhancement plant 1 (BP1), which will allow for higher efficiency in water distribution management.. Earlier, the water distribution system was integrated to the water production system. The SCADA will calculate water volume in the water tank in each station and control the water transmission and distribution to all the stations with better precision and punctuality. Thus, the Company will be able to maintain its cost in the implementation with maximum efficiency and with the minimum fluctuations, especially as compared with the existing tap water production and distribution system.

## Disadvantages of making the transaction

### 1. Liquidity and sources of funds

From interviews with the Company's executives, for the expansion project, the Company has planned to make borrowing from financial institutions and use its own working capital from the operations. However, borrowing from financial institutions, either at home or overseas, would be accompanied by strict provisions and commitments under the current circumstances, hence the Company may not get sufficient credit lines for its project implementation and/or it may have to pay higher interest rates than before. Also, it would be harder for the Company to achieve its target of relief of financial burden by reduction of interest payment by at least 0.5%. If the Company borrows Bt. 650 million (about 50% of total project cost), the total liabilities to equity ratio of the Company will go up from 1.16 times as of September 30, 2008 to 1.24 times. In this regard, if the Company has to rely on its own working capital for the construction under the expansion project (in case borrowing from financial institutions is inadequate for the project implementation), the Company may be exposed to liquidity and financial problems. It may risk failing to pay dividend to the shareholders in the future. This would be the case despite the fact that the Company just raised funds through the capital market by initial public offering in May 2008.

2. Water consumption volume in the service areas may not come out as projected when the Company becomes operational, hence possible lower-than-expected rate of return.

### Advantages of not making the transaction

The Company will be able to pursue for the achievement of its financial burden relief target through reduction of interest payment at least 0.5% and to pay dividend to the shareholders due to no borrowing of loans from financial institutions.

### Disadvantages of not making the transaction

1. Cost of project study and cost of land for the construction of two bulk transmission main enhancement plants

Although the engagement of CK to carry out the civil construction will take place only when the Company has been approved by PWA to enter into a PSA, as this production capacity expansion project requires high investment cost of Bt. 1,300 million, there must be preparations in various respects starting from 2006, such as engagement of a consultant in the work preparation, engagement of consulting engineer in project management, purchase of land for construction of water pressure enhancement stations and deployment of part of the personnel in project coordination and implementation. The initial expenditure for such preparation as

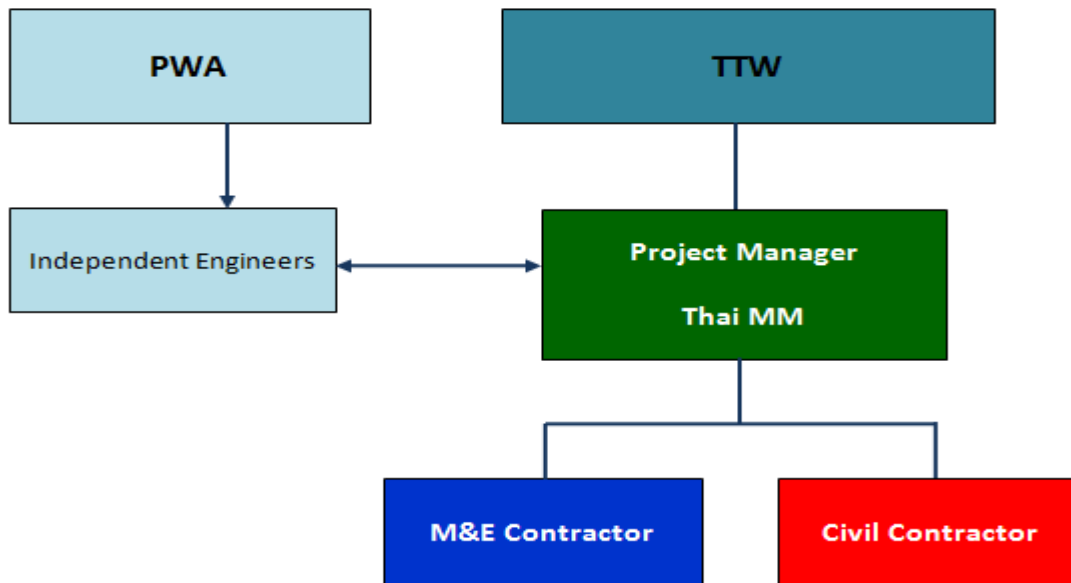
informed by the Company is expected to be in a total of Bt. 238 million, which would be a waste if the Company is eventually unable to enter into the transaction.

### 3.3 Advantages and disadvantages of making the transaction with a related party compared with making the transaction with an outside party

#### Advantages of making transaction with a related party

Thai MM as the project manager has considered various construction circumstances and timelines for the whole project. It has recommended engaging two turnkey contractors, one in civil construction and the other in mechanical and electrical works. Both contractors are EPC contractors responsible for engineering, procurement and construction until the project completion according to the agreement. At the same time, to inspect and ensure compliance with the agreement, the Company may have to engage an independent engineer under the comment by PWA. The preliminary structure of the project management is as below:

#### Preliminary structure of project management



In July 2008, the Company invited potential contractors with expertise in mechanical, electrical and civil works and standard work credentials to join in the proposal of services for the contract works. There were altogether nine prospective parties. In September 2008, two out of three final prospective parties (comprising two mechanical and electrical contractors and one civil contractor) submitted their proposals. The result of the proposal consideration has come out that the winner for mechanical and engineering works is S.Napa (Thailand) Co., Ltd., which is

not a connected party as stated in the Information Memorandum submitted to the SET. CK is the civil contractor. Despite CK being a related party, there are advantages engaging CK as the civil contractor as follows:

1. CK is the country's leading contractor for large infrastructures with dependable experience both domestically and overseas

CK has engaged in contractor business in Thailand for over 35 years. It is one of the few local contractors that can handle sophisticated construction projects with the use of high technology, such as large scale infrastructure projects. Besides, CK has all along developed its engineering and management capabilities. It has thus been able to handle projects on a turnkey basis for concession projects, which are in the nature of Build, Transfer and Operate (BTO), Build, Operate and Transfer (BOT), Build, Own and Operate (BOO) and Acquire, Operate and Transfer (AOT) concession for large, medium and large projects. CK's past credentials are, for example, Bangna-Chonburi expressway, Bangkok International Airport development project, construction of building and parking for Bangkok Metro Co., Ltd. ("BMCL"), Bangphong-Suksawat (Bangphli-Bang Khun Thian) project, MRTA Chaloem Ratchamongkhon metro line by BMCL, power generation for EGAT, Nam Ngum 2 hydro-power plant in Lao People's Democratic Republic, etc.

2. CK undertook the construction of the extension of tap water production and distribution plant in the volume of 100,000 cu.m./day for PTW and the existing water production plant of the Company

CK started its construction of the extension of tap water production and distribution plant in the volume of 100,000 cu.m./day for PTW in February 2006 (total construction value was Baht 693.1 million, information from the Company's prospectus). The new plant started water distribution to PWA on August 1, 2008. PTW's water production capacity has then become 388,000 cu.m./day. In addition, CK was the contractor for the Company's existing water production and distribution plant in its business start-up year in 2000. In view of this, CK can be regarded as a contractor with knowledge in the Company's existing water production plant infrastructures. This can ensure its capabilities to handle and complete the construction work according to the contract timeframe.

3. CK has firm financial standing and sound past operational performance, hence low risk of late construction work completion and delivery

The Company will make payment for the civil construction in an amount up to Bt. 640 million (excluding VAT) to CK. Payment will be in installments by work progress starting from the



contract date designated by December 2008 or after the approval of the shareholders' meeting. Construction period is around 18 months (January 2009-June 2010). Such payment amount is considered rather high. However, there is low risk of CK's failure to complete the construction according to the agreement. This is because CK has firm financial status and its operating results during 2007-quarter 3 of 2008 were favorable compared with other contractor companies listed on the SET. CK recorded total revenues in 2007 and quarter 3 of 2008 of Bt. 14,918 million and Bt. 10,568 million, with net profit of Bt. 33 million and Bt. 570 million respectively. Under the current circumstances, it is rather difficult to seek to engage any other contractor with firm financial condition and high expertise in the construction in this field like CK.

#### Disadvantages of making transaction with a related party

Making a transaction with a related party may raise doubt whether negotiations on prices and conditions as well as payment method have been made at arm's length.

#### Necessity for making the transaction with related party and reasons for not making with outside party

In making this transaction, when taking into account the past experience and top-rank expertise of CK in the construction of large infrastructure projects. Moreover, the two major shareholders, i.e. CK with 35.1% stake and Mitsui Water Holdings (Thailand) Co., Ltd. with 25.88% stake have shareholding in the Company in a similar proportion, hence ensuring check and balance. In addition, if Mitsui Water still holds shares more than 25%, it is entitled to vote on any key issues of the Company. It is in this regard difficult to transfer any vested interest to any related party.

Moreover, we have been informed from the Company's management that in the construction contract business that for such kind of contractor work for the Company, no other contractors in the industry will join in the bidding in competition with CK for the contract from the Company because they do not want to disclose their bidding price to competitor.

#### 4. Fairness of Price and Conditions of Transaction

After reviewing the information and documents obtained as well as other relevant information, our opinion is as follows:

##### 4.1 Appropriateness of the price

##### 4.1.1 Price and budget control by specialized team

Since January 2007, the Company has hired Expert Technologies Limited and Sullivan Associates Company Limited as consultant to conduct survey, review and prepare terms of reference, as well as preparation for recruiting the project manager. In January 2008, the Company engaged Thai MM, which is a member company in Mott MacDonald group which owns such website: [www.mottmac.com](http://www.mottmac.com) and having over USD 1.5 billion worth of transactions in 120 countries worldwide as well as 14,000 manpower, to handle management, engineering and development as well as provision of consultancy in respect of several industrial sectors, e.g. transportation, energy, construction, water resource and environmental study and conservation, and industry and telecommunication, as the project manager. It has been tasked with the study, set strategy, review engineering requirements, and prepare documents and criteria in selection of contractors. There are procedures set for invitation of prospective contractors to submit proposals (only those related to civil construction to be mentioned herein by the IFA as it is associated with the connected transaction), selection, negotiation in details, and conclusion of the final price, as follows:

Date	Salient points of bidding for civil construction work between the Company and CK
29 July 08	The Company issued a letter inviting CK to undertake civil construction considering that CK has experience in the civil construction of the tap water production and distribution plant in Nakhon Pathom and Samut Sakhon provinces before, and has expertise in infrastructure projects.
30 July 08	Thai MM worked out and concluded civil construction budget for the Company in an amount of Bt. 663,419,480 (excluding VAT).
8 Sept 08	CK submitted civil construction proposal to the Company with total contract value of Bt. 675,004,000.00 (excluding VAT).
3 Oct 08	The Company together with Thai MM issued a letter to CK requesting its additional explanation on certain technical issues under the proposal submitted on 8 Sept 08.
7 Oct 08	The Company issued a letter to CK indicating that the price proposed by CK on 8 Sept 08 was still higher than the civil construction budget worked out by Thai MM, and requesting it to review the price and resubmitting it to the Company by 10 Oct 08.
8 Oct 08	CK resubmitted the contract price at Bt. 655,000,000.00 (excluding VAT) after the adjustment.
10 Oct 08	The Company issued a letter to CK informing it that the proposed price of Bt. 655 million was still higher than the Company's internal budget. However, to enable the construction to be undertaken in line with the timeframe set, the Company in collaboration with Thai MM made changes to the project specifications in some areas, but with production efficiency still maintained, such as downsizing the construction work of water tank at the bulk transmission

Date	Salient points of bidding for civil construction work between the Company and CK
	plant, adjustment of civil works at Buddhamonthon water distribution station, etc. CK was requested to consider such changes and resubmit the price to the Company by 13 Oct 08.
15 Oct 08	CK proposed the final price to the Company with total contract value of Bt. 638,926,000.00 (excluding VAT).
17 Oct 08	CK issued a letter confirming the proposed price and informing the Company of the installment payment method.

From the developments briefed above, and with meetings with the Company's executives, we would like to clarify the roles and responsibilities of Thai MM for this expansion project. Thai MM has no duty like a price appraiser of assets, such as property, which will appraise the existing assets, e.g. land, building, plant and machinery and equipment, to figure out the market price or the replacement price of that asset item. Thai MM has the duty as project manager or a coach for the Company from the date of the project study, design, budget planning, selection of contractor until conclusion of construction and contractor price. It has to coordinate with the Company staff in inspection of the construction work for each payment installment until the plant is ready for production of tap water.

For the above reasons, we believe that, in respect of consideration for the construction work payable by the Company to CK, the management has made negotiations under the hiring practice and in the normal course of business operations (we consider from correspondence between the Company and CK and the confirmation from the Company's engineers that the production efficiency still maintained even though there are some changes to the project specifications in some areas), as well as with due consideration of the price reasonableness and project efficiency. The final price is lower than the price first proposed by CK by Bt. 36,078,000 or 5.34% of the first price proposed. The final price is also lower than the budget worked out by Thai MM by Bt. 24,493,480 or 3.69% of the budget.

#### 4.1.2 Analysis of the rate of return

The discounted cash flows (DCF) approach will be proper to apply only when:

- 1) The financial projection takes into account the economic profit to be generated by such business activity, and
- 2) The valuation is on the going concern basis, with the factors influencing the business profitability being projectable on definite and reasonable grounds.

The assessment of the net present value of the future cash flows of the water business expansion project will reflect the present value of the project under the policy of normal business operations and management as in the past. Thus, most assumptions are set based on the financial ratios and data actually occurred in the past together with the operational plan and/or future policy of the Company.

The principles used in the assessment of the net present value of the future cash flows of the project adopted by the IFA for the calculation are as below:

1) Projected cash inflows during January 1, 2009 until 2034 which is the expiry year of the PSA between the Company and PWA (existing PSA). The assumption for such period does not take into account the right to purchase of the water business when the concessionaire has operated until the middle of the concession term.

2) The IFA has worked out projected cash inflows and outflows for the period indicated in subclause 1 above only on the expansion of the water production by 100,000 cu.m./day,

3) Projection based on this module involves the increase in income from water sales and cost of water sold, using constant inflation rate of 3% p.a. (source: Bank of Thailand, latest updated November 11, 2008 regarding macro-economic indicators, inflation and basic CPI for the previous 30 years at around 3.2%), and

4) There is no calculation of terminal value of the project as well as the value of the land on the last date of the financial projection when the PSA term comes to an end.

**Key assumptions in the assessment of the production capacity expansion project**

1. Customer

The Company's main business is tap water production and distribution in the service areas of the districts of Buddhamonthon, Sam Phran and Nakhon Chaisi in Nakhon Pathom province, and the districts of Krathum Baen and Muang Samut Sakhon in Samut Sakhon province, under the PSA between the Company and PWA and with PWA being its sole customer.

2. Income from water sales

We have projected for the water tariff to increase in line with the inflation rate (we project the inflation rate on a constant basis at 3% per year from 2009 until 2034 which is the end of the PSA). The water tariff will be charged from the date of water purchase whereby water distribution to PWA is expected to start after 18 months counting from January 2009-

June 2010 and full completion of construction work by August 2010 (projected from the preliminary data brief between the Company's management and PWA and the Company's board of director minutes dated October 22, 2008). The water tariff of Bt. 10.52 per cu.m. (exclusive of VAT) is used as the base rate in calculation, which is adjustable yearly on January 1 of each year. In this projection, it will increase in line with the inflation rate.

Year	Water tariff (Bt. per cu.m.)	Remark
1*	10.52	Calculation base
2**	10.84	Increase from year 1 in line with inflation
3**	11.16	Increase from year 2 in line with inflation
4**	11.50	Increase from year 3 in line with inflation
5 – 26**	11.84 – 22.03	Increase from year 4-25 in line with inflation

*Note* : \*Year 1 is the base in calculation in this projection beginning 2009 under assumption that the Company and PWA can reach conclusion by the end of 2008 and then construction of the expansion project will start in early 2009.

\*\*Year 2 to year 26 refers to 2010-2034, the year the PSA will expire.

This will conform with water tariff calculation in the past (details in 2.1 background) with the fixed value (K) being 1 from interviews with the Company's executives. We do not take the actual average water tariff of Bt. 22.75 per cu.m. in 2008 (actual during January-October 2008) into calculation because the water tariff determination is cost based, and the water tariff under the expansion project will be lower than that under the existing PSA, due to the lower cost of construction for the expansion project than that in the past.

In this regard, we have projected tap water distribution volume from the start of production in 2010 until 2034 in two alternatives as tabulated below:

Projected water production and distribution used in the assumptions for the expansion project

Projected water production and distribution used in the assumptions (Unit : cu.m./day)		
Period (month / year)	Projection by Company management on conservative basis*	Projection based on Minimum Offtake Quantity by PWA**
July 2010	25,000	9,000
Jan – June 2011	35,000	18,000
Jul – Dec 2011	45,000	
Jan – June 2012	55,000	27,000
Jul – Dec 2012	65,000	
Jan – June 2013	75,000	36,000
Jul – Dec 2013	85,000	

Projected water production and distribution used in the assumptions (Unit : cu.m./day)		
Period (month / year)	Projection by Company management on conservative basis*	Projection based on Minimum Offtake Quantity by PWA**
Jan – June 2014	95,000	45,000
Jul – Dec 2014	100,000	
Jan – Dec 2015	100,000	54,000
2016 - 2034	100,000	100,000

*Notes :* \* Financial projection by the Company adjusted as deemed proper by IFA, resulting in the following average values:

- Year 2011: average 40,041 cu.m./day
- Year 2012: average 60,041 cu.m./day
- Year 2013: average 80,041 cu.m./day
- Year 2014: average 97,521 cu.m./day
- Year 2015: average 100,000 cu.m./day (From 2015 onward, the projected water production and distribution volume will be equal to the MOQ by PWA at 100,000 cu.m./day)

\*\* Data on financial projection from the Company for discussion with PWA, the final conclusion of which has not been made on the date of this projection by the IFA.

### 3. Cost of water sales

We have projected cost of water sales based on actual cost incurred in the past for the existing production capacity and aligned with the past calculation practice. Cost of water sales was mainly composed of depreciation of assets in the water production and water production contracting charge payable to WaterFlow, covering cost of electricity, chemicals, labor and supplies. In 2006, the Company integrated WaterFlow as its subsidiary and amended the operation and maintenance agreement or O&M made with WaterFlow in April 2006 (as detailed in the annual disclosure form or Form 56-1), clause 13, subclause 13.1.3) whereby water tariff was cut down from Bt. 3.56 per cu.m., which included expenses as mentioned above (detailed in subclause 3.2). In this regard, in the projection for the expansion project, cost of water sales is composed of the following:

#### 3.1 Depreciation of assets in the water production

For this projection, the assets that have to be recorded at cost during the time of recognition comprise asset price and other direct costs related to asset acquisition to ensure the assets are in conditions ready for operations in line with the accounting standard no. 32 regarding land, building and equipment. Under this clause, we do not mention about land as it is not included in the calculation of depreciation of assets in water production. However, in the projection, land is incorporated in the total asset used in water production.

Total assets used in the water production based on the projection for the expansion project

Asset item	Cost of assets (Bt. million) <sup>1/</sup>	% of cost of asset
1. Civil construction <sup>2/</sup>	Up to 640	49.23
2. Mechanical and electrical engineering construction, procurement, construction work and connections <sup>3/</sup>	Up to 422	32.46
3. Engagement of consulting engineer for project management (Thai MM) <sup>4/</sup>	37.50	2.88
4. Engagement of consultant for the preparation stage (Expert Technologies Limited และ Sullivan Associates Company Limited) <sup>4/</sup>	21.59	1.67
5. Title deed no. 10457 on area of 10 rai 2 ngan 54 sq.w. as well as land improvement (BP1) <sup>5/</sup>	34.73	2.67
6. Title deed no. 5324 on area of 14 rai 3 ngan 64 sq.w. as well as land improvemet (BP2) <sup>5/</sup>	61.65	4.74
7. Other direct cost related to asset acquisition <sup>4/</sup>	82.53	6.35
<b>Total assets in water production</b>	<b>1,300.00</b>	<b>100.00</b>

*Notes* : 1/ This investment of up to Bt. 1,300 million (excluding VAT) according to the Information Memorandum disclosed to the SET on October 24 and 31, 2008.

2/ Opeated by CK.

3/ Undertaken by S. Napa

4/ Based on actual accounting data and financial projection by the Company, adjusted as deemed proper by IFA on such items as consulting charge, which has to be gradually paid by the Company in the future according to the contract, etc.

5/ The Company's accounting items as of September 30, 2008

For calculation of depreciation of assets in the water production, we have projected based on the calculation formula for depreciation as in the Company's past practice, i.e. production output method, as shown below:

<p>Depreciation for the period = Net cost of assets in water production as of beginning of period X</p> <p style="text-align: center;">Water production rate fro the period</p> <p>Whereas Water production rate fro the period is equal to</p> <p style="text-align: center;">Actual water production output for the period /</p> <p>(Actual water production output for the period + Projected water production output in future until the end of PSA)</p>
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The above method is in accordance with the matching principle as the calculated depreciation varies to the actual production output in each period. The Company's management considers it a method suited to the Company's nature of business operations.

### 3.2 Water production contracting charge

Due to the Company's acquisition of the shares of WaterFlow and amendment of the O&M agreement in 2006, the contracting charge in 2007 was Bt. 0.258613 per cu.m. (actual data from invoice/billing document) and in 2008 Bt. 0.267226 per cu.m. The charge covered only labor cost and cost of supplies in the water production. The Company itself is responsible for electricity bills and cost of chemicals. We have projected such cost for the expansion project to be in line with WaterFlow's collection of water production contracting charge. According to the invoice in September 2008, the contracting charge was Bt. 0.267226 per cu.m., which is assumed to increase in line with the inflation on a constant basis, i.e. 3% per year from 2009 until 2034.

### 3.3 Electricity charge

For the projection, we use the actually incurred cost as the base in calculation. In 2006-2007 and January-September 2008, average electricity charge was Bt. 1.22, Bt. 1.51 and Bt. 1.51 per cu.m. respectively. We project electricity charge in 2008 entire-year averagely at Bt. 1.50 per cu.m., which is close to the actual figure for the 9-month period, as the base in consideration of expense items for the company-only financial statements and assume that it increases at a constant rate of 3% per year from 2009-2034.

### 3.4 Cost of chemicals

For the projection, we use the actually incurred cost as the base in calculation. In 2006-2007 and January-September 2008, average cost of chemicals was Bt. 0.57, Bt. 0.62 and Bt. 0.49 per cu.m. respectively. We project cost of chemicals in 2008 entire-year averagely at Bt. 0.50 per cu.m., which is close to the actual figure for the 9-month period, as the base in consideration of expense items for the company-only financial statements and assume that it increases at a constant rate of 3% per year from 2009-2034.

### 3.5 Spare parts and components, repairment expense of water treatment plant, water distribution network and station, and miscellaneous expenses related to production

Average overall costs were around Bt. 10.00 million, Bt. 14.81 million and Bt. 31.89 million respectively for 2006-2007 and January-September 2008 respectively. They were



actually incurred expenses according to the bank-only financial statements and used as the base in consideration. We also remark about the overall cost in the first nine months of 2008, thereby the overall cost surged significantly. From the examination, we have found that only in September 2008, the overall cost was Bt. 19.71 million. Thus, to be conservative in the assumptions, the use only the figures of January-August 2008 as the base, which was Bt. 11.20 million. In this regard, the average overall cost for 2 years and eight months was around Bt. 13.49 million. This would cover only the expansion project. We accordingly project the overall cost comprising spare parts and components, repairment expense of water treatment plant, water distribution network and station, and miscellaneous expenses related to production at Bt. 4.50 million in 2010 (first year of water production and distribution). We assume that the overall costs increase in line with the inflation which is constant at 3% per year from 2010 until 2034.

#### 4. Selling and administrative expenses

We project selling and administrative expenses for 2010 using the actually incurred expenses during 2006-2007 and January-September 2008. Personnel expense is expected to increase at a constant rate of 7% per year (projected based on the inflation rate and with rising cost of living taken into account) during 2010-2034 which will be the end of the PSA (consideration guideline according to clause 3.5). We do not make any additional projection for other expenses as in the expansion project the Company will be able to use the existing resources with higher efficiency, hence there is no impact on other expenses.

#### 5. Financial expenses

Financial expenses correlate with interest rates of long-term loans from shareholders and long-term loans from financial institutions as well as O/D. For the interest rate under the financial model, we use historical data of the Company's loan agreements with financial institutions, i.e. MLR-0.5% (additional information from notes to financial statements no. 16 loans from financial institutions for 2007 fiscal year). In preparing this projection, MLR is 7.25%, which was the average of MLR of two large commercial banks that have daily transactions with the Company according to the announcement of lending interest rates of commercial banks dated November 7, 2008 of the Bank of Thailand. As enquired with its executives, about 50% of financial expenses are expected from loans from financial institutions, and this proportion has been used for the assumptions.

#### 6. Corporate income tax

We have projected that the Company has to pay corporate income tax in full at the rate of 30% on a conservative basis (despite tax privilege with corporate income tax reduction to 25% during 2009-2011 due to its listing on the SET, there is no effect as its operations under the expansion project for such period will still record loss) from 2010 until 2034 which is the end of the PSA. At present, the Company is still under negotiations and conclusion with PWA regarding the conditions of the PSA for the expansion project and also is awaiting approval by the PWA Board for the entering into PSA with the Company. According to such PSA, PWA shall additionally purchase tap water from the Company by up to 100,000 cu.m./day under the condition that if the approval of the entering into the PSA has been given, the Company will request tax privileges from the Board of Investment (“BOI”). With investment promotion by the BOI, the Company will pay less tax during the promoted period.

7. Capital expenditure)

We have made assumption that there is no additional investment in core assets, particularly those related to machinery and equipment throughout the projected period ending 2034.

8. Water Supply Purchase and Sale Agreement (“PSA”)

The Company earlier entered into a PSA with PWA for a contract term of 30 years, starting water distribution on July 21, 2000, and on a Build-Own-Operate (“BOO”) basis. That is, the Company carries out construction of the tap water production and distribution systems to serve consumers with a maximum production capacity of 320,000 cu.m./day as of November 23, 2007. The Company maintains the ownership of the tap water production and distribution systems to serve consumers. The minimum offtake quantity (“MOQ”) by PWA under the PSA will increase during the contract term of 30 years. Besides the PSA, the Company obtained a concession from Ministry of Natural Resource and Environment on March 11, 2005 for a concession term of 25 years to produce tap water to serve the above five districts in two provinces.

However, during preparation of this projection, negotiations on contract conditions are still underway. The Company is also awaiting the approval from the PWA Board for its entering into the PSA for an additional volume of up to 100,000 cu.m./day. To prepare for the additional production capacity, the Company has to undertake the construction of the facilities to accommodate the additional production capacity to ensure efficiency enhancement, but under the condition that the PSA must first have been executed with the authority.

Discount Rate

The Financial Advisor has applied the Capital Asset Pricing Model (CAPM) in determining the discount rate to figure out future free cash flow. This is a widely used method of working out the risk adjusted rate of return or the cost of equity (Ke).

The discount rate calculated by the CAPM is as below

$$K_e = R_f + \beta (R_m - R_f)$$

$R_f$  : Risk free rate of investment based on the 26-year government bond yields as of November 7, 2008, which is around 4.81% (data from Thai Bond Dealing Center).

$R_m$  : Rate of return of the SET, which is 16.509% (data from Bloomberg as of November 7, 2008).

$\beta$  : Factor used to measure systematic risk, which is the variance between the return of the SET and the share price of EASTW (same business as TTW which listed on the SET and insufficient data of TTW's trading days), which is 0.599.

From the above variables, we have worked out the cost of equity as shown here:

$$K_e: 4.81 + 0.599 \times (16.509 - 4.81) = 11.82\%$$

The discount rate used in the calculation of the present value of future free cash flow is calculated from the weighted average cost of capital (WACC) of the Company which can be derived (based on proportion of borrowing from financial institutions and working capital in the ratio of 50 : 50) as follows:

$$WACC = D / V (Kd) + E / V (Ke)$$

Whereas E = Total equity

D = Total debt

V = D + E

D / V = Total debt to cost = 50.00%

E / V = Total equity to cost = 50.00%

Ke = Cost of equity by the CAPM = 11.82%

Kd = TTW's weighted average interest rate x (1-tax rate) = 5.0960%

Thus, WACC = 8.46%

The WACC worked out by the CAPM will be 8.46% which will be used as the discount rate for the calculation of return for plant enhancement in order to increase the Company's production capacity of not exceeding 100,000 m<sup>3</sup>/day.

**Assessment of the rate of return**

Under the assumption that the business is a going concern within the existing operational and management framework together with all the assumptions mentioned above, we have worked out the rate of return from the projected cash inflows and outflows expected to arise from the construction for the expansion of production capacity and additional water purchase by PWA up to 100,000 cu.m./day under the condition that the Company has entered into the PSA with PWA, which is in line with the assumption on the Company's income from water sales (as mentioned earlier), as can be concluded here:

Assessment of expansion of tap water production capacity by up to 100,000 cu.m./day		
Assessment method	Assessed by Company executives on conservative basis*	Assessed based on Minimum Offtake Quantity by PWA**
1. Payback period	11 years	13 years
2. Net present value	Bt. 572.90 million	Bt. 275.08 million
3. Internal rate of return	11.73%	9.95%

Viewing the rate of return based on the above assumptions for the expansion project to raise production capacity by 100,000 cu.m./day, net present value will range from Bt. 275.08 million to Bt. 572.90 million, internal rate of return from 9.95% to 11.73%, and payback period from between 11 – 13 years. From the project analysis, the Company should invest in project with net present value of over nil, internal rate of return of over cost of capital and shortest payback period, as it would take lowest risk. We thus view that the Company's water production capacity investment project is worth investing, taking into account such project assessment. The rate of return has come out not so high based on the projected cash inflows and outflows of the project on grounds that the projected average water distribution rates in the first few years after start of operations may be lower than the actual demand for water for the same period in the future. Also, water tariff for the expansion project is expected to be lower than that in the existing PSA as the cost of construction for the expansion project will be lower than the cost of the plant at the time the Company just started up its water business. We view that it is possible for the Company to distribute water in the volume close to the expanded capacity

by another 100,000 cu.m./day even in the first few years of operations under the expansion project. In such case, the rate of return to the Company will definitely be higher in the future.

#### 4.2 Appropriateness of construction payment conditions

The Company will engage CK to undertake civil construction for its expansion project which features increase in production capacity of tap water by up to 100,000 cu.m./day. Construction period is expected at 18 months counting from the date of engagement agreement signing or after the Company's entering into the PSA with PWA. The Company will pay for the construction works by installments as exhibited in the final proposal submitted by CK to the Company on October 17, 2008. The Company shall make payment to CK during 60-430 days according to the job progress for each installment as follows:

No.	Job Description	Amount * (Baht Million)	Expected to be completed (days)
1.0	<b>Upgrading Banglen Water Treatment</b>		
1.1	Preparatory Work	5,044,719.82	60 – 290
1.2	Raw Water Pump Sump	15,823,538.28	80 – 280
1.3	Raw Water Pipe Support and Rapid Mix Tank	5,249,220.65	80 – 320
1.4	Sludge Blanket Clarifier and Clarifier inlet	26,209,590.12	90 – 360
1.5	Rapid Gravity Filter	19,766,924.13	60 – 290
1.6	Filtered Water Duct Extension	9,084,800.12	60 – 270
1.7	Surge Protection	3,311,810.49	150 – 300
1.8	Treated Water Pump Power Supply	222,890.01	180 – 255
1.9	Road, Pavement, Drainage and Landscaping	5,572,250.37	60 – 425
	<b>Subtotal</b>	90,285,743.99	
2.0	<b>Booster Pumping Station 1 (BP1)</b>		
2.1	Water Storage Tank	252,141,713.68	60 – 400
2.2	Machinery Building	48,861,788.65	90 – 380
2.3	Transformer, Ring Main Unit, Sub-Station and Generator	543,434.08	150 – 275
2.4	Surge Protection	4,352,834.64	100 – 250
2.5	Road, Pavement, Drainage and Landscaping	30,646,560.76	90 – 430
2.6	Toilet and Guard House	1,819,875.19	90 – 400
	<b>Subtotal</b>	338,366,207.00	
3.0	<b>Booster Pumping Station 1 (BP2)</b>		
3.1	Water Storage Tank	190,018,537.57	60 – 400
3.2	Machinery Building	36,823,124.13	90 – 380
3.3	Transformer, Ring Main Unit, Sub-Station and Generator	409,541.71	150 – 275
3.4	Surge Protection	3,280,374.60	100 – 250

3.5	Road, Pavement, Drainage and Landscaping	23,095,800.27	90 – 430
3.6	Toilet and Guard House	1,371,490.73	90 – 400
	<b>Subtotal</b>	<b>254,998,869.01</b>	
	<b>Total</b>	<b>683,650,820.00</b>	

*Notes : VAT included*

Considering the above payment condition, we view that such payment condition will not put the Company at a disadvantage to the contractor. The Company's executives has confirmed that before each installment payment, there will be join inspection of the works done between the Company, the consulting engineer and the contractor to the satisfaction of all the parties. Therefore, such payment condition is considered fair being in the normal course of business operations.

## 5. Conclusion of the Opinion of the IFA

### 1. Reasonableness and benefit of connected transaction

The connected transaction is considered reasonable. At present, the Company's latest average water distribution volume has come nearly reached full production capacity. If there is no decision made on this matter at the moment, the Company may lose opportunity to distribute water in the service areas in the near future, or lose part of the market share to other tap water providers. In addition, considering the selected contractor for the civil works, i.e. CK, it is one of the country's top contractors with firm financial standing and favorable operational performance. The risk of failure to complete the works in compliance with the agreement is low. Having CK which is not only the Company's major shareholder and a related party but also a contractor that had experience with the construction of the Company's existing plan infrastructures, hence more reliability. CK has also been the contractor for the expansion of the water production and distribution systems of PTW, a subsidiary company of the Company, since 2006 and the water production of the facilities thereof has started since August 2008.

### 2. Fairness of terms and conditions

#### Price and budget control by specialized team

We, the IFA, are of the opinion that the civil construction price for the expansion of the Company's tap water production capacity by up to 100,000 cu.m./day is reasonable, as it is lower than the budget estimated by Thai MM, the project manager, by Bt. 24.49 million or 3.69%. Such price has been concluded after rounds of negotiations between the Company and CK. The final price proposed by CK is also lower than the price initially proposed by CK by Bt. 36.08

million or 5.34%. For the construction payment condition, we view that it will not pose any threat on the Company or make it at a disadvantage. Therefore, the condition pertaining to the connected transaction is considered fair being in the normal course of business operations.

Analysis of the rate of return

We, the IFA, are of the opinion that the Company has the capabilities to implement this tap water expansion project due to the above-nil net present value of the project, the rate of return higher than cost of capital, and a rather short payback period (between 11 – 13 years).

When considering for all the above information, including objective for entering this transaction, business reason, reasonableness, pros and cons, fairness of price and condition of transaction, investment rate of return, including other factor that might affect the Company. The Financial Advisor opines that the terms & conditions underlying this Connected Transaction between the Company and CK are considered reasonably fair. It is thus recommended that the shareholders vote for the making of the connected transaction.

ACL Securities Co., Ltd., who is a Financial Advisor, has study and analyzes all the information with best affords and have been prudently made in compliance with the professional standards with due regard to the shareholders' benefits. For this Financial Advisor opinion report, Financial Advisor has reviewed and relied upon the information provided by the Executives and other publicly available sources and industry information. In preparing our report, Financial Advisor has assumed and relied upon the accuracy and completeness of all information, and has not made or obtained or assumed any responsibility for independent verification of such information. Should there be any future significant changes that may have material adverse impacts on this opinion.

Nonetheless, shareholders can review the transaction based on information, rationale and opinion provided herein by the Financial Advisor in making final decision, whether to accept or reject the transaction, at their own discretion.

Yours sincerely,

**ACL Securities Company Limited**

(

Mrs. Julaporn Namchaisiri)

Managing Director

Corporate Finance