DARCO WATER TECHNOLOGIES LIMITED
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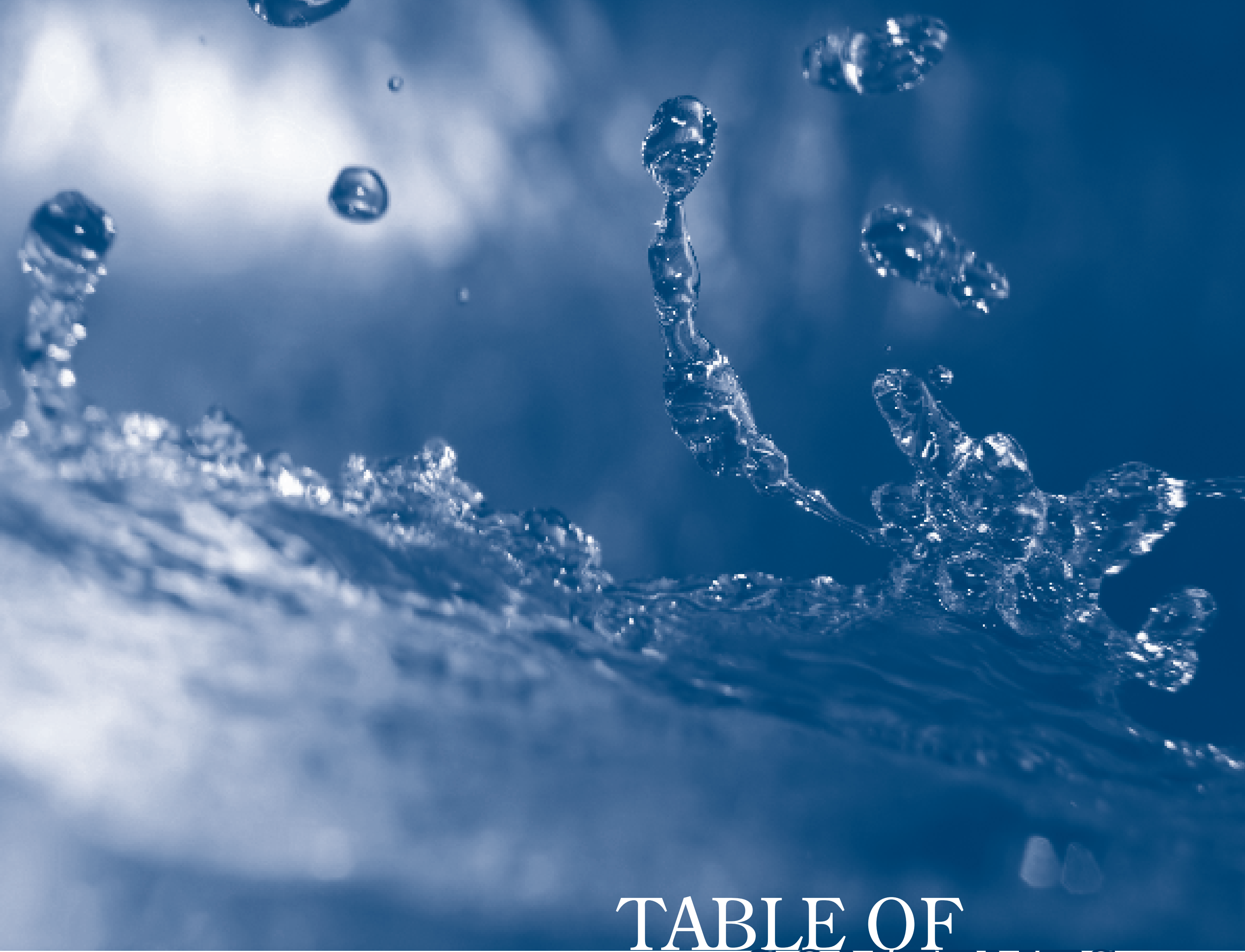
DARCO Water Technologies Limited

CROSSING BOUNDARIRES

Annual Report 2007



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Thye Kim Meng *(Managing Director and Chief Executive Officer)*

Teh Swee Heng *(Executive Director)*

Heather Tan Chern Ling *(Executive Director)*

Alfred Lee Sue Lin *(Non-Executive Director)*

Robert Wong Kwan Seng *(Non-Executive Independent Director)*

Joshua Siow Chee Keong *(Non-Executive Independent Director)*

AUDIT COMMITTEE

Robert Wong Kwan Seng *(Chairman)*

Joshua Siow Chee Keong

Thye Kim Meng

NOMINATING COMMITTEE

Joshua Siow Chee Keong *(Chairman)*

Robert Wong Kwan Seng

Thye Kim Meng

REMUNERATION COMMITTEE

Joshua Siow Chee Keong *(Chairman)*

Robert Wong Kwan Seng

Teh Swee Heng

COMPANY SECRETARY

Tan Lay Hong, Chartered Secretary

REGISTERED OFFICE

41 Loyang Drive

Singapore 508952

Tel : (65) 6545 3800

Fax : (65) 6545 3730

REGISTRAR AND SHARE TRANSFER OFFICE

Boardroom Corporate & Advisory Services Pte. Ltd

3 Church Street

#08-01 Samsung Hub

Singapore 049483

AUDITORS

LTC & Associates

Certified Public Accountants

1 Raffles Place #20-02

OUB Centre

Singapore 048616

Partner-in-charge:

Devdas Sawlani Kalyan

(appointment effective from financial year ended 31 December 2006)

BOARD OF DIRECTORS

Mr Thye Kim Meng Malaysian, Aged 55

Managing Director and Chief Executive Officer

Mr Thye Kim Meng is responsible for the general management, overall strategic planning and direction of our Group. He was appointed to the Board of Directors of the Company on 13 October 2001 and is a member of the Audit Committee and the Nominating Committee. Mr Thye has more than 23 years of experience in design engineering applications in the field of water purification and wastewater treatment facilities, having served as Managing Director of Wheelabrator Engineered Systems (S) Pte Ltd, Vice-President (ASEAN, Business Development) of Wheelabrator Water Technologies (S) Pte Ltd and Senior Director/Technical Consultant with U.S. Filter (Asia) Pte Ltd and Darchet Engineering & Water Treatment Pte Ltd. Mr Thye graduated from the Polytechnic of Wolverhampton, England with a Bachelor of Science in Mechanical Engineering. He does not hold any directorships or chairmanships in other listed companies in Singapore.

Mr Teh Swee Heng Malaysian, Aged 58

Executive Director (Business Development)

Mr Teh Swee Heng is in charge of business development, sales and marketing of water purification and wastewater treatment systems and services for our Group. He was appointed to the Board of Directors of the Company on 11 March 2002 and is a member of the Remuneration Committee. Mr Teh has more than 16 years of experience in sales, operations and engineering project management in water purification and wastewater treatment facilities, having served as Sales and Operation Director with Wheelabrator (M) Sdn. Bhd. and U.S. Filter (M) Sdn. Bhd. He was also a Director and the Sales and Operation Manager of Darchet (M) Sdn Bhd. Mr Teh graduated from the University of Heriot-Watt, Edinburgh, Scotland with a Bachelor of Science in Electrical and Electronic Engineering. He does not hold any directorships or chairmanships in other listed companies in Singapore.

Ms Heather Tan Chern Ling Malaysian, Aged 26

Executive Director (Process Engineering and Design)

Ms Heather Tan Chern Ling is currently the Head of Darco's application engineers in our Group, responsible for the water system treatment process. She was appointed to the Board of Directors of the Company on 25 May 2006. She coordinates technical and commercial matters between the company and prospective customers. Ms Tan graduated from the University of Melbourne, with a 1st Class Honours degree in Chemical Engineering. Obtaining a place on the Dean's Honours role, she has a publication in her name in the Journal of Applied Polymer Science for her research efforts on polymerization kinetics. Prior to joining Darco she held several short-term positions as a researcher with Orica Adhesives and Resins in Australia, Engineering Trainee in Agilent Technologies Malaysia, and was a Facilitator in Melody Learning Centre in Penang.

Mr Alfred Lee Su Lin Malaysian, Aged 55

Non-Executive Director

Mr Alfred Lee Sue Lin relinquished his executive duties with effect from 27 February 2008 and remains as a Non-Executive Director since then. Mr Lee has more than 24 years of treatment process knowledge and experience in the field of water purification and wastewater treatment facilities, having served as Technical Director with Wheelabrator Engineered Systems (S) Pte Ltd, Wheelabrator Water Technologies (S) Pte Ltd, U.S. Filter (Asia) Pte Ltd and Darchet Engineering & Water Treatment Pte Ltd. Mr Lee graduated from the University of Birmingham with a Bachelor of Science in Chemical Engineering. He is a director of a number of listed companies in Singapore and is a member of the Singapore Institute of Directors.

Mr Robert Wong Kwan Seng Singaporean, Aged 50

Non-Executive Independent Director

Mr Robert Wong was appointed as a Non-Executive Independent Director of our Company on 30 April 2005 and is the Chairman of the Audit Committee and a member of the Nominating Committee and Remuneration Committee. He is a lawyer by profession. He graduated from the National University of Singapore in 1983 and had practiced in various law firms. He is presently a director of Straits Law Practice LLC. Mr Wong practises mainly corporate law with particular emphasis in corporate finance such as initial public offers, right issue, issue of debentures, takeovers, mergers, acquisition and joint ventures. He is a director of various companies including Baker Technology Limited, Willas-Array Electronics (Holdings) Limited, Rotol Singapore Ltd and Aqua-Terra Supply Co. Limited, which are companies listed in Singapore.

Mr Joshua Siow Chee Keong Canadian, Aged 53

Non-Executive Independent Director

Mr Joshua Siow Chee Keong was appointed as a Non-Executive Independent Director of our Company on 30 April 2005 and is the Chairman of the Remuneration Committee and Nominating Committee and a member of the Audit Committee. He is a Certified Internal Auditor and a Certified Accountant. Currently, he is the managing director at JF Virtus Pte Ltd, responsible for directing all internal audit and risk management consultancy services to listed companies. Prior, he was the head of internal audit for the Singapore Exchange Limited. He has more than 26 years of internal and external auditing experience. He graduated with a MBA from the University of Warwick, England. He is a director of a number of listed companies in Singapore and is a member of the Singapore Institute of Directors.

KEY EXECUTIVES

Mr Lim Boon Kuan Aged 40

Group's Financial Controller

Lim Boon Kua is the Group's Financial Controller and is responsible for the Group's financial and operation functions. Prior to joining the Group, he spent 3 years as the finance and administration manager in a property developer company listed on the Kuala Lumpur Stock Exchange. He gained a wealth of experience in the stock broking industry while working as an accountant in a stock broking firm for 7 years. He was admitted as a fellowship of The Chartered Association of Certified Accountant in 1996 and is also a member of the Malaysian Institute of Accountants.

Mr Thye Kim Fah Aged 57

General Manager of Darco Systems (M) Snd. Bhd ("DSM")

Thye Kim Fah is the General Manager of Darco Systems (M) Sdn. Bhd ("DSM"), responsible for DSM's overall management and operations of DSM in relation to our business in the central and southern regions of Peninsula Malaysia. He is also a key player in formulating the corporate strategies and charting new directions and goals for DSM. He has over 16 years of experience in water purification treatment business. Mr Thye attained a Cambridge General Certificate of Education at the Ordinary Level. He is the elder brother of Mr Thye Kim Meng, who is the Managing Director and Chief Executive Officer of the Company.

Mr Yeoh Choo Seng Aged 40

General Manager of Darco Industrial Water Sdn Bhd ("DIW")

Yeoh Choo Seng is the General Manager of Darco Industrial Water Sdn Bhd ("DIW"). Mr Yeoh is responsible for the overall management and operations of DIW in relation to our business in the northern region of Peninsula Malaysia, in particular Penang and Kuching. Mr Yeoh has over 15 years of experience in water treatment business. He attained an Electronic Engineering Diploma from Butterworth Technology Institute, a Full Technological Certificate (Electrical Engineering) from the City and Guilds of London Institute and a certificate from The Society of Engineers (Telecommunications and Electronics).

Mr Huang Tung Ho Aged 56

Head of Operations

Huang Tung Ho is our Head (Operations), who is responsible for our Group's operations in wastewater treatment systems and maintenance services. Mr Huang has over 28 years of experience in design, installations and commissioning of wastewater treatment system. He graduated with a degree in Bachelor of Science in Civil Engineering and obtained Masters of Science in Civil Engineering both from Cheng Kung University, Taiwan.

CHAIRMAN'S MESSAGE

Dear Shareholders,

We have now entered into the 5th year of business operation as a publicly listed company since we began life in Sesdaq in the year 2002. From a modest S$20.0 million sales in our first year operation, we grew and grew, every single year, to over S$88 million sales last year. This year, there is every indication that we are going to do even better by surpassing the S$100 million dollar mark.

In terms of our core business activities, we started by providing water system and services mainly to private sector, in particular to the electronic and semi-conductor industries and almost exclusively in Malaysia and Singapore. While we have continued to tighten our grip on these sectors, you would also have noticed that we have expanded into many other areas of environmental activities. These include both the power generation industry and municipal sewage and drinking water supply sectors, providing both pure water and treatment for industrial usage as well as for domestic consumption. During which we have also secured a number of contracts in air management as well as solid waste treatment.

In terms of regional expansion, we have now established strong presence in many other countries as well, namely Philippines, Indonesia, Vietnam, Taiwan and Mainland China. Barring any unforeseen political or economic circumstances, we can look forward to significant business progress and gain from our proven organic growth and geographical expansion strategies.

Review of FY 2007 Performance

Darco did more business in FY2007 than any other year in our past history. Revenue rose by 27% to S$88 million, largely due to good growth in Taiwan and Malaysia. However, I must also bring to your attention to the year's net profitability. Net profit was down to a mere S$0.12 million due to a one-time, sizable, non-recurring provision of approximately S$4.6 million relating to sub-contracting works arising from Taiwan-based company, Hsin II. We did, however, purchase export credit insurance from ECICS for this project. At the point of writing, you may be pleased to learn that we have reached an out of court settlement with ECICS for S$3.0 million dollars. Although personally I am disappointed with the amount of discount granted, nevertheless I firmly believe it was a decision taken in the best interests of the Company as a whole.

Despite the one-time provision, it had little impact on our cash flow. On the contrary, operating cash flow in FY2007 improved to $6.7 million, a turnaround from a negative operating cash flow in the previous year, due to good working capital management. The S$3.0 million write-back from the insurance settlement would clearly improve our cash flow in FY 2008 significantly.

Milestones

The FY2007 may also be seen as a year of many milestones. During the past 12 months, we have achieved a few significant breakthroughs in our push to extend into the international markets. These achievements paved the way for even stronger growth ahead. Let me just elaborate on three of them.

1) Darco signs MOU with the Qatari Government for Middle East market.

The Company signed a Memorandum of Understanding (MOU) with The Supreme Council for the Environment & Natural Reserves, Qatar, (SCENR). Shortly after the formalization of the MOU, Darco went on, under the spirit of the MOU, to carry out a study on the current state of affairs of Qatar's water and wastewater problems and needs. Based on the study, a report which outlines the project's potential and market size was recently presented for SCENR's consideration. If the parties are in agreement, a business joint venture company (BJV) will be incorporated in due course. Our vision for this collaboration is to form a commercially viable, highly competitive and technically competent business entity to provide integrated solution and management services to Qatar and other Gulf States. Our joint mission is to ensure that the BJV is highly profitable and it would be listed as soon as possible in Qatar. I believe we are on track, thus far, to fulfilling our targets.

2) Secures S$130 million municipal contracts from Indonesian local government.

In September 2007, secured one of our largest projects to date, valued at S$130.8 million, to upgrade and operate a water treatment plant for the local government of Bangka Island, Indonesia.

This brings the total outstanding order book of Darco to S$600 million. With these contracts, we are one step closer to achieving our vision of becoming a major solutions provider of large-scale environmental engineering services.

I expect this project to bring forth a positive impact on the earnings of our Group at least for the next 2 financial years ending 31 December 2008 and 2009.

3) More than S$100 million revenue expected in FY2008.

At the start of 2008, we successfully secured S$9.8 million worth of environmental engineering projects in the industrial sector, adding to our total order book secured in FY2007 for delivery in 2008 to more than S$100 million. This is the first time in Darco's corporate history that its revenue would surpass the S$100 million mark in a single financial year.

Competition and Staff

Pardon some unavoidable repetitions, I think it is important to explain that over the years, Darco has expanded our operations beyond the local shores to major overseas markets like China, Taiwan, Indonesia and of course, the Middle East. Today, our direct competitors are neither larger Singapore companies nor smaller local setups but international environmental MNCs. That said, we are capable of meeting them eye-to-eye in more ways than one.

While we lack the financial muscles of these giants, we shall more than make up for it with our dedicated and professional approach to the needs of our customers. Repeated customers remain our best source of income. To cope with expected future growth, our technical staff strength has grown in tandem. Human resources remain our most valuable assets. Many of our engineers have worked, not without fun, tirelessly throughout the nights to draft proposals and devise engineering solutions for many environmental projects, motivated by a culture of learning, keenness to excel and succeed.

Proposed Dividend

Optimistic of our future, we are proposing a dividend payout of 0.5 cent per ordinary share to reward our loyal shareholders. We shall continue to work hard to repay your faith in Darco.

Outlook and Future Plans

Reflecting on our growth path for the past 5 years, our future prospects have never looked brighter. Darco Water is fast expanding. We are growing our capabilities to cater to the increased demand for our products and services in various markets. We have strengthened our earnings fundamentals resulting in us remaining ever confident about the Group's near term and long-term outlook.

Broadly speaking, I am generally optimistic about the sustainable growth of Darco Water on the basis of good corporate working culture and financial governance. However, I do share many analysts' warning on being overly confident about the economic outlook. The US sub-prime crisis might yet have a larger than expected impact on the US and global economy. The weakening US dollar, albeit not having any direct impact on us, might indirectly affect our customers. China is likely to implement policies to deal with inflation and may curb consumer demand by tightening its fiscal and monetary controls.

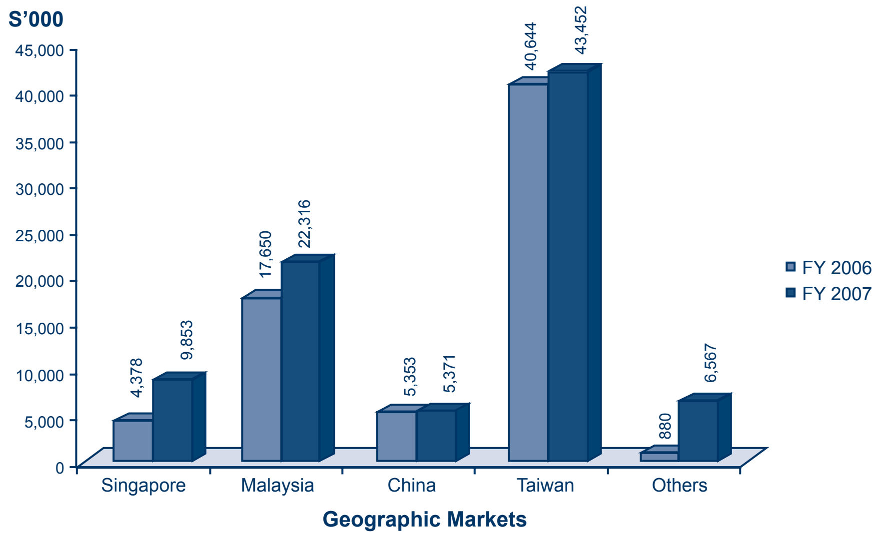
On that last cautionary note and behalf of the Board, I wish to thank the management team and all our staff for their hard work and commitment to the Group. And to our customers, suppliers, bankers and business associates, a big thank you for your support, which is absolutely crucial for sustaining Darco's growth strategies.

Thank you once again.

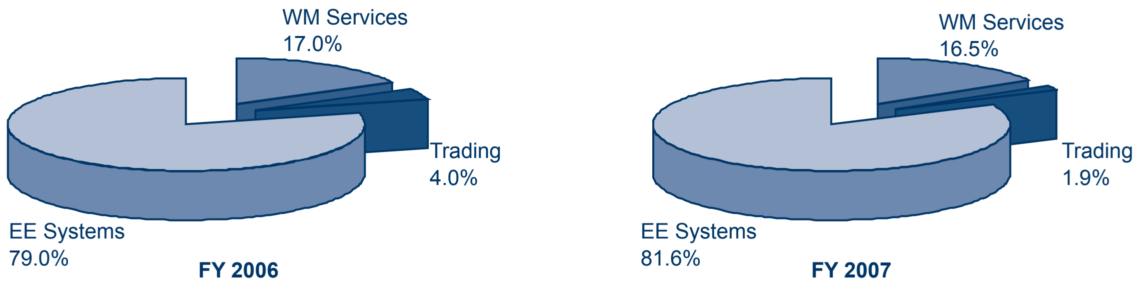
Mr Thye Kim Meng
Executive Chairman

FINANCIAL HIGHLIGHTS

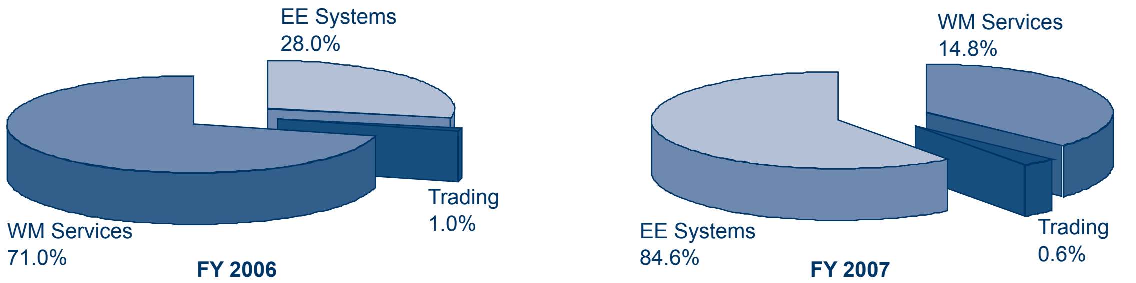
Sales by Geographic Markets



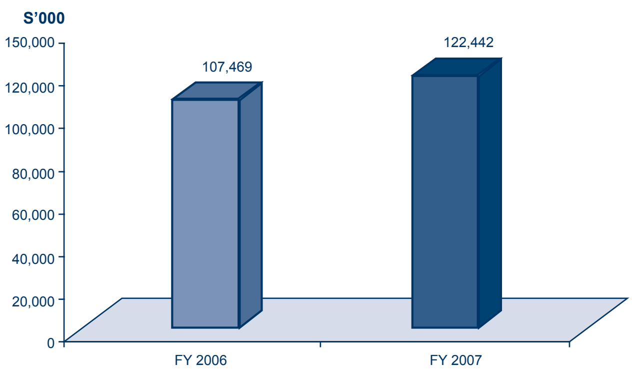
Sales By Activity



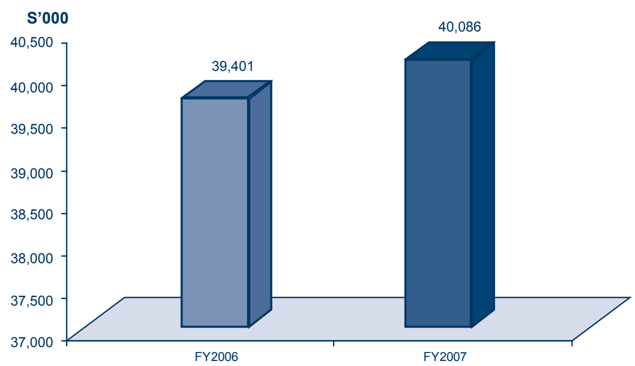
Profit Before Tax By Activity



Total Assets



Shareholders' Equity



CORPORATE GOVERNANCE

Our Board of Directors and Management are committed to maintaining a high standard of corporate governance to protect the interests of our shareholders.

This Report describes the Company's corporate governance processes and structures that were in place throughout the financial year 2007, with specific reference made to the principles and guidelines of the Code of Corporate Governance 2005 ("Code"). The Company was admitted to the Official List of the Stock Exchange of Singapore Dealing and Automated Quotation System ("SESDAQ") in July 2002. Steps have been taken, as far as practicable, towards continued compliance with the recommendations in the Code, taking into account the size of the Group's business and organization structure.

Board Matters

Board's Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control - the Company. The Board is collectively responsible for the success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board,

The Board comprises three Executive Directors and one Non-Executive and two Non-Executive Independent Directors respectively. Together, the Directors bring a wide range of business, legal and financial experience relevant to the Group.

Thye Kim Meng	Chairman, Managing Director and Chief Executive Officer ("CEO")
Teh Swee Heng	Executive Director
Heather Tan Chern Ling	Executive Director
Alfred Lee Sue Lin	Non-Executive Director
Robert Wong Kwan Seng	Non-Executive Independent Director
Joshua Siow Chee Keong	Non-Executive Independent Director

The Board's key responsibilities include providing leadership and supervision to the management of the Company and the subsidiaries (the "Group") with a view to protecting shareholders' interests and enhancing long-term shareholder value.

The Board's principal responsibilities are to:

a) guide the formulation of the Group's overall long-term strategic objectives and directions. This include setting the Group's policies and strategic plans and monitor achievement of these corporate

b) establish goals for management and monitor the achievement of these goals

c) ensure management leadership of high quality, effectiveness and integrity

d) review internal controls, risk management, financial performance and reporting compliance

The Board has adopted the Group Charter in FY2003, which sets out the Group's the internal guidelines for material contracts and investments exceeding a specified amount. This Group Charter forms part of our Group's risk management process, which ensures that all contracts entered into, and investments made by the Group, of a material contract sum are approved by the appropriate level of management, up to the Board level.

The Board meets regularly to approve matters relating to announcements of financial results, the annual report and financial statements, material acquisitions and disposals of assets.

At the meetings of the Board, the Directors are free to discuss and openly challenge the views presented by management and the other Directors. The decision making process is an objective one.

The Board conducts meetings at least twice annually. In lieu of physical meetings, written resolutions were also circulated for approval by the members of the Board.

The Board is supported by key Board committees namely Audit Committee, Remuneration Committee and Nominating Committee, which are delegated specific responsibilities. The attendance of the directors at these meetings during the financial year are as follows:-

		Board Committees		
Board/Committees	**Board**	**Audit**	**Remuneration**	**Nominating**
No of meetings held	2	2	1	1
Directors				
Robert Wong Kwan Seng	2	2	1	1
Joshua Siow Chee Keong	2	2	1	1
Thye Kim Meng	2	2	-	1
Teh Swee Heng	2	-	1	-
Heather Tan Chern Ling	1	-	-	-
Alfred Lee Su Lin	2		-	-

The Company, through its Company Secretary, has been updating the Board on relevant new laws and regulations affecting the Company. From time to time, and through Board Meetings and other Meetings, both formal and informal, our CEO has been advising our Directors of the changing commercial and business risks facing our Company.

The Company will provide a formal letter to newly appointed Directors upon their appointment explaining their statutory duties and responsibilities as Directors. All new and existing Directors are provided with background information about the Group's history and core values, its strategic direction and corporate governance practices as well as industry-specific knowledge.

Board Composition and Balance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision

The Board comprises three Executive Directors and three Non-Executive Directors, of which two are Independent Directors, therefore more than one third of the Board Members are independent. The Independent Directors have confirmed that they do not have any relationship with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interest of the Group. The Nominating Committee ("NC") has reviewed and determined that the directors, namely Mr Robert Wong Kwan Seng and Mr Joshua Siow Chee Keong are independent.

The Board is of the opinion that its current size and composition is appropriate for decision making, taking into account the scope and nature of the Group's operations. The Board members provide a range of core competencies in accounting, finance, legal, business management experience and industry knowledge that provide effective governance and stewardship for the Group.

The profiles of the Directors are found on pages 3 and 4 of this Annual Report and their appointments on the Board and details of their roles in Board Committees are set out below:-

		Board Committees		
Directors	**Board Membership**	**Audit**	**Remuneration**	**Nominating**
Thye Kim Meng	Managing Director and CEO	Member	-	Member
Teh Swee Heng	Executive Director	-	Member	-
Heather Tan Chern Ling	Executive Director	-	-	-
Alfred Lee Sue Lin	Non-Executive Director	-	-	-
Robert Wong	Non-Executive Independent Director	Chairman	Member	Member
Joshua Siow Chee Keong	Non-Executive Independent Director	Member	Chairman	Chairman

Role of Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities at the top of the Company – the working of the Board and the executive responsibility of the Company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

Although the Code of Corporate Governance states that the roles of the Chairman and the Chief Executive Officer should in principle be separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making, the Board is of the view that it is in the best interest of the Company to adopt a single leadership structure so as to facilitate decision making. The roles of the Chairman and the Chief Executive Officer are assumed by one of the Executive Directors, Mr Thye Kim Meng, who also hold the position of Managing Director.

Mr Thye Kim Meng believes that the scope of our business and the structure of our organization does not warrant the additional costs which will be incurred in the appointment of a third party as Chairman of the Board or a meaningful split of the position of Chairman and Managing Director.

The Chairman is guided by recommendations provided by our Company Secretary, the Chairman of the Audit, Chairman of the Nominating and Chairman of the Remuneration Committees and the Company's Group Financial Controller. With such support, he ensures that meetings are scheduled to enable the Board to perform its duties responsibly, prepare the meeting agenda, control the quantity, quality and timeliness of the flow of information between management and the Board, and ensure compliance with the Code.

Board Membership

Principle 4 : There should be a formal and transparent process for the appointment of new Directors to the Board.

The NC comprises of Mr Joshua Siow Chee Keong as Chairman and Mr Robert Wong Kwan Seng and Mr Thye Kim Meng as members, majority of whom including the Chairman are Non-Executive Independent Directors.

The Chairman of the NC is not associated in any way with the substantial shareholders of the Company.

The NC's terms of reference includes ensuring proper procedures for appointment and re-appointment of Directors, determining on an annual basis the independence of the Non-Executive Independent Directors, deciding whether a Director has been adequately carrying out his duties as a Director, to re-nominate directors having regard to the director's contribution and performance and assessing the performance of the Board.

The Nominating Committee is satisfied that sufficient time and attention are given by the Directors to the affairs of the Company.

Details of the shareholdings of Directors in the shares of the Company are disclosed in paragraph 3 of the Director's Report.

Board Performance

Principle 5 : There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each Director to the effectiveness of the Board.

The NC has established an appraisal process to assess the performance and effectiveness of the Board as a whole as well as the contribution of individual Director. It focuses on a set of criteria which include the evaluation of the size and composition of the Board, the Board's access to information, Board process and accountability, Board performance in relation to discharging its principal responsibilities and the Directors' standard of conduct.

The NC reviews and determines the independence of each Director and assesses the effectiveness of the Board as a whole and of individual Director. The NC has reviewed and assessed the effectiveness of the Board based on the criteria approved by the Board. The NC is of the opinion that each member of the Board has been effective during the year 2007 due to the active participation of each Board member during each meeting.

Access to Information

Principle 6 : In order to fulfill their responsibilities, board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

The Board is furnished with board papers prior to any Board Meeting. These papers are issued in sufficient time to enable the Directors to obtain additional information or explanations from the Management, if necessary. The Board papers include minutes of the previous meeting, financial results announcements, reports from Committees, internal and external auditors.

The members of the Board have independent access to management and the Company Secretary, and are provided with adequate background information prior to Board Meetings. Management has taken a pro-active approach of informing the Directors on a timely basis of important corporate actions to be taken by the Company and events that will affect the Company, although such developments may not require the approval of the Board of Directors. The Company Secretary attends all Board Meetings.

The members of the Board may seek the advice of independent professional advisers, the cost of which will be borne by the Company.

Remuneration Matters

Principle 7 : There should be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The Remuneration Committee ("RC") consists of three members, the majority of whom are Non-Executive Independent Directors. The members are Mr Joshua Siow Chee Keong as Chairman, and Mr Robert Wong Kwan Seng and Mr Teh Swee Heng. The Board is of the view that the scope of our business and the structure of our organization does not warrant the additional costs which will be incurred in the appointment of a third Non-Executive Director.

The RC recommends to the Board a framework of remuneration for the Directors and key executives of the Group, and specific remuneration packages for each Executive Director and the Managing Director.

Each member of the RC shall abstain from voting on any resolution in respect of his remuneration package.

Level and Mix of Remuneration

Principle 8 : The level of remuneration should be appropriate to attract, retain and motivate the Directors needed to run the company successfully but companies should avoid paying more for this purpose. A proportion of the remuneration, especially that of Executive Directors, should be linked to performance.

The RC takes into account performance related elements for the remuneration and performance measures for Executive Directors. The remuneration of the Executive Directors is based on service agreements dated 11 March 2006. The remuneration package is also designed to align the Director's interests with those of minority shareholders. The Non-Executive Independent Directors are paid directors' fees for their effort and time spent, responsibilities and contribution to the Board, based on the remuneration rates of comparable companies listed on SESDAQ and their remuneration are subject to shareholders' approval at the Annual General Meeting.

Disclosure of Remuneration

Principle 9 : Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedures for setting remuneration, in the Company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to Directors and key executives, and performance.

The remuneration of the Directors are disclosed in page 33 of this Annual Report. The number of Directors and top five senior executives (who are not Directors of the Company) whose remuneration fell within the following ranges are as follows:-

	Group			
	2007		2006	
	Directors	Executives	Directors	Executives
Below $250,000	6	6	6	5
$250,000 - $499,999	-	-	-	-
$500,000	-	-	-	-
	6	6	6	5

No employee, who is related to a Director or the CEO earned more than S$150,000 during the year under review. The Group does not have a share option scheme.

The breakdown of each Director's annual remuneration is set out below:-

	Salaries, including CPF	Variable Bonus	Director's Fees	Total
Thye Kim Meng	100%	-	-	100%
Teh Swee Heng	98.6%	1.4%	-	100%
Heather Tan Chern Ling	97.8%	2.2%	-	100%
Alfred Lee Sue Lin	100%	-	-	100%
Robert Wong Kwan Seng	-	-	100%	100%
Joshua Siow Chee Keong	-	-	100%	100%

Accountability and Audit

Principle 10 : The Board should present a balanced and understandable assessment of the Company's performance, position and prospects.

The Management is accountable to the Board, and provides members of the Board with a balanced and understandable accounts of the Company and its subsidiaries performance, financial position and prospects on a half-year basis.

The Board will provide shareholders with a balanced and understandable assessment of the Company's performance, financial position and prospects on a half-yearly basis, and make announcements of price sensitive information to shareholder when necessary, and where required by the regulators.

Audit Committee

Principle 11 : The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

The Audit Committee ("AC") comprises Mr Robert Wong Kwan Seng as Chairman, Mr Joshua Siow Chee Keong and Mr Thye Kim Meng as members, a majority of whom including the Chairman are Non-Executive Independent Directors. The AC members possess experience in finance, legal and business management. The Board is of the opinion that the members of the AC are appropriately qualified to carry out their responsibilities, which are set out in their terms of reference.

The AC has the powers to investigate any matter within its terms of reference, have full access and cooperation from Management, and access to reasonable resources to enable it to discharge its functions properly. The AC has full discretion to invite any Executive Director or management staff to attend its meetings.

The Audit Committee has reviewed the non-audit services provided by the external auditors, Messrs LTC & Associates, and is satisfied that the external auditors are able to maintain their independence and objectivity in carrying out their duties, and that the scope and results of the audit are satisfactory and that the audit has been carried out in a cost effective manner.

Whistle-blowing Policy

The Company has in place whistle-blowing policies and arrangements by which staff, may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting or other matters.

To ensure independent investigation of such matters and for appropriate follow up action, all whistle-blowing reports are to be sent to the internal audit function. The Chairman of the Audit Committee and the Chairman of the Board will be informed immediately of all whistle-blowing reports received. Details of the whistle-blowing policies and arrangements are posted in the Company's intranet for staff's easy reference. New staffs are briefed on these during the orientation programme.

Internal Controls

Principle 12 : The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

The Board is satisfied that the Audit Committee has made meaningful improvements within the Company in the area of financial internal controls and risk management processes. The Executive Directors and management continue to be involved in the day-to-day operations of the Group, and ensuring that the internal controls environment is maintained in a cost effective manner.

Management has put in place a risk management process to monitor, manage and build awareness within the organization of the various risks which the Group is exposed to.

Internal Audit

Principle 13 : The Company should establish an internal audit function that is independent of the activities it audits.

The Board believes in the importance of maintaining a sound system of internal controls to safeguard the interests of the shareholders and the Group's assets. The AC has met with the management and external auditors to review the internal auditor's plan and external auditors' audit plan. Also, as part of the annual statutory audit on financial statements, the external auditors report to the Audit Committee and appropriate level of management any material weaknesses in financial accounting controls over the areas which are significant to the audit.

Based on the discussion with the internal and external auditors and the management's responses to the auditors' recommendations for improvements to the Group's internal controls, the Broad is satisfied that the internal controls of the Group throughout the financial year and up to and as of the date of this Annual Report are adequate to safeguard its assets and ensure the integrity of its financial statements.

The Board had on the recommendation of AC approved and put in place the Whistle-Blowing Policy and Procedure For Reporting Impropriety In Matters of Financial Reporting And Other Matter.

Communication with Shareholders

Principle 14 : Companies should engage in regular, effective and fair communication with shareholders.

The Board shall continue to have regular, effective, fair and timely communication with Shareholders through public announcements and general meetings, where required.

Principle 15 : Communication by Shareholders

All Shareholders are given the opportunity for dialogue with the Board of Directors and external auditors at the Annual General Meetings.

The Group is continually reviewing and improving the business and operational activities to take into account the risk management perspective. This includes reviewing management and manpower resources, updating work flows, processes and procedures to meet the current and future market conditions.

Interested Party Transactions

The Company has established a register to ensure that all Interested Party Transactions are properly recorded, reviewed and approved, and are conducted on an arm's length basis.

Securities Transactions

The Board of Directors and key employees with access to sensitive financial information have been advised on the Best Practice Guides on Dealings in Securities issued by the Singapore Exchange Securities Trading Limited.

The directors of the company are pleased to present their report together with the audited financial statements of the company and of the Group for the financial year ended 31 December 2007.

1. DIRECTORS AT DATE OF REPORT

The directors of the company in office at the date of this report are:

Thye Kim Meng	(Managing Director and Chief Executive Officer) (a)(c)
Teh Swee Heng	(Executive Director) (b)
Heather Tan Chern Ling	(Appointed on 25 May 2007)(Executive Director)
Lee Sue Lin	(Redesignated on 27 February 2008)(Independent Director)
Siow Chee Keong	(Independent Director) (a)(b)(c)
Wong Kwan Seng Robert	(Independent Director) (a)(b)(c)

(a) member of audit committee
(b) member of remuneration committee
(c) member of nominating committee

2. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the company to acquire benefits by means of the acquisition of shares or debentures in the company or any other body corporate.

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the company holding office at the end of the financial year had no interests in the share capital of the company and related corporations as recorded in the register of directors' shareholdings kept by the company under section 164 of the Companies Act, Cap. 50 except as follows:

Name of directors and companies in which interests are held	Direct interest: At beginning of year or date of appointment, if later	Direct interest: At end of year	Deemed interest: At beginning of year	Deemed interest: At end of year
Darco Water Technologies Limited (the company)	Ordinary shares			
Thye Kim Meng	36,295,711	29,295,711	27,500,000	27,500,000
Lee Sue Lin	7,092,800	7,092,800	–	–
Teh Swee Heng	5,644,820	6,994,820	1,350,000	–
Heather Tan Chern Ling	33,000	68,000	–	–

By virtue of section 7 of the Companies Act, Cap. 50, Mr Thye Kim Meng is deemed to have an interest in all the related corporations of the company.

The directors' interests as at 21 January 2008 were the same as those at the end of the year.

4. CONTRACTUAL BENEFITS OF DIRECTORS

Since the beginning of the financial year, no director of the company has received or become entitled to receive a benefit which is required to be disclosed under section 201(8) of the Companies Act, Cap. 50 by reason of a contract made by the company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except as disclosed in the financial statements.

There were certain transactions (shown in the financial statements) with corporations in which certain directors have an interest.

5. OPTIONS TO TAKE UP UNISSUED SHARES

During the financial year, no option to take up unissued shares of the company or any corporation in the Group was granted.

6. OPTIONS EXERCISED

During the financial year, there were no shares of the company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

7. UNISSUED SHARES UNDER OPTION

At the end of the financial year, there were no unissued shares under option.

8. AUDIT COMMITTEE

The members of the audit committee at the date of this report are as follows:

Wong Kwan Seng Robert	–	Chairman of audit committee and independent and non-executive Director
Siow Chee Keong	–	Independent and non-executive Director
Thye Kim Meng	–	Managing Director and Chief Executive Officer

The audit committee performs the functions specified by section 201B (5) of the Companies Act. Among others, it performed the following functions:

- Reviewed with the external auditors the external audit plan;
- Reviewed with the external auditors their evaluation of the company's internal accounting control, and their report on the financial statements and the assistance given by the company's officers to them;
- Reviewed the financial statements of the Group and the company prior to their submission to the directors of the company for adoption; and
- Reviewed the interested person transactions (as defined in Chapter 9 of the Listing Manual of SGX).

Other functions performed by the audit committee are described in the report on corporate governance included in the annual report.

9. SUBSEQUENT DEVELOPMENTS

There are no significant developments subsequent to the release of the Group's and the company's preliminary financial statements, as announced on 28 February 2008, which would materially affect the Group's and the company's operating and financial performance as of the date of this report, except for the matter relating to the claim from the credit insurance company discussed in Note 28 to the financial statements.

10. AUDITORS

The auditors, LTC & Associates, have expressed their willingness to accept re-appoinment.

ON BEHALF OF THE DIRECTORS

....………....
Thye Kim Meng
Managing Director and Chief Executive Officer

....………....
Teh Swee Heng
Executive Director

8 April 2008

STATEMENT BY DIRECTORS

In the opinion of the directors, the accompanying financial statements set out on pages 22 to 61 are drawn up so as to give a true and fair view of the state of affairs of the company and of the Group as at 31 December 2007 and of the results, changes in equity and cash flows of the Group for the financial year then ended and at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

ON BEHALF OF THE DIRECTORS

....

Thye Kim Meng
Managing Director and Chief Executive Officer

....

Teh Swee Heng
Executive Director

8 April 2008

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED
For the financial year ended 31 December 2007
AUDITORS' REPORT

We have audited the accompanying financial statements of Darco Water Technologies Limited (the "Company") and its subsidiaries (the "Group") which comprise the balance sheets of the Company and the Group as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

Managements' Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes:

(a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;

(b) selecting and applying appropriate accounting policies; and

(c) making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion,

a) the balance sheet of the Company and the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and

b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries of which we are the auditors have been properly kept in accordance with the provisions of the Act.

LTC & Associates
Public Accountants and
Certified Public Accountants

Singapore
8 April 2008

Partner-in-charge of audit : Devdas Sawlani Kalyan
Effective from year ended 31 December 2006

BALANCE SHEETS

As at 31 December 2007

	Notes	Group 2007 $'000	Group 2006 $'000	Company 2007 $'000	Company 2006 $'000
ASSETS					
Current assets:					
Cash and cash equivalents	4	25,522	29,905	360	3,183
Trade and other receivables	5	64,976	49,846	59,964	53,821
Inventories	6	2,102	1,907	–	–
Total current assets		92,600	81,658	60,324	57,004
Non-current assets:					
Investments in subsidiaries	8	–	–	7,376	7,376
Property, plant and equipment	9	28,576	24,545	–	–
Goodwill	10	1,266	1,266	–	–
Total non-current assets		29,842	25,811	7,376	7,376
Total assets		122,442	107,469	67,700	64,380
LIABILITIES AND EQUITY					
Current liabilities:					
Short-term borrowings	11	20,110	22,506	17,020	12,768
Trade and other payables	12	37,031	19,120	3,609	3,069
Current tax payable		527	854	–	–
Current portion of long-term borrowings	13	5,511	2,208	2,778	2,208
Current portion of finance leases	14	323	446	–	–
Total current liabilities		63,502	45,134	23,407	18,045
Non-current liabilities:					
Deferred tax liabilities	21	209	157	–	–
Long-term borrowings	13	15,083	19,263	14,499	16,195
Finance lease	14	33	356	–	–
Total non-current liabilities		15,325	19,776	14,499	16,195
Total liabilities		78,827	64,910	37,906	34,240
Equity attributable to equity holders of the Company					
Share capital	15	27,062	27,062	27,062	27,062
Other reserves	16	(1,860)	(1,560)	–	–
Retained earnings		14,884	13,899	2,732	3,078
		40,086	39,401	29,794	30,140
Minority interests		3,529	3,158	–	–
Total equity		43,615	42,559	29,794	30,140
Total liabilities and equity		122,442	107,469	67,700	64,380

See accompanying notes to financial statements

CONSOLIDATED
INCOME STATEMENT

Year ended 31 December 2007

	Notes	Group 2007 $'000	Group 2006 $'000
Revenue	17	87,559	68,905
Cost of sales		(66,828)	(51,862)
Gross profit		20,731	17,043
Other income	18	1,795	671
Financial income	19	236	115
Distribution costs		(4,274)	(3,732)
Administrative expenses		(10,278)	(9,207)
Other (charges)/credits	20	(1,061)	159
Financial expense	19	(2,545)	(1,775)
Profit before tax		4,604	3,274
Income tax expense	21	(1,361)	(1,192)
Net Profit for the year		3,243	2,082
Attributable to:			
Equity holders of the Company		2,830	2,377
Minority interests		413	(295)
		3,243	2,082
Earnings per share for profit attributable to the equity holders of the Company during the year			
(expressed in cents per share)	24		
– Basic		1.53	1.29
– Diluted		1.53	1.29

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

Group	Issued Capital $'000	Share Premium $'000	Foreign Currency Translation Reserve $'000	Retained Earnings $'000	Total $'000	Minority Interest $'000	Total Equity $'000
	Attributable to equity holders of the parent						
Balance at 1 January 2006	9,224	17,838	(392)	11,522	38,192	2,774	40,966
Changes in equity for 2006							
Foreign currency translation differences not recognized in the income statement	–	–	(1,168)	–	(1,168)	–	(1,168)
Net income recognized directly in equity	–	–	(1,168)	–	(1,168)	–	(1,168)
Profit for the year	–	–	–	2,377	2,377	(295)	2,082
Total recognized income and expense for the year	–	–	(1,168)	2,377	1,209	(295)	914
Reduction of interest in subsidiary to minority interest	–	–	–	–	–	679	679
Transfer to share capital (Note 15)	17,838	(17,838)	–	–	–	–	–
Balance at 31 December 2006	27,062	–	(1,560)	13,899	39,401	3,158	42,559
			(a)				
Balance at 1 January 2007	27,062	–	(1,560)	13,899	39,401	3,158	42,559
Changes in equity for 2007							
Foreign currency translation differences not recognized in the income statement	–	–	(300)	–	(300)	(42)	(342)
Net income recognized directly in equity	–	–	(300)	–	(300)	(42)	(342)
Profit for the year	–	–	–	2,830	2,830	413	3,243
Total recognized income and expense for the year	–	–	(300)	2,830	2,530	371	2,901
Dividends paid (Note 15)	–	–	–	(1,845)	(1,845)	–	(1,845)
Balance at 31 December 2007	27,062	–	(1,860)	14,884	40,086	3,529	43,615
			(a)				

(a) Not available for cash dividends.

See accompanying notes to financial statements.

CONSOLIDATED
CASH FLOW STATEMENT

Year ended 31 December 2007

	Group	
	2007	2006
	$'000	$'000
Cash flows from operating activities:		
Net Profit for the year	3,243	2,082
Adjustments for :		
Income tax expense	1,361	1,192
Depreciation expense	1,178	1,226
Loss on disposal of plant and equipment	4	253
Interest income	(236)	(115)
Interest expense	2,545	1,775
Operating profit before working capital changes	8,095	6,413
Inventories	(195)	59
Trade and other receivables	(15,130)	(7,162)
Trade and other payables	17,911	(1,921)
Cash generated from/(used in) operations	10,681	(2,611)
Interest received	236	115
Interest paid	(2,545)	(1,775)
Income taxes paid	(1,644)	(619)
Net cash from/(used in) operating activities	6,728	(4,890)
Cash flows from investing activities		
Cash restricted in use over 3 months	(3,882)	(573)
Purchase of property, plant and equipment	(6,460)	(1,345)
Disposal of plant and equipment	1,203	827
Net cash used in investing activities	(9,139)	(1,091)
Cash flows from financing activities		
Proceeds/(repayments) of long-term borrowings	(2,878)	15,001
Proceeds/(repayments) of short-term borrowings	(2,396)	12,572
Repayments of finance leases	(446)	(45)
Dividend paid	(1,845)	–
Proceeds from Convertible Notes	2,000	–
Net cash (used in)/ from financing activities	(5,565)	27,528
Net effect of exchange rate changes in consolidating of foreign subsidiaries	322	135
Net (decrease)/ increase in cash and cash equivalent	(7,654)	21,682
Cash and cash equivalent at beginning of year	26,267	4,283
Effect of foreign exchange rate adjustment	(107)	302
Cash and cash equivalent at end of year (Note 4)	18,506	26,267

See accompanying notes to the financial statements.

1 GENERAL

The company is incorporated in Singapore. The financial statements are presented in Singapore dollars. They are drawn up in accordance with the provisions of the Companies Act, Cap. 50 and the Singapore Financial Reporting Standards. The financial statements were approved and authorised for issue by the board of directors on 8 April 2008.

The principal activities of the company are those of investment holding and acting as corporate manager and adviser and administrative centre to support businesses of the company's subsidiaries. The company is listed on the Stock Exchange of Singapore Dealing and Automated Quotation System ("SESDAQ").

The principal activities of the subsidiaries are described in Note 8 below.

The registered office is: 41 Loyang Drive, Singapore 508952. The company is domiciled in Singapore.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING CONVENTION – The financial statements are prepared under the historical cost convention, modified to include the revaluation of financial assets and financial liabilities and certain properties as disclosed where appropriate in these financial statements.

BASIS OF PRESENTATION – The consolidation accounting method is used for the consolidated financial statements which include the financial statements made up to the balance sheet date each year of the company and of those companies in which it holds, directly or indirectly through subsidiaries, over 50 percent of the shares and voting rights. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intergroup balances and transactions, including income, expenses and dividends, are eliminated in full on consolidation. The results of the investees acquired or disposed of during the financial year are consolidated from the respective dates of acquisition or up to the dates of disposal. On disposal the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

BASIS OF PREPARATION – The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Apart from those involving estimations, management has made judgements in the process of applying the entity's accounting policies. The areas requiring management's most difficult, subjective or complex judgements, or areas where assumptions and estimates are significant to the financial statements, are disclosed at the end of this footnote, where applicable.

BUSINESS COMBINATIONS – Business combinations are accounted for by applying the purchase method. The cost of a business combination includes the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus any costs directly attributable to the business combination. Any excess of the cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised is accounted for as goodwill. The excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is accounted for as "negative goodwill". The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. An impairment loss in respect of goodwill is not reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

MINORITY INTERESTS – Any minority interests in the acquiree (subsidiary) is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

SUBSIDIARIES – A subsidiary is an entity including unincorporated and special purpose entities that are controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. In the company's own separate financial statements, the investments in subsidiaries are stated at cost less any provision for impairment in value. The net book values of the subsidiaries are not necessarily indicative of the amounts that would be realised in a current market exchange.

CASH AND CASH EQUIVALENTS – Cash and cash equivalents include bank and cash balances and any highly liquid debt instruments purchased with an original maturity of three months or less. Cash for the cash flow statement includes cash and cash equivalents less bank overdrafts payable on demand that form an integral part of cash management and cash subject to restriction.

TRADE RECEIVABLES - After initial recognition at fair value, trade receivables are measured at amortised cost using the effective interest method but short-duration receivables with no stated interest rate are normally measured at original invoice amount unless the effect of imputing interest would be significant. Trade receivables are stated after provision for impairment. A trade receivable amount is regarded as impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. The carrying amount of trade receivables are assumed to approximate their fair value. The amount of the provision is recognised in the income statement. Normally no interest is charged on trade receivables.

LOANS AND OTHER RECEIVABLES - Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not held for trading, not designated as available for sale and are not substantially recoverable other than because of credit deterioration which are classified as available for sale. Items with a short duration are not discounted. After initial recognition such financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for the non-current financial assets that are loans and receivables which are measured at amortised cost using the effective interest method less provision for impairment. These items are included in the balance sheet in loan receivables and trade and other receivables as current assets or as non-current assets where the maturities are greater than 12 months after the balance sheet date.

INVENTORIES – Inventories are measured at the lower of cost (weighted average method) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. A write down on cost is made for where the cost is not recoverable or if their selling prices have declined.

LONG-TERM CONTRACTS – When the outcome of a contract can be estimated reliably, the revenue and costs associated with the contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date using the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs method except where this would not be representative of the stage of completion. Contract costs consist of costs that relate directly to the specific project, costs that are attributable to contract activity in general and can be allocated to the project and such other costs as are specifically chargeable to the customer under the terms of the contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. The long-term work in progress projects have operating cycles longer than one year. The company includes in current assets amounts relating to the long-term contracts realisable over a period in excess of one year.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

PROPERTY, PLANT AND EQUIPMENT – Depreciation is provided on a straight-line basis to allocate the gross carrying amounts less their residual values over their estimated useful lives of each party of an item of property, plant and equipment. The annual rates of depreciation are as follows:

Freehold building	–	2%
Leasehold properties	–	2% to 3.33%
Plant and equipment	–	10% to 33.33%
Freehold land	–	Depreciation is not provided
Building under construction	–	Depreciation is not provided

An asset is depreciated when it is available for use until it is derecognised even if during that period the item is idle. Fully depreciated assets still in use are retained in the financial statements.

Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses. The residual value and the useful life of an asset is reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate, and the depreciation charge for the current and future periods are adjusted. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and recognised in the income statement.

IMPAIRMENT OF NON-FINANCIAL ASSETS – At each reporting date an assessment is made whether there is any indication that a depreciable or amortisable asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. Irrespective of whether there is any indication of impairment, an annual impairment test is performed at the same time every year on an intangible asset with an indefinite useful life or an intangible asset not yet available for use. The impairment loss is the excess of the carrying amount over the recoverable amount and is recognised in the income statement unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At each reporting date non-financial assets other than goodwill with impairment loss recognised in prior periods are assessed for possible reversal of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation if no impairment loss had been recognised.

IMPAIRMENT OF FINANCIAL ASSETS – All financial assets except those measured at fair value through profit or loss are subject to review for impairment. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

FINANCIAL LIABILITIES - Financial liabilities including bank and other borrowings when recognised initially are measured at fair value plus, in the case of items not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. After initial recognition these are measured at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value. Liabilities are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

BORROWING COSTS – All borrowing costs that are interest and other costs incurred in connection with the borrowing of funds costs are recognised as an expense in the period in which they are incurred except for borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of that asset until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. The interest expense is calculated using the effective interest rate method.

LEASES AS A LESSEE – A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. At the commencement of the lease term, a finance lease is recognised as an asset and as liability in the balance sheet at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate is used. Any initial direct costs of the lessee are added to the amount recognised as an asset. The excess of the lease payments over the recorded lease liability are treated as finance charges which are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred. The assets are depreciated as owned depreciable assets. Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. For operating leases, lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

LIABILITIES AND PROVISIONS – A liability or provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. These include trade and other payables and where the effect of the time value of money is material, the amount recognised is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

SHARE CAPITAL – Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds. Where the company reacquires its own equity instruments as treasury shares, the consideration paid, including any directly attributable incremental cost is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders and no gain or loss is recognised in the income statement.

FAIR VALUE OF FINANCIAL INSTRUMENTS – The carrying values of current financial assets and financial liabilities including cash, accounts receivable, short-term borrowings, accounts payable approximate their fair values due to the short-term maturity of these instruments. The fair values of long-term debts are not disclosed unless there are significant items as at the end of the year and are disclosed in the relevant notes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

REVENUE RECOGNITION – The revenue amount is the fair value of the consideration received or receivable from the gross inflow of economic benefits during the period arising from in the course of the ordinary activities of the entity and it is shown net of related tax, estimated returns, discounts and volume rebates. Revenue from sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer, there is neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue from rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date determined by services performed to date as a percentage of total services and the amount of revenue, stage of completion, and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Interest revenue is recognised on a time-proportion basis using the effective interest rate that takes into account the effective yield on the asset. Rental revenue is recognised on a time-proportion basis that takes into account the effective yield on the asset. Revenue from construction contracts is recognised in accordance with the accounting policy on long term contracts.

FOREIGN CURRENCY TRANSACTIONS – The functional currency is the Singapore dollar as it reflects the primary economic environment in which the entity operates. Transactions in foreign currencies are recorded in Singapore dollars at the rates ruling at the dates of the transactions. At each balance sheet date, recorded monetary balances and balances measured at fair value that are denominated in foreign currencies are reported at the rates ruling at the balance sheet and fair value dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in the income statement.

FOREIGN CURRENCY FINANCIAL STATEMENTS – The foreign entities determine the appropriate functional currency as it reflects the primary economic environment in which the entities operate. In translating the financial statements of a foreign entity for incorporation in the combined financial statements, the assets and liabilities denominated in currencies other than the functional currency of the company are translated at year end rates of exchange and the income and expense items are translated at average rates of exchange for the year. The resulting translation adjustments (if any) are accumulated in a separate component of equity until the disposal of the foreign entity.

EMPLOYEE BENEFITS –Contributions to defined contribution retirement benefit plans are recorded as an expense as they fall due. The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. This includes the government managed retirement benefit plan such as the Central Provident Fund in Singapore. For employee leave entitlement the expected cost of short-term employee benefits in the form of compensated absences is recognised in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur.

INCOME TAX – The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statements or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted or substantially enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. Income tax expense represents the sum of the tax currently payable and deferred tax. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same income tax authority. The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised. A deferred tax amount is recognised for all temporary differences, unless the deferred tax amount arises from goodwill for which amortisation is not deductible for tax purposes. A deferred tax liability is not recognised for all taxable temporary differences associated with investments in subsidiaries because (a) the company is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

SEGMENT REPORTING – A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

FINANCIAL GUARANTEES – The Company has issued corporate guarantees to banks for borrowings of its subsidiaries. These guarantees are financial guarantees as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantees are initially recognised at their fair values plus transaction costs in the Company's balance sheet.

Financial guarantees are subsequently amortised to the income statement over the period of the subsidiaries' borrowings, unless it is probable that the Company will reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantees shall be carried at the expected amount payable to the bank in the Company's balance sheet.

Intragroup transactions are eliminated on consolidation.

CRITICAL JUDGEMENTS, ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

The critical judgements made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements and the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

CONSTRUCTION CONTRACTS - One of the most important phases for construction contracts relates to estimated costs to complete contracts in process, since that information is used in determining the estimated final gross profit or loss on contracts. Estimated costs to complete involve expectations about future performance, and the management does obtain explanations of apparent disparities between estimates and past performance on contracts. Because of the direct effect on the estimated gross profit or loss on the contract, management has to estimate that the cost to complete is reasonable. Events and circumstances frequently do not occur as expected. Even if the events anticipated under the assumptions occur, actual results are still likely to be different from the estimates since other anticipated events frequently do not occur as expected and the variation may be material.

DEFERRED INCOME TAXES – Management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and the extent to which deferred tax assets can be recognised. A deferred tax asset is recognised if it is probable that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilised. Management also considers future taxable income and tax planning strategies in assessing whether deferred tax assets should be recognised.

ALLOWANCES FOR DOUBTFUL ACCOUNTS – An allowance is for doubtful accounts for estimated losses resulting from the subsequent inability of our customers to make required payments. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods. Management specifically analyses accounts receivables and analyses historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment terms when making a judgement to evaluate the adequacy of the allowance for doubtful accounts.

INCOME TAXES – The entity operates in various countries. Significant judgment is required in determining whether items are subject to withholding tax and double taxation relief. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The entity recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

USEFUL LIVES OF PLANT AND EQUIPMENT - The estimates for the useful lives and related depreciation charges for plant and equipment is based on commercial and production factors which could change significantly as a result of technical innovations and competitor actions in response to severe market conditions. The depreciation charge is increased where useful lives are less than previously estimated lives, or the carrying amounts written off or written down for technically obsolete or non-strategic assets that have been abandoned or sold.

ESTIMATED IMPAIRMENT OF GOODWILL – The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. If the revised estimated gross margin at 31 December 2007 had been 14% lower than management's estimates at 31 December 2007, the Group would need to reduce the carrying value of goodwill by $311,000. If the revised estimated pre-tax discount rate applied to the discounted cash flows had been 10% higher than management's estimates, the Group would not need to reduce the carrying value of goodwill. If the actual gross margin had been higher or the pre-tax discounted rate lower than management's estimates, the Group would not be able to reverse any impairment losses that arose on goodwill because reversal is not permitted by FRS 36.

RISK MANAGEMENT POLICIES FOR FINANCIAL INSTRUMENTS

GENERAL RISK MANAGEMENT PRINCIPLES – The entity's financial instruments comprise borrowings, some cash and liquid resources, and various items, such as trade and other receivables, trade and other payables, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the entity's operations. The main risks arising from the entity's financial instruments are credit risk, interest risk, liquidity risk and foreign currency risk. The management reviews and agrees policies for managing each of these risks and they are summarised below.

CREDIT RISKS OF FINANCIAL ASSETS – Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations consist principally of cash, cash equivalents and trade and other accounts receivable. The management believes that the financial risks associated with these financial instruments are minimal. The cash and cash equivalents and other liquid financial assets are placed with high credit quality institutions. An ongoing credit evaluation is performed of the debtors' financial condition and a loss from impairment is recognised in the income statement. There is no significant concentration of credit risk, as the exposure is spread over a large number of counterparties and customers unless otherwise disclosed in the notes to the financial statements.

OTHER RISKS ON FINANCIAL INSTRUMENTS – The main risks arising from the entity's financial instruments are interest risk, liquidity risk and foreign currency risk. The operations are financed through a mixture of retained earnings and borrowings. Borrowings are in the desired currencies at both fixed and floating rates of interest. The policy is to retain flexibility in selecting borrowings at both fixed and floating rates interest. There is exposure to interest rate price risk for financial instruments with a fixed interest rate and to interest rate or cash flow risk for financial instruments with a floating interest rate that is reset as market rates change. Interest rate swaps are not used to generate the desired interest profit and to manage the exposure to interest rate fluctuations. There is also exposure to liquidity. As regards liquidity, the policy has to ensure continuity of funding and where necessary a certain percentage of the borrowings should mature in two to five years. Short-term flexibility is achieved by overdraft facilities. There is also exposure to changes in foreign exchange rates arising from foreign currency transactions and balances and changes in fair values. These exposures and changes in fair values from time to time are monitored and any gains and losses are included in the income statement unless otherwise stated in the notes to the financial statements. There is no policy to reduce currency exposures through forward currency contracts, derivatives transactions or other arrangements.

A further account of financial risk management is given in Note 30.

3. RELATED PARTY TRANSACTIONS

A related party is an entity or person that directly or indirectly through one or more intermediaries controls, is controlled by, or is under common or joint control with, the entity in governing the financial and operating policies, or that has an interest in the entity that gives it significant influence over the entity in financial and operating decisions. It also includes members of the key management personnel or close members of the family of any individual referred to herein and others who have the ability to control, jointly control or significantly influence by or for which significant voting power in such entity resides with, directly or indirectly, any such individual. This includes parents, subsidiaries, fellow subsidiaries, associates, joint venture and post-employment benefit plan, if any.

3.1 Related companies:

Related companies in these financial statements refer to members of the parent company's group of companies.

There are transactions and arrangements between the Company and members of the Group and the effects of these on the basis determined between the parties are reflected in these financial statements. The current intercompany balances are unsecured, interest free and repayable on demand unless stated otherwise. For non-current balances an interest is imputed based on the cost of borrowing less the interest rate if any provided in the agreement for the balance.

Intragroup transactions and balances that have been eliminated in the consolidated financial statements are not disclosed as related party transactions and balances below.

3.2 Other related parties:

There are transactions and arrangements between the Company and related parties and the effects of these on the basis determined between the parties are reflected in these financial statements. The current related party balances are unsecured, interest free and repayable on demand unless stated otherwise. For non-current balances interest is imputed based on the cost of borrowing less the interest rate if any provided in the agreement for the balance.

Significant related party transactions :

In addition to the transactions and balances disclosed elsewhere in the notes to the financial statements, this item includes the following :-

	Group	
	2007	2006
	$'000	$'000
Professional fees paid		
Straits Law Practice	24	3
Rental expense		
Calvin Thye, an Executive Officer of the company	5	5
Perusahaan Adchem Sdn. Bhd.	21	21

3.3. Key management compensation:

	2007	2006
Group	$'000	$'000
Salaries and other short-term employee benefits	1,048	811

The above amounts are included under employee benefits expense (Note 22). Included in the above amounts are following items:

	2007	2006
	$'000	$'000
Directors' remuneration of directors of the company	328	317
Directors' fees	135	55

3. RELATED PARTY TRANSACTIONS (Cont'd)

Further information about the remuneration of individual directors is provided in the report on corporate governance.

Key management personnel are directors and those persons having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly. The above amount for key management compensation is for all the directors and other key management personnel.

Subsequent to the financial year end, the Company has proposed to pay directors' fees amounting to $144,500 in respect of the financial year ended 31 December 2007, and which is subject to approval by shareholders of the Company at the forthcoming Annual General Meeting. No adjustment has been made in the financial statements for the financial year ended 31 December 2007 in respect of this.

3.4. Other receivables from and other payables to related parties.

The trade receivables and payables balances arising from sales and purchases of goods and services are disclosed elsewhere in the notes to the financial statements.

The movements in other receivables from and other payables to related parties are as follows:

Group	Director 2007 $'000	Other related parties 2007 $'000
Other receivables/(other payables):		
Balance at beginning of year	(133)	(2,908)
Amounts paid out during the year	133	588
Amounts received during the year	–	–
Balance at end of year	–	(2,320)

	Director 2006 $'000	Other related parties 2006 $'000
Other receivables/(other payables):		
Balance at beginning of year	(133)	(3,571)
Amounts paid out during the year	–	663
Amounts received during the year	–	–
Balance at end of year	(133)	(2,908)

Company	Director 2007 $'000	Other related parties 2007 $'000
Other receivables/(other payables):		
Balance at beginning of year	(65)	(2,808)
Amounts paid out during the year	65	–
Amounts received during the year	–	(77)
Balance at end of year	–	(2,885)

3. RELATED PARTY TRANSACTIONS (Cont'd)

	Director	Other related parties
	2006	2006
	$'000	$'000
Other receivables/(other payables):		
Balance at beginning of year	(65)	(3,430)
Amounts paid out during the year	–	622
Amounts received during the year	–	–
Balance at end of year	(65)	(2,808)

4. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Not restricted in use	18,506	26,771	360	3,183
Restricted (a)	7,016	3,134	–	–
	25,522	29,905	360	3,183

Analysis of above amount by currencies :

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
New Taiwan Dollars	14,773	10,792	–	–
Chinese Renminbi	3,768	9,355	–	–
Singapore Dollars	2,208	2,177	346	2,756
Malaysian Ringgit	1,494	3,062	–	–
US Dollars	450	3,612	14	427
Philippines Pesos	199	112	–	–
Hong Kong Dollars	25	33	–	–
Indonesia Rupiah	2,605	762	–	–
	25,522	29,905	360	3,183

(a) This amount has been pledged to a bank as collateral for banking facilities granted to the subsidiary (see Note 11).

The effective rate of interest for the cash on interest earning accounts is approximately 0.325% (2006: 0.375%) receivable monthly.

Cash and cash equivalent in the cash flow statement:

	2007	2006
	$'000	$'000
As shown above	25,522	29,905
Bank overdraft (Note 11)	–	(504)
Fixed deposits pledge with bank	(7,016)	(3,134)
	18,506	26,267

5. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Trade receivables:				
Outside parties (a)	15,755	18,885	996	–
Less provision for impairment	(279)	(1,290)	–	–
Construction contract receivables (Note 7)	41,479	26,899	–	–
Subsidiaries (Notes 3 and 8)	–	–	–	60
	56,955	44,494	996	60
Other receivables and prepayments				
Subsidiaries (Note 3 and 8)	–	–	46,561	53,716
Deposits (b)	895	1,237	–	–
Prepayments	2,568	602	697	327
Tax refundable	670	98	81	81
Related party (Note 3)	–	194	11,575	–
Sundry recoverable	4,655	3,988	54	25
Less provision for impairment	(767)	(767)	–	(388)
	8,021	5,352	58,968	53,761
Total trade and other receivables	64,976	49,846	59,964	53,821

(a) Included in the trade receivables of the Group is an amount of $5,818,000 (2006: $5,818,000) relating to sub-contract works due from a customer based in Taiwan. The outstanding amount of $5,483,000 (2006: $5,818,000) (or US$3,790,000) is overdue under the terms of the contract and it remains unpaid. An amount of $4,602,000 (2006: $4,883,000) (or US$3,181,000) out of the total outstanding amount of $5,483,000 (2006: $5,818,000) (or US$3,790,000) is covered by way of a credit insurance underwritten with a credit insurance company in Singapore. The delay in payment is the result of a delay in the completion of the main contract which the customer is involved in. The uninsured amount of $852,000 (2006: $1,002,000) (or US$589,000) had been fully provided for during the year 2004.

Management submitted a claim of $3,874,000 (2006: $4,110,000) (or US$2,678,000) to the credit insurance company concerned in 2004 and appointed a legal counsel in Taiwan in 2005 for the recovery of debt. Management also appointed a legal counsel in Singapore in 2005 to deal with the credit insurance company in order to expedite the claim process. To date, management has not submitted a claim to the credit insurance company for the retention monies of $728,000 (2006: $773,000) (or US$503,000) billed in 2005. It is management's intention to submit the claim for the retention monies of $728,000 (2006: 773,000) (or US$503,000) once the initial claim of $3,874,000 (2006: $4,110,000) (or US$2,678,000) has been satisfactorily settled. The directors are satisfied that management has taken the necessary steps to ensure that the Group has met its obligations under the credit insurance policy to date and are of the view that the full insured amount is recoverable under the insurance policy.

Subsequent to the end of the current financial year, the insurance company has paid $3,000,000 to the Group as full and final settlement of the above matter. The balance of the outstanding amount has been written off accordingly and reflected in the current year Group result.

5. TRADE AND OTHER RECEIVABLES (Cont'd)

(b) Included in deposits of the Group is an amount of $767,500 (2006: $767,500) (or US$500,000) which relates to a refundable deposit paid to a third party vendor for the Group's acquisition of 10% interest, comprising 150,000 ordinary shares of Rupiah 1 each, in PT Air Bintan Biru ("PT ABB"), a company incorporated in the Republic of Indonesia. The total consideration is $4,340,000 (2006: $4,605,000) (or US$3,000,000). The remaining consideration $3,572,500 (2006: $3,837,500) (or US$2,500,000) is payable upon the fulfilment of certain conditions in the sale and purchase agreement, dated 24 May 2003.

PT ABB is a special purpose vehicle mandated for the purpose of holding the concession of the water resources in Bintan. It is also responsible for the development of such water resources and is the designated representative of the Indonesian Government in its negotiations to sell water to the Singapore Government.

Due to the volatility and uncertainty of the present economic situation in the Indonesia region, the conditions have yet to be fulfilled by the vendor (see also Note 26(a)) and the project has been put on hold for the past four years.

In the financial year 2006, management has made a full provision for impairment of the deposit amounting to $767,500.00 (2006: $767,500) (or US$500,000).

	Group		Company	
	2007	2006	2007	2006
Movements in above provision:				
Balance at beginning of year	2,057	1,685	388	–
Amount written off	(1)	–	–	–
Charge for trade receivables to income statement included in other charges	–	29	–	–
Charge for other receivables to income statement included in other charges	–	343	–	388
Provision no longer required	(1,010)	–	(388)	–
Balance at end of year	1,046	2,057	–	388

Analysis of above amount by currencies :

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
New Taiwan Dollars	42,630	36,124	–	–
US Dollars	6,556	5,876	13,043	–
Malaysian Ringgit	8,392	4,089	1,037	–
Singapore Dollars	3,394	2,137	45,884	53,821
Philippines Pesos	310	301	–	–
Chinese Renminbi	1,490	1,090	–	–
Indonesia Rupiah	2,204	229	–	–
	64,976	49,846	59,964	53,821

The general credit period granted to customers of the Group ranged from 30 to 90 (2006: 30 to 90) days.

Current receivables with a short duration are not discounted and the carrying values are assumed to approximate the fair value.

Concentration of trade receivable customers:

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Top 1 customer	2,758	4,883	–	–

6. INVENTORIES

	Group 2007 $'000	Group 2006 $'000
Goods for resale, at cost	2,102	1,907
Changes in inventories of finished goods	195	59
Cost of purchases	67,023	51,137

7 CONTRACTS WORK-IN-PROGRESS

	Group 2007 $'000	Group 2006 $'000
Balance at beginning of year	48,876	33,470
Aggregate amount of costs incurred during the year	44,335	78,101
Less amounts recognised in the income statement	(88,158)	(62,695)
Balance at end of year – contract costs that relate to future activity recognised as an asset	5,053	48,876
Aggregate amount of costs incurred and recognised profits (less recognised losses) to date on uncompleted contracts	96,991	71,869
Less progress payments received and receivable to date	(57,571)	(47,999)
Net amount due from or (to) contract customers at end of year	39,420	23,870

Included in the accompanying balance sheet as follows:

	Group 2007 $'000	Group 2006 $'000
As an asset under trade receivables (Note 5)	41,479	26,899
As a liability under trade payables (Note 12)	(2,059)	(3,029)
	39,420	23,870
Construction contract retention receivables as an asset under trade receivables (Note 5)	2,088	2,142

8. INVESTMENTS IN SUBSIDIARIES

	Company 2007 $'000	Company 2006 $'000
Unquoted equity shares at cost to the company	7,376	7,376

The investment is carried at cost less provision for impairment.

8. INVESTMENTS IN SUBSIDIARIES (Cont'd)

The subsidiaries held by the Company and the subsidiaries are listed below:

Name of subsidiaries, country of incorporation, place of operations and principal activities (and auditors)	Cost in books of Group		Effective percentage of equity held by Group	
	2007	2006	2007	2006
	$'000	$'000	%	%
Held by the Company:				
Darco Engineering Pte Ltd Singapore Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business (LTC & Associates)	2,679	2,679	100	100
Singaway FluidControls Private Limited Singapore Trading and supply of chemicals, electrical controls, instruments and apparatus used in water treatment systems (LTC & Associates)	100	100	100	100
Darco Environmental Pte Ltd Singapore Investment holding (LTC & Associates)	200	200	100	100
Darco Water Systems Sdn. Bhd. Malaysia Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business (Peter Chong & Co.) (b)	2,338 (RM4,802)	2,338 (RM4,802)	100	100
PV Vacuum Engineering Pte Ltd Singapore Design and supply of environmental related equipment (Tan, Teo & Partners) (a)	2,059	2,059	100	100
	7,376	7,376		

8. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name of subsidiaries, country of incorporation, place of operations and principal activities (and auditors)	Cost in books of Group		Effective percentage of equity held by Group	
	2007	2006	2007	2006
	$'000	$'000	%	%
Held by subsidiaries:				
Darco Engineering (Taiwan) Inc Taiwan Design, fabrication, installation of water and waste water pollution control engineering; air pollution control engineering; solid waste disposal treatment and incineration; noise and vibration prevention engineering; soil pollution control engineering; environmental monitoring system (Deloitte & Touche) (a)	19,921 (NT$405,786)	17,421 (NT$350,000)	100	100
P.T. Darco Indonesia Indonesia Design and fabrication of water treatment systems and providing consultancy services in relation to such business (Doli, Bambang, Sudarmadji & Dadang) (b)	929 (US$554)	929 (US$554)	51	51
Darco Environmental (Philippines) Inc The Philippines Design, installation and commissioning of treatment systems for water purification, treatment of wastewater and other waste discharge for industrial use (Fernandez, Santos & Lopez) (a)	230 (US$130)	230 (US$130)	65	65
Shanghai Challenge Environmental Engineering Co., Ltd The People's Republic of China Design, fabrication, installation and commissioning of environmental engineering system and providing consultancy services in relation to such business (Deloitte & Touche) (a)	106 (US$60)	106 (US$60)	100	100
Globe Industrial Technology Company Ltd Hong Kong Investment holding (Deloitte & Touche) (a)	1,830 (HK$7,990)	1,830 (HK$7,990)	75	75
Deqing Darco Producing Water Co., Ltd The People's Republic of China Supply of potable water (Deloitte & Touche) (a)	8,759 (US$5,700)	7,750 (US$5,000)	100	100

8. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name of subsidiaries, country of incorporation, place of operations and principal activities (and auditors)	Cost in books of Group		Effective percentage of equity held by Group	
	2007	2006	2007	2006
	$'000	$'000	%	%
Held by subsidiaries:				
Shanghai Darco Engineering Company Limited The People's Republic of China Design and fabrication of water treatment systems and providing consultancy services in relation to such business (Deloitte & Touche) (a)	1,838 (US$1,050)	1,838 (US$1,050)	100	100
Darco System (M) Sdn. Bhd. Malaysia Designing, fabrication and constructing pure and waste water treatment plants and trading in related industrial products (Peter Chong & Co.) (b)	2,299 (RM4,802)	2,299 (RM4,802)	100	100
Darco Industrial Water Systems Sdn. Bhd. Malaysia Designing, installing, setting up and maintaining of industrial waste treatment plant ultra pure system, testing of waste water and processed water, rendering of other related waste treatment plant services and trading in industrial water treatment equipment, spare parts and chemicals (Peter Chong & Co.) (b)	201 (RM420)	201 (RM420)	100	100
WWMG Environmental Sdn. Bhd. Malaysia Dormant (Peter Chong & Co.) (b)	– (c)	– (c)	100	100
Deqing Huanzhong Producing Water Co., Ltd The People's Republic of China Supply of potable water (Deloitte & Touche) (a)	13,752 (US$7,894)	13,752 (US$7,894)	66	66
Darco Environmental (Taiwan) Inc Taiwan Design and fabrication of water treatment systems and providing consultancy services in relation to such business (Deloitte & Touche) (a)	360 (NT$7,200)	360 (NT$7,200)	60	60
Puzer Asia Pte Ltd Singapore Trading in vacuum cleaning systems and provision of related services (Tan, Teo & Partners) (a)	16	16	56	56

(a) Other auditors. Audited by firms of accountants other than member firms of BKR International of which LTC & Associates, Singapore is an independent member.

(b) Member firms of BKR International of which LTC & Associates, Singapore is an independent member.

(c) Cost in books of Group is $0.90 (RM2).

9. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land $'000	Freehold building $'000	Leasehold properties $'000	Plant and equipment $'000	Building under construction $'000	Total $'000
Cost:						
At beginning of year 1 January 2006	262	1,208	3,713	8,084	15,556	28,823
Foreign exchange adjustments	(3)	(16)	(109)	(194)	(801)	(1,123)
Additions	–	–	35	1,334	823	2,192
Disposals	–	(124)	(51)	(1,105)	–	(1,280)
Reclassification	–	–	–	–	–	–
At end of year 31 December 2006	259	1,068	3,588	8,119	15,578	28,612
Accumulated depreciation :						
At beginning of year 1 January 2006	–	87	186	2,930	34	3,237
Foreign exchange adjustments	–	(1)	–	(193)	(2)	(196)
Depreciation for the year	–	23	53	1,116	34	1,226
Disposals	–	–	–	(200)	–	(200)
Reclassification	–	–	–	–	–	–
At end of year 31 December 2006	–	109	239	3,653	66	4,067
Net book value :						
At end of year 31 December 2006	259	959	3,349	4,466	15,512	24,545

Group	Freehold land $'000	Freehold building $'000	Leasehold properties $'000	Plant and equipment $'000	Building under construction $'000	Total $'000
Cost:						
At beginning of year 1 January 2007	259	1,068	3,588	8,119	15,578	28,612
Foreign exchange adjustments	1	2	8	157	68	236
Additions	–	–	–	522	5,938	6,460
Disposals	–	–	(126)	(214)	(1,007)	(1,347)
Reclassification	–	–	–	–	–	–
At end of year 31 December 2007	260	1,070	3,470	8,584	20,577	33,961
Accumulated depreciation :						
At beginning of year 1 January 2007	–	109	239	3,653	66	4,067
Foreign exchange adjustments	–	1	–	280	(1)	280
Depreciation for the year	–	23	53	1,069	33	1,178
Disposals	–	–	–	(140)	–	(140)
At end of year 31 December 2007	–	133	292	4,862	98	5,385
Net book value :						
At end of year 31 December 2007	260	937	3,178	3,722	20,479	28,576

Certain items of plant and equipment amounting to net book value of $676,000 (2006:$861,000) are under finance lease agreements (see Note 14).

9. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The Group owns the following properties :

Location	Description and tenure	Gross land area (sqm)	Gross built-in area (sqm)	Use of property
41 Loyang Drive, Singapore 508952	JTC standard terrace/ detached factory 30-years lease with effect from 1 April 2002	2,320	1,010	Office, factory and warehouse
No. 20 Lorong Pala 4, Kawasan Industri Ringan, Permatang Tinggi, 14000 Bukit Mertajam, Pulau Pinang, Malaysia	Freehold $1^{1}/_{2}$ storey semi-detached light industrial factory	622	290	Factory
Lot No.PT16724, H.S(D)1100898, Arab Malaysia Industrial Park, Nilai Mukim of Setul, Daerah Seremban, Negeri Sembilan Darul Khusus, Malaysia	Freehold land	4,572	1,512	Office, factory and warehouse
Songkai No.III-32, Songjiang Development Zone, Shanghai, The People's Republic of China	50 years leasehold land with effect from 30 April 2002	6,960	3,391	Office, factory and warehouse

10. GOODWILL

	Group	
	2007	2006
	$'000	$'000
Cost:		
At end of year	1,266	1,266

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment by each primary reporting segments as follows:-

	EW Systems
	$'000
2007	
Name of subsidiary:	
PV Vacuum Engineering Pte Ltd	905
Darco Engineering (Taiwan) Inc	35
Shanghai Challenge Environmental Engineering Co., Ltd	15
Globe Industrial Technology Company Ltd	311
Cost as at 31 December 2007	1,266
2006	
Name of subsidiary:	
PV Vacuum Engineering Pte Ltd	905
Darco Engineering (Taiwan) Inc	35
Shanghai Challenge Environmental Engineering Co., Ltd	15
Globe Industrial Technology Company Ltd	311
Cost as at 31 December 2006	1,266

The goodwill was tested for impairment at the end of the year. An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit ("CGU") is the higher of its fair value less cost to sell and its value in use. The recoverable amounts of cash-generating units have been determined based on the value in use method.

10. GOODWILL (Cont'd)

The value in use was determined by management. The key assumptions for the value in use calculations are as follows:

1.	Estimated discount rates using pre-tax rates that reflect current market assessments at the risks specific to the CGUs.	7%
2.	Growth rates based on industry growth forecasts and not exceeding the average long – term growth rate for the relevant markets.	2%
3.	Cash flow forecasts derived from the most recent financial budgets approved by management for the next twenty two years.	22 years

11. SHORT-TERM BORROWINGS

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Revolving loan facility (secured)	17,020	12,768	17,020	12,768
Bills payable to bank (secured)	3,090	8,302	–	–
Bank overdraft (secured)	–	504	–	–
Finance company loans (secured)	–	932	–	–
Total short-term borrowings	20,110	22,506	17,020	12,768
Analysis of above amount by currencies:				
Singapore Dollars	4,000	1,004	4,000	500
New Taiwan Dollars	2,698	9,024	–	–
US Dollars	13,020	12,268	13,020	12,268
Malaysian Ringgit	392	210	–	–
Total short-term borrowings	20,110	22,506	17,020	12,768

All the short-term borrowings are interest bearing. The carrying values approximate fair values. The borrowings are measured using the effective interest method.

Revolving loan facility of $17,020,000 (2006: $12,768,000) bears floating interest at rates ranging from 4.17% to 7.33% (2006: 5.11% to 6.96%) per annum and are secured by corporate guarantee from certain company's subsidiaries and compliance to certain financial covenants. This amount was a partially drawdown from the total revolving loan facility of US$9 million and S$4 million obtained in November 2006.

The bills payable of $3,090,000 (2006: $8,302,000) was obtained from bank, in relation to the Chu Bei Project in Taiwan. It bears floating interest at rates ranging from 2.85% to 6.58% (2006: Floating interest rates from 1.45% to 1.71%) and was covered by corporate guarantees by the company (Note 25) and pledging of certain fixed deposits of subsidiaries (Note 4).

The bank overdrafts are covered by corporate guarantees by the company (Note 25).

The finance company loans of NIL (2006: $932,000) bear floating interest at rates ranging from 6.15% to 7.5% (2006: 6.35% to 8.8%) per annum and were secured by way of the pledging of certain fixed deposits of subsidiaries (Note 4). These loans were fully repaid during the current financial year.

12. TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Trade payables:				
Outside parties	29,770	9,296	61	6
Accrued liabilities	2,849	1,193	188	167
Due to construction contract customers (Note 7)	2,059	3,029	402	–
	34,678	13,518	651	173
Other payables:				
Director (Note 3)	–	133	–	65
Related party (Note 3)	2,320	2,908	2,885	2,808
Subsidiaries (Note 3 and 8)	–	–	73	23
Sundry payables	33	2,561	–	–
	2,353	5,602	2,958	2,896
Total trade and other payables	37,031	19,120	3,609	3,069
Analysis of above amount by currencies:				
Singapore Dollars	5,337	4,886	3,105	3,069
New Taiwan Dollars	25,062	10,284	–	–
Malaysian Ringgit	2,872	1,659	102	–
Philippines Pesos	113	192	–	–
Chinese Renminbi	644	977	–	–
Indonesia Rupiah	728	172	–	–
United States Dollars	2,242	824	402	–
Euro	23	112	–	–
Great British Pound Sterling	10	14	–	–
	37,031	19,120	3,609	3,069

The general credit period granted to the Group to settle payables ranged from 60 to 90 (2006: 60 to 90) days. The other payables are with short-term durations. The notional amount is deemed to reflect the fair value.

13. LONG-TERM BORROWINGS

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Term loan I	15,277	18,403	15,277	18,403
Term loan II	2,733	2,733	–	–
Financial Notes payable	584	335	–	–
Convertible notes (a)				
- Derivative liability	457	–	457	–
- Financial liability	1,543	–	1,543	–
Total borrowings	20,594	21,471	17,277	18,403

13. LONG-TERM BORROWINGS (Cont'd)

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
The borrowings are repayable as follows:				
Amount due within a year:				
Term loan I	2,778	2,208	2,778	2,208
Term loan II	2,733	–	–	–
Total current portion	5,511	2,208	2,778	2,208
Non-current portion	15,083	19,263	14,499	16,195
The non-current portion is repayable as follows :				
Due within 2 to 5 years	15,083	19,263	14,499	16,195
Total non-current portion	15,083	19,263	14,499	16,195
Analysis of above amount by currencies :				
United States Dollars	15,278	18,403	15,277	18,403
Singapore Dollars	2,000	–	2,000	–
New Taiwan Dollars	3,316	3,068	–	–
	20,594	21,471	17,277	18,403

All the borrowings are interest bearing. The carrying values approximate fair values. The borrowings are measured using the effective interest method.

The term loan I bears interest at floating rate ranging from 6.63% to 7.23% (2006: 5.15% to 6.86%) per annum and is secured by corporate guarantee from certain company's subsidiaries and compliance to certain financial covenants. This loan is repayable by 16 quarterly instalments over 4 years commencing from March 2007.

The term loan II bears Interest at 5.13% (2006: 5.13%) per annum and is repayable by end of 2008.

The financial notes payables bear interest of 6.5178% (2006: 6.5767%) are due by October 2009 (2006: March 2008). The financial note payable which was due on March 2008, was fully paid in advance in current financial year.

(a) On 11 September 2007, the Company issued unsecured non-interest bearing convertible notes denominated in Singapore Dollars with a nominal value of $40,000,000 due 2012 at an issue price of 100% of the principal amount of such notes to Pacific Capital Investment Management Limited ("PCIM"). These notes are to be subscribed in 20 tranches of $2,000,000 per tranche at such time specified in the agreement between the Company and PCIM. On 6 December 2007, PCIM subscribed the first tranche $2,000,000.

Subsequent to the end of the financial year, PCIM has on 8 January 2008 and 31 January 2008 exercised its rights to convert the principal amounts of $1,600,000 and $400,000 at the conversion price of $0.224 and $0.153 per share respectively. The exercise price of the convertible notes is determined at 90% of the average of the closing trading price of the Company's ordinary share on the Singapore Stock Exchange for five market days immediately preceding the date of conversion (See note 28).

14. OBLIGATIONS UNDER FINANCE LEASES

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Minimum lease payment due:				
Due within one year	335	478	–	–
Due within two to five years	38	376	–	–
Due after five years	3	11	–	–
	376	865	–	–
Less: Future finance charges	(20)	(63)	–	–
Present value of finance lease liabilities	356	802	–	–

14. OBLIGATIONS UNDER FINANCE LEASES

The present value of finance lease liabilities are analysed as follows:

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Not later than one year	323	446	–	–
Later than one year				
- Between two to five years	30	347	–	–
- Later than five years	3	9	–	–
	33	356	–	–
Total	356	802	–	–

It is a policy to lease certain of its plant and equipment under finance leases. The lease term range from 2 to 7 years. The rate of interest for finance leases is ranging from 3.63% to 10.80% per year. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The obligations under finance leases are secured by the lessor's charge over the Group's leased assets.

The fair value of the lease liabilities approximates the carrying amounts.

15. SHARE CAPITAL

	Number of shares	Issued share capital
		$'000
Ordinary shares:		
Balance at end of year 31 December 2005	184,456,812	9,224
Transfer from Share premium	–	17,838
Balance at end of year 31 December 2006	184,456,812	27,062
	–	–
Balance at end of year 31 December 2007	184,456,812	27,062

With the changes to the Companies Act, Cap 50, effective from 30 January 2006, there is the removal of the concept of par value and authorised capital and there is no share premium account. The company had a share premium account balance of $17,838,000 during the year ended 31 December 2006. This amount was included in the share capital as at 31 December 2006 as required by the changes to the Companies Act in 2006.

The ordinary shares carry no right to fixed income.

Capital management

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

Management monitors capital based on a gearing ratio. The Group and the Company are also required by the banks to maintain a gearing ratio not exceeding 30% (2006: 55%). The Group's and Company's strategies, which were unchanged from 2006, are to maintain gearing ratios within 28% to 53% and 26% to 48% respectively.

15. SHARE CAPITAL (Cont'd)

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings plus trade and other payables less cash and cash equivalents. Total capital is calculated as equity plus net debt.

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Total debts	15,538	14,874	33,937	27,988
Total equity	40,899	42,559	29,794	30,140
Total capital	56,437	57,433	63,731	58,128
Gearing ratio	28%	26%	53%	48%

The dividend payments are as follows:

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Final dividend of 1 cent (2006: NIL) per ordinary share as tax exempt dividend paid in respect of financial year 2006	1,845	–	1,845	–
	1,845	–	1,845	–

Subsequent to the financial year end, the directors propose that a final dividend of 0.5 cents per ordinary share be paid as tax exempt dividends. This dividend is subject to approval by shareholders at the forthcoming Annual General Meeting of the Company and has not been included as a liability in these financial statements.

16. OTHER RESERVES

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Share premium	–	17,838	–	17,838
Foreign currency translation reserve	(1,860)	(1,560)	–	–
	(1,860)	16,278	–	17,838
Transfer of share premium to share capital (Note 15)	–	(17,838)	–	(17,838)
	(1,860)	(1,560)	–	–

The movements in the reserves are disclosed in the statement of changes in equity.

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the foreign subsidiaries.

17. REVENUE

	Group	
	2007	2006
	$'000	$'000
Amount recognised from long-term contracts	71,427	54,686
Rendering of services	14,441	11,370
Sales of goods	1,691	2,849
	87,559	68,905

18. OTHER INCOME

	Group	
	2007	2006
	$'000	$'000
Rental income	4	4
Trade creditors no longer payable	–	249
Doubtful debts no longer required	1,010	–
Miscellaneous income	781	418
	1,795	671

19. FINANCIAL INCOME AND (EXPENSE)

	Group	
	2007	2006
	$'000	$'000
Interest income	236	115
Interest expense	(2,545)	(1,775)
	(2,309)	(1,660)
Presented in the income statement as:		
Financial income	236	115
Financial expense	(2,545)	(1,775)
Financial income and (expense)-net	(2,309)	(1,660)

20. OTHER (CHARGES)/CREDITS

	Group	
	2007	2006
	$'000	$'000
Foreign exchange transaction gains	1,275	830
Provision for impairment on trade receivables no longer required	1,010	–
Bad debts written off trade receivables	(3,342)	(46)
Loss on disposal of plant and equipment - net	(4)	(253)
Provision for impairment on trade receivables	–	(29)
Provision for impairment on other receivables	–	(343)
	(1,061)	159

21. INCOME TAX EXPENSES

	Group	
	2007	2006
	$'000	$'000
Current tax expense	1,309	1,165
Deferred tax expense	52	27
Total tax expense	1,361	1,192

21. INCOME TAX EXPENSES (Cont'd)

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 18.0% (2006: 20.0%) to profit before income tax as a result of the following differences:

	Group	
	2007	2006
	$'000	$'000
Profit before tax	4,604	3,274
Income tax expense at statutory rate	829	655
Non-(taxable)/allowable items	1,463	309
Underprovision in prior years	238	57
Differential in tax rate of foreign subsidiaries	327	888
Tax exemptions	(694)	(30)
Pioneer income untaxable from foreign subsidiaries (a)	(653)	(728)
Deferred tax asset/ (liability) not recognised due to temporary differences	(150)	–
Other items less than 3% each	1	41
Total income tax expense	1,361	1,192

(a) Refers to non-taxable pioneer income of a Malaysian subsidiary which has been granted "pioneer status", with effect from year 2002 to 2007.

The group deferred tax amounts are as follows:

	Balance sheet		Net change In income statement	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Deferred tax liabilities:				
Excess of net book value of plant and equipment	142	129	52	(3)
Foreign exchange adjustments	133	70	–	50
Total deferred tax liabilities	275	199	52	47
Deferred tax assets:				
Foreign exchange adjustments	16	3	–	–
Unabsorbed wear and tear allowances	–	12	–	–
Tax losses carryforwards	23	–	–	–
Allowance for doubtful debts	27	27	–	20
Total deferred tax assets	66	42	–	20
Net total of deferred tax liabilities	209	157	52	27
Presented in balance sheet as follows:				
Deferred tax liabilities	(209)	(157)		

The above deferred tax liabilities are not expected to be settled within one year.

An allowance is made to the extent that it is not probable that taxable profit will be available against which the unused tax loss carryforwards can be utilised. The realisation of the future income tax benefits from tax loss carryforwards and temporary differences from capital allowances is available for an unlimited future period subject to the conditions imposed by law including the retention of majority shareholders as defined. Where provision for deferred tax arising from temporary differences has been offset against the above tax loss carryforwards, such provision for deferred tax will be required to be set up when the tax losses are utilised in the future.

At the balance sheet date, no deferred tax liability has been recognised on certain amount of temporary differences associated with investments in subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

There is no income tax consequences of dividends to shareholders of the company.

22. EMPLOYEE BENEFITS EXPENSE

	Group	
	2007	2006
	$'000	$'000
Employee benefits expense including directors	7,367	8,919
Contribution to defined contribution plans	1,044	578
Contribution to defined benefit plans	85	500
Total employee benefits expense	8,496	9,997

23. ITEMS IN THE INCOME STATEMENT

In addition to the charges and credits disclosed elsewhere in the notes to the financial statements, the income statement includes the following charges:-

	Group	
	2007	2006
	$'000	$'000
Other fees to auditors	–	5

24. EARNINGS PER SHARE

The earnings per share is calculated by dividing the Group's profit attributable to shareholders by the weighted number of ordinary shares in issue during the financial year.

	2007	2006
	$'000	$'000
The calculation of the earnings per share is based on the following:		
Net profit for the year attributable to the equity holders of the Company	2,830	2,377
Earnings for the purpose of diluted earnings per share	2,830	2,377
Number of shares		
Weighted average number of ordinary shares for the Purpose of basic earnings per share	184,456,812	184,456,812
Weighted average number of ordinary shares for the Purpose of diluted earnings per share	185,002,574	–

For the purpose of calculating diluted earnings per share, convertible notes are assumed to be converted into ordinary shares at year end (Note 13).

25. CONTINGENT LIABILITIES

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Corporate guarantees in favour of subsidiaries (a)	–	–	15,228	19,700
	–	–	15,228	19,700

(a) The corporate guarantees are given to certain banks for credit facilities granted to certain subsidiaries. The directors estimated that the fair values of the corporate guarantees are neglible.

26. CAPITAL EXPENDITURE COMMITMENTS

	Group	
	2007	2006
	$'000	$'000
Approved but not yet contracted for (a)	3,617	3,838

(a) As disclosed in Note 5 to the financial statement, the Group is committed to acquire 10% interest in PT Air Bintan Biru for a consideration of $4,340,000 (2006: $4,605,000) (or US$3,000,000). As at 31 December 2007, a refundable deposit of $767,500 (2006: $767,500) (or US$500,000) has been paid with the remaining $3,572,500 (2006: $3,837,500) (or US$2,500,000) payable upon fulfilment of certain conditions set out in the sale and purchase agreement.

27. OPERATING LEASE PAYMENT COMMITMENTS

At the balance sheet date the total of future minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	2007	2006
	$'000	$'000
Not later than one year	116	60
Later than one year and not later than five years	167	159
Later than five years	731	768
	1,014	987
Rental expense for the year	74	58

Operating lease payments represent rentals payable by the Group for its leasehold property. The lease rental terms are for 30 years. The terms are negotiated for an average term of 3 years and rentals are subject to an escalation clause but the amount of the rent increase is not to exceed a certain percentage. Such increases are not included in the above amounts.

28. POST BALANCE SHEET EVENTS

Subsequent to current financial year,

(i) Pacific Capital Investment Management Limited ("PCIM") has on 8 January 2008 and 31 January 2008 exercised its rights to convert the convertible notes (Note 13) with principal amounts of $1,600,000 and $400,000 at the conversion price of $0.224 and $0.153 per share respectively. The exercise price of the convertible notes is determined at 90% of the average of the closing trading price of the Company's ordinary share on the Singapore Stock Exchange for five market days immediately preceding the date of conversion.

(ii) On 11 January 2008, PCIM subscribed the second tranche of $2,000,000. PCIM has on 31 January 2008, 15 February 2008 and 12 March 2008 exercised its rights to convert the convertible notes (Note 13) with principal amounts of $600,000, $1,000,000 and $400,000 at the conversion price of $0.153, $0.138 and $0.124 per share respectively. The exercise price of the convertible notes is determined at 90% of the average of the closing trading price of the Company's ordinary share on the Singapore Stock Exchange for five market days immediately preceding the date of conversion.

(iii) In relation to the matter of claim against the credit insurance company as discussed in Note 5, the credit insurance company has paid $3,000,000 to the Group as full and final settlement of the debts owing to the Company of $4,602,000(or US$3,181,000). The balance of the outstanding amount has been written off accordingly and reflected in the current year Group result.

29. FINANCIAL INFORMATION BY SEGMENTS

For management purposes, the Group is currently organised into three operating divisions – EW Systems, WM Services and trading. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:-

(i) EW Systems – Designs, fabricates, assembles, installs and commission engineered water systems ("EW Systems") for industrial applications;

(ii) WM Services – Services and maintains product water and wastewater systems ("WM Services"); and

(iii) Trading – Trades and supplies chemicals, electrical controls and related instruments used in water treatment systems.

Segment information about the business is presented below:

Group	EW Systems 2007 $'000	WM Services 2007 $'000	Trading 2007 $'000	Consolidated 2007 $'000
REVENUE				
External sales	71,426	14,442	1,691	87,559
RESULTS				
Segment results	3,893	683	28	4,604
Income tax expenses				(1,361)
Profit after income tax				3,243
OTHER INFORMATION				
Capital expenditure	5,269	1,066	125	6,460
Depreciation and amortisation	961	194	23	1,178
BALANCE SHEET				
ASSETS				
Segment assets	59,564	2,175	3	61,742
Unallocated corporate assets				60,700
Consolidated total assets				122,442
LIABILITIES				
Segment liabilities	51,371	1,412	269	53,052
Unallocated corporate liabilities				25,775
Consolidated total liabilities				78,827

29. FINANCIAL INFORMATION BY SEGMENTS (Cont'd)

Group	EW Systems 2006 $'000	WM Services 2006 $'000	Trading 2006 $'000	Consolidated 2006 $'000
REVENUE				
External sales	54,686	11,370	2,849	68,905
RESULTS				
Segment results	915	2,330	29	3,274
Income tax expenses				(1,192)
Profit after income tax				2,082
OTHER INFORMATION				
Capital expenditure	1,739	362	91	2,192
Depreciation and amortisation	973	202	51	1,226
BALANCE SHEET				
ASSETS				
Segment assets	46,699	2,200	870	49,769
Unallocated corporate assets				57,700
Consolidated total assets				107,469
LIABILITIES				
Segment liabilities	32,656	319	500	33,475
Unallocated corporate liabilities				31,435
Consolidated total liabilities				64,910

The Group operates in four principal geographical areas, Singapore, Malaysia, The People's Republic of China and Taiwan. The other geographical segments refer mainly to Philippines and Indonesia.

The following table provides an analysis of the Group's sales by geographical market irrespective of the origin of the goods/services: -

	Sales revenue by Geographical market 2007 $'000	2006 $'000
Taiwan	43,452	40,644
Malaysia	22,316	17,650
China	5,371	5,353
Singapore	9,853	4,378
Others	6,567	880
	87,559	68,905

29. FINANCIAL INFORMATION BY SEGMENTS (Cont'd)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2007	2006	2007	2006
	$000	$000	$000	$000
Taiwan	58,049	47,953	242	883
China	28,844	29,397	5,851	889
Malaysia	17,898	15,162	194	338
Singapore	10,681	11,695	152	80
Others	6,970	3,262	21	2
	122,442	107,469	6,460	2,192

30. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance. The Group uses financial instruments such as currency forwards, interest rate swaps and foreign currency borrowings to hedge certain financial risk exposures.

(a) Market risk

(i) Currency risk

The Group operates in Asia with dominant operations in Singapore, the People's Republic of China, Taiwan, Malaysia, Indonesia and the Philippines. Entities in the Group regularly transact in currencies other than their respective functional currencies ("foreign currencies") such as the Singapore Dollar ("SGD"), Malaysia Ringgit ("MYR"), Taiwan Dollars ("NTD") and Chinese Yuan or Renminbi ("RMB"). Currency risk arises when transactions are denominated in foreign currencies.

In addition, the Group is exposed to currency translation risk on the net assets in foreign operations. Currency exposure to the net assets of the Group's foreign operations in Malaysia and Taiwan are managed primarily through borrowings denominated in the relevant foreign currencies.

30. FINANCIAL RISK MANAGEMENT (Cont'd)

Group	SGD $'000	MYR $'000	NTD $'000	RMB $'000	Others $'000	Total $'000
At 31 December 2007						
Financial assets						
Cash and cash equivalents	2,273	1,882	14,772	3,766	2,829	25,522
Trade and other receivables excluding amount due from construction contracts	4,662	7,661	9,683	1,491	–	23,497
	6,935	9,543	24,455	5,257	2,829	49,019
Financial liabilities						
Borrowings	34,386	–	6,317	–	–	40,703
Trade and other payables excluding amount due to construction contracts	9,996	162	24,814	–	–	34,972
	44,382	162	31,131			75,675
Net financial liabilities	(37,447)	9,381	(6,676)	5,257	2,829	(26,656)
Less: Net financial liabilities/(assets) denominated in the respective entities' functional currencies	(35,842)	5,263	(4,120)	2,562	2,632	
Currency exposure	(1,605)	4,118	(2,556)	2,695	197	

Group	SGD $'000	MYR $'000	NTD $'000	RMB $'000	Others $'000	Total $'000
At 31 December 2006						
Financial assets						
Cash and cash equivalents	6,309	3,449	10,792	9,355	–	29,905
Trade and other receivables excluding amount due from construction contracts	3,155	9,555	9,147	1,090	–	22,947
	9,464	13,004	19,939	10,445	–	52,852
Financial liabilities						
Borrowings	31,125	–	12,852	–	–	43,977
Trade and other payables excluding amount due to construction contracts	5,824	1,607	8,660	–	–	16,091
	36,949	1,607	21,512	–	–	60,068
Net financial liabilities	(27,485)	11,397	(1,573)	10,445	–	(7,216)
Less: Net financial liabilities/(assets) denominated in the respective entities' functional currencies	(25,746)	9,687	(1,025)	8,632	–	
Currency exposure	(1,739)	1,710	(548)	1,813	–	

30. FINANCIAL RISK MANAGEMENT (Cont'd)

Company	SGD $'000	MYR $'000	NTD $'000	RMB $'000	Others $'000	Total $'000
At 31 December 2007						
Financial assets						
Cash and cash equivalents	346	–	–	–	14	360
Trade and other receivables excluding amount due from construction contracts	45,884	1,037	–	–	13,043	59,964
	46,230	1,037			13,057	60,324
Financial liabilities						
Borrowings	6,000	392	6,014	–	21,891	34,297
Trade and other payables excluding amount due to construction contracts	3,105	102	–	–	–	3,207
	9,105	494	6,014	–	21,891	37,504
Net financial liabilities	37,125	543	(6,014)	–	(8,834)	22,820
Less: Net financial liabilities/(assets) denominated in the respective entities' functional currencies	35,486	481	(5,802)	–	(8,470)	
Currency exposure	1,639	62	(212)	–	(364)	

Company	SGD $'000	MYR $'000	NTD $'000	RMB $'000	Others $'000	Total $'000
At 31 December 2006						
Financial assets						
Cash and cash equivalents	2,756	–	–	–	427	3,183
Trade and other receivables excluding amount due from construction contracts	53,821	–	–	–	–	53,821
	56,577	–	–	–	427	57,004
Financial liabilities						
Borrowings	500	–	–	–	30,672	31,172
Trade and other payables excluding amount due to construction contracts	3,609	–	–	–	–	3,609
	4,109	–	–	–	30,672	34,781
Net financial liabilities	52,468	–	–	–	(30,245)	22,223
Less: Net financial liabilities/(assets) denominated in the respective entities' functional currencies	48,650	–	–	–	(28,561)	
Currency exposure	3,818	–	–	–	(1,684)	

30. FINANCIAL RISK MANAGEMENT (Cont'd)

(ii) Cash flow and fair value interest rate risks

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's policy is to maintain 80 - 90% of its borrowings in fixed rate instruments. The Group's exposure to cash flow interest rate risks arises mainly from non-current variable-rate borrowings. The Company's exposure to cash flow interest rate risks arises mainly from non-current borrowings and loans to subsidiaries at variable rates.

The Group's and Company's borrowings at variable rates on which effective hedges have not been entered into, are denominated mainly in SGD. If the SGD interest rates increase/decrease by 0.50% (2006: 0.50%) with all other variables including tax rate being held constant, the profit after tax will be lower/higher by $3,256,000 (2006: $2,091,000) and $1,486,000 (2006: $1,242,000) as a result of higher/lower interest expense on these borrowings.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

As the Group and Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet, except as follows:

	Company	
	2007	2006
	$'000	$'000
Corporate guarantees provided to banks on subsidiaries' loans	15,228	19,700

The Group's and Company's major classes of financial assets are bank deposits and trade receivables.

The credit risk for trade receivables based on the information provided to key management is as follows:

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
By geographical areas				
Taiwan	4,388	5,771	–	–
China	330	744	–	–
Malaysia	7,469	9,112	–	–
Singapore	2,958	1,625	–	60
Others	331	343	996	–
	15,476	17,595	996	60
By types of customers				
Related parties	–	–	–	60
Non-related parties:				
- Municipal	4,388	5,771	–	–
- Other companies	11,088	11,824	996	–
	15,476	17,595	996	60

30. FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Credit risk (Cont'd)

(i) Financial assets that are neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international creditrating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

The Group's and Company's trade receivables not past due include receivables amounting to $7,738,000 (2006: $8,798,000) and $996,000 (2006: Nil) respectively that would have been past due or impaired if the terms were not re-negotiated during the financial year.

(ii) Financial assets that are past due and/or impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Past due 0 – 3 months	7,738	8,798	996	–
Past due 3 – 6 months	4,643	5,279	–	60
Past due over 6 months	3,095	3,518	–	–
	15,476	17,595	996	60

The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Gross amount	15,755	18,885	996	60
Less : Allowance for impairment	(279)	(1,290)	–	–
	15,476	17,595	996	60

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Beginning of financial year	1,290	1,261	388	–
Allowance made	–	29	–	388
Amount written off	(1)	–	–	–
Provision no longer required	(1,010)	–	(388)	–
End of financial year	279	1,290	–	388

The impaired trade receivables arise mainly from long outstanding debts.

30. FINANCIAL RISK MANAGEMENT (Cont'd)

(c) Liquidity risk

The table below analyses the maturity profile of the Group's and Company's financial liabilities based contractual undiscounted cash flows:

	Less than 1 year $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000
Group:				
At 31 December 2007				
Trade and other payables	34,972	–	–	–
Borrowings	5,511	17,036	17,573	583
	40,483	17,036	17,573	583

	Less than 1 year $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000
Group:				
At 31 December 2006				
Trade and other payables	16,091	–	–	–
Borrowings	2,208	16,508	25,261	–
	18,299	16,508	25,261	–

	Less than 1 year $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000
Company				
At 31 December 2007				
Trade and other payables	3,207	–	–	–
Borrowings	2,778	5,556	25,963	–
	5,985	5,556	25,963	–

	Less than 1 year $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000
Company				
At 31 December 2006				
Trade and other payables	3,069	–	–	–
Borrowings	2,208	4,416	24,547	–
	5,277	4,416	24,547	–

The Group and Company manage the liquidity risk by maintaining sufficient cash and marketable securities to enable them to meet their normal operating commitments, having an adequate amount of committed credit facilities (Note 11) and the ability to close market positions at a short notice.

31. CHANGES AND ADOPTION OF ACCOUNTING STANDARDS

In the current financial year, the Group and the Company has adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") issued by the Council on Corporate Disclosure and Governance (CCDG) that are relevant to their operations and effective for accounting periods beginning on or after 1 January 2007.

The new and revised accounting standards adopted are as follows:

FRS 1	Presentation of Financial Statements – Amendments relating to capital disclosures
FRS 10	Events after the Balance Sheet Date
FRS 12	Income Taxes
FRS 14	Segment Reporting
FRS 17	Leases
FRS 19	Employee Benefits
FRS 32	Financial Instruments: Presentation
FRS 33	Earnings per Share
FRS 39	Financial Instruments: Recognition and Measurement
FRS 40	Investment Property
FRS 103	Business Combinations
FRS 107	Financial Instruments: Disclosure

32. FUTURE CHANGES IN ACCOUNTING STANDARDS

The Group and the Company have not applied the following FRS and INT FRS that have been issued but are not yet effective.

FRS 1	Presentation of Financial Statements, effective from 1.1.2009
FRS 2	Inventory, effective from 1.1.2009
FRS 7	Cash Flow Statement, effective from 1.1.2009
FRS 8	Accounting Policies, Changes in Accounting Estimates and Errors, effective from 1.1.2009
FRS11	Construction Contracts, effective from 1.1.2009
FRS 16	Property, Plant and Equipment, effective from 1.1.2009
FRS 27	Consolidated and Separate Financial Statement, effective from 1.1.2009
FRS 33	Earnings per Share, effective from 1.1.2009
FRS 34	Interim Financial Reporting, effective from 1.1.2009
FRS 36	Impairment of Assets, effective from 1.1.2009
FRS 38	Intangibles Assets, effective from 1.1.2009
FRS 104	Revisions relating to FRS 107 Financial Instruments: Disclosure (issued Jan 2006) for reference – Implementation Guidance, effective from 1.1.2009
FRS 106	Exploration for and Evaluation of Mineral Resource, effective from 1.1.2009
FRS 108	Operating Segments – Implementation Guidance, effective from 1.1.2009
INT FRS 29	Disclosure – Service Concession Arrangements, effective from 1.1.2008
INT FRS 101	Changes in Exiting Decommissioning, Restoration and Similar Liabilities, effective from 1.1.2009
INT FRS 104	Determining whether an Arrangement contains a Lease, effective from 1.1.2008
INT FRS 112	FRS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, effective from 1.1.2008

The directors anticipate that the adoption of the FRSs, INT FRSs and amendments to the FRSs that were issued but not yet effective until future periods will have no material impact on the consolidated financial statements of the Group and the Company.

STATISTICS OF SHAREHOLDINGS

AS AT 24 MARCH 2008

Number of Shares	-	208,604,812
Class of Shares	-	Ordinary shares
Voting Rights of Ordinary Shareholders	-	On show of hands : 1 vote for each member
		On a poll : 1 vote for each ordinary share

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 999	9	0.39	1,034	0.00
1,000 - 10,000	1,329	57.41	7,612,099	3.65
10,001 - 1,000,000	957	41.34	55,055,309	26.39
1,000,001 AND ABOVE	20	0.86	145,936,370	69.96
TOTAL	2,315	100.00	208,604,812	100.00

SHAREHOLDING HELD IN HANDS OF PUBLIC

As at 24 March 2008, approximately 42.89% of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual is complied with.

TWENTY LARGEST SHAREHOLDERS

	NAME	NO. OF SHARES	%
1.	THYE KIM MENG	29,295,711	14.04
2.	HSBC (SINGAPORE) NOMINEES PTE LTD	27,956,000	13.40
3.	MAYBAN NOMINEES (S) PTE LTD	20,016,000	9.59
4.	UNITED OVERSEAS BANK NOMINEES PTE LTD	11,981,000	5.74
5.	HONG LEONG FINANCE NOMINEES PTE LTD	8,167,000	3.91
6.	DBS NOMINEES PTE LTD	7,616,870	3.65
7.	LEE SUE LIN	7,092,800	3.40
8.	TEH SWEE HENG	6,994,820	3.35
9.	CITIBANK NOMINEES SINGAPORE PTE LTD	6,008,000	2.88
10.	THYE KIM FAH	4,293,140	2.06
11.	STONE ROBERT ALEXANDER	2,600,000	1.25
12.	UOB KAY HIAN PTE LTD	2,164,000	1.04
13.	PHILLIP SECURITIES PTE LTD	1,951,490	0.94
14.	KHOO KAH HOE	1,659,925	0.80
15.	THYE KIM LOY	1,564,840	0.75
16.	LOW SIEW KHENG DENIS	1,500,000	0.72
17.	LEE SEK BOH	1,350,000	0.65
18.	HENG TANG CHING	1,347,948	0.65
19.	ALAN WEE KUANG (ALAN RUAN GUANG)	1,337,826	0.64
20.	OCBC SECURITIES PRIVATE LTD	1,039,000	0.50
	TOTAL	145,936,370	69.96

SUBSTANTIAL SHAREHOLDERS AS AT 24 MARCH 2008

as recorded in the Register of Substantial Shareholders

Name of Substantial Shareholder	Number of shares (Direct Interest)	Number of shares (Deemed Interest)	Total	%
THYE KIM MENG	29,295,711	27,500,000	56,795,711	27.00%
HSBC (SINGAPORE) NOMINEES PTE LTD	27,956,000	-	27,956,000	13.00%
UNITED OVERSEAS BANK NOMINEES PTE LTD	11,981,000	-	11,981,000	5.74%

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Darco Water Technologies Limited ("the Company") will be held at EDB Room, Lower Lobby, The Fullerton Hotel Singapore, 1 Fullerton Square, Singapore 049178 on Monday, 28 April 2008 at 3.30 p.m. to transact the following businesses:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 December 2007 together with the Auditors' Report thereon. **(Resolution 1)**

2. To approve payment of a First and Final exempt (one-tier) dividend of 0.5 cent per ordinary share for the financial year ended 31 December 2007. **(Resolution 2)**

3. To re-elect the following Directors retiring by rotation in accordance with the Articles of Association of the Company and who, being eligible, offer themselves for re-election:

   Mr Robert Wong Kwan Seng (Article 107) **(Resolution 3)**

   Note : Mr Robert Wong Kwan Seng, if re-elected as a director, will remain as a member and chairman of the audit committee, a member of the remuneration committee and a member of the nomination committee. Mr Robert Wong Kwan Seng is an independent director.

   Mr Joshua Siow Chee Keong (Article 107) **(Resolution 4)**

   Note : Mr Joshua Siow Chee Keong, if re-elected as a director, will remain as a member of the audit committee, a member and chairman of the remuneration committee and a member and chairman of the nomination committee. Mr Joshua Siow Chee Keong is an independent director.

4. To approve the directors' fees of S$144,500 payable by the Company for the year ended 31 December 2007 (2006: S$135,000). **(Resolution 5)**

5. To re-appoint Messrs LTC & Associates as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 6)**

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolution as Ordinary Resolution, with or without any modifications:

6. **Authority to allot and issue shares up to 50 per centum (50%) of issued shares in the capital of the Company**
   "That pursuant to Section 161 of the Companies Act, Cap. 50. and subject to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be and is hereby given to the Directors of the Company to allot and issue shares and convertible securities in the capital of the Company (whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit provided always that the aggregate number of shares and convertible securities to be issued pursuant to this Resolution does not exceed 50% of the issued shares of the Company, of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to existing shareholders does not exceed 20% of the issued shares of the Company (the percentage of issued shares being based on the issued shares in the capital of the Company at the time this Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding at the time this Resolution is passed and any subsequent consolidation or sub-division of shares) and unless revoked or varied by the Company in general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier." **(Resolution 7)**

7. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

NOTICE OF BOOKS CLOSURE

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of the Company will be closed on 9 May 2008 for the purpose of determining members' entitlements to the First and Final exempt (one-tier) dividend of 0.5 cent per ordinary share (the "First and Final Dividend") to be proposed at the Annual General Meeting of the Company to be held on Monday, 28 April 2008 at 3.30 p.m.

Duly completed registrable transfers in respect of the shares in the Company received up to the close of business at 5:00 p.m. on 8 May 2008 by the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte. Ltd, 3 Church Street #08-01 Samsung Hub Singapore 049483 will be registered to determine members' entitlements to First and Final Dividend. Members whose Securities Accounts with The Central Depository (Pte) Ltd are credited with shares in the Company as at 5:00 p.m. on 8 May 2008 will be entitled to such proposed First and Final Dividend.

The proposed First and Final Dividend, if approved at the Annual General Meeting will be paid on 29 May 2008.

BY ORDER OF THE BOARD

Tan Lay Hong
Company Secretary

Singapore, 11 April 2008

Proxies:

A member entitled to attend and vote at the Annual General Meeting may appoint not more than two proxies to attend and vote on his behalf and where a member appoints more than one proxy, he shall specify the proportion of his shareholding to be represented by each proxy. A proxy need not be a member of the Company. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 41 Loyang Drive Singapore 508952 not less than 48 hours before the time set for the Annual General Meeting.

PROXY FORM

DARCO WATER TECHNOLOGIES LIMITED

Registration No. 200106732C
(Incorporated in Singapore)

(Please see notes overleaf before completing this Form)

IMPORTANT

1. For investors who have used their CPF monies to buy the Company's shares, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.

2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We, ...

of ....

being a member/members of Darco Water Technologies Limited (the "Company"), hereby appoint:

Name	**NRIC/Passport No.**	**Proportion of Shareholdings**	
		No. of Shares	**%**
Address			

and/or (delete as appropriate)

Name	**NRIC/Passport No.**	**Proportion of Shareholdings**	
		No. of Shares	**%**
Address			

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held at EDB Room, Lower Lobby, The Fullerton Hotel Singapore, 1 Fullerton Square, Singapore 049178 on Monday, 28 April 2008 at 3.30 p.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

(Please indicate your vote "For" or "Against" with a tick [√] within the box provided.)

No.	Resolutions relating to:	For	Against
1	To receive and adopt the Directors' Report and Audited Accounts for the year ended 31 December 2007 and the Auditors' Report thereon		
2	To declare a first and final tax exempt 1-tier dividend of 0.5 cents per ordinary share		
3	To re-elect Mr Robert Wong Kwan Seng as director (Article 107)		
4	To re-elect Mr Joshua Siow Chee Keong as director (Article 107)		
5	To approve the directors' fees payable by the Company		
6	To appoint Auditors of the Company and to authorise the directors to fix their remuneration		
7	To authorise directors to allot and issue shares and convertible securities pursuant to Section 161 of the Companies Act, Chapter 50.		

Dated this .... day of 2008

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

....

Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

Notes :

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

3. Where a member appoints more than one proxy, he shall specify the proportion of his shareholding to be represented by each proxy.

4. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or duly authorised officer.

5. A corporation which is a member of the Company may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with its Articles of Association and Section 179 of the Companies Act, Chapter 50.

6. The instrument appointing a proxy or proxies, together with the power of attorney or other authority (if any) under which it is signed, or notarially certified copy thereof, must be deposited at the registered office of the Company at 41 Loyang Drive Singapore 508952 not less than 48 hours before the time set for the Annual General Meeting.

7. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of members of the Company whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have shares entered against their names in the Depository Register as at 48 hours before the time appointed for holding the Annual General Meeting as certified by The Central Depository (Pte) Limited to the Company.