MAKING A SPLASH

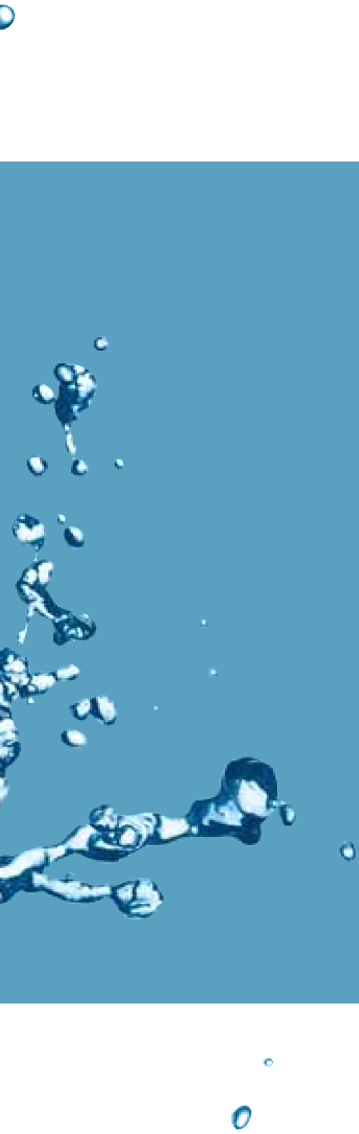
Leaping Towards Our Vision

DARCO

SOLUTIONS TO WATER & WASTE

Annual Report 2010

contents



CHAIRMAN'S STATEMENT

Dear Shareholders

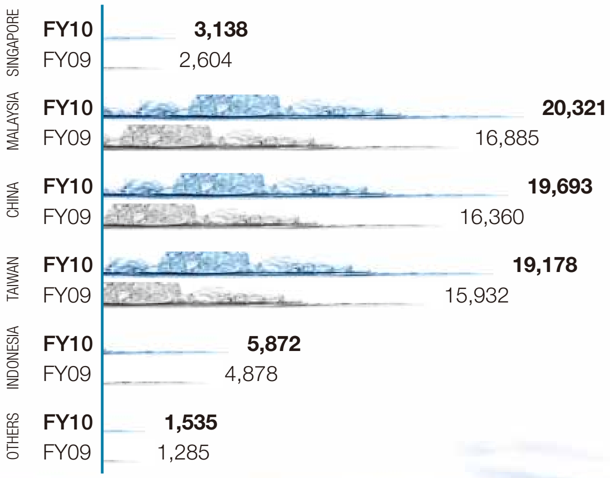
I am pleased to report that we have posted a turnaround in net profit of S$1.3 million, putting the troubles we had in Taiwan to rest. While we continue relentlessly to recover money misappropriated, we are moving into a new chapter of building a sustainable future for our Group.

Overall, we generated revenue of S$69.7 million, up 20.4% from the previous year. Malaysia and China in particular, have emerged as the revenue driver, overtaking Taiwan as the traditionally largest contributing market. Sector wise, we have done particularly well in the industrial sector resulting in a 20.4% increase in revenue from the Engineered Water Systems to S$50.8 million. The industrial sector is a major water user as large volumes of water are used as a cleaning and cooling agent in the manufacturing processes. With capital expenditure on the rise, increased activity among technology-related manufacturers and solar players translated to a higher number of orders received by our Group in FY2010. Our Group acquired WLF Industrial Co Ltd Taiwan, a sludge scrapper manufacturer during the year. The acquisition will help the Group optimize turnkey projects by improving overall efficiency, minimising costs and enabling better control on project timelines and risks. This integrated business model will strengthen our competitive position and enable the Group to better harness business opportunities present in the market.

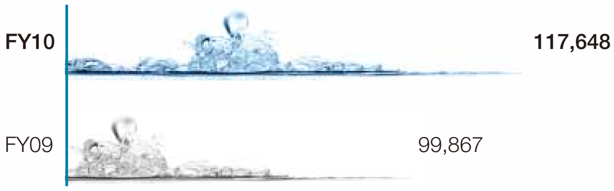
Despite the recovery in the global market in 2010, we will remain cautious and responsive to market conditions that may arise from the Euro-zone debt crisis and America's Quantitative Easing policies, which may potentially derail the full recovery.

Moving forward, we will continue to leverage on our track record to strengthen our foothold in the industrial sector and enhance the Group's operating efficiency and business potential.

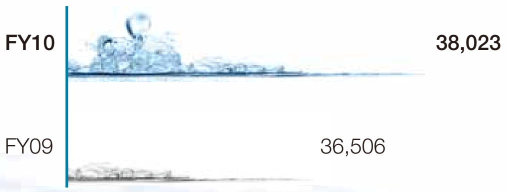
Sales By Geographical Markets ($'000)



Total Assets ($'000)



Shareholders' Equity ($'000)



Looking Ahead

Taiwan

Solid waste management is an important sector that we will continue to develop. With regards to the soil remediation project reported previously, we are working closely with our European technical partner to introduce a new technology. Treatment has since started and the project should complete by the end of this year. Consequent to the delay, we expect to recognize revenue of approximately S$6 million from the project in FY2011.

Following the commencement of construction for the Puding BOT project, our Group found hazardous material in the ground during the construction phase of the Taiyuan Puding BOT sewerage water treatment project and has informed the county government of this finding. We intend to commence work once the county government clears up the land and the site is proven safe.

Despite the setbacks, Taiwan continues to be an exciting market for Darco, especially in the industrial sector. We are committed to strengthen our presence in the country by leveraging on our experience and expertise to clinch more projects.

China

We have completed construction of our second Build, Own and Operate (BOT) project in China, Deqing Qianyuan. As the county government has yet to finish laying the distribution pipes connecting the plant to the main network, we have not been able to start the water treatment process. However, we understand that the network will be ready by the end of 2QFY2011 and expect to begin treating 100,000 m3 of drinking water per day from 3QFY2011. This project will strengthen our recurring income base by contributing approximately S$4.8 million of annual cash flow per year.

Together with our first BOT project Deqing Wukang, our total of recurring annual cash flow will increase to S$7.2 million.

Malaysia

Malaysia’s industrial sector has recovered this year, as seen from the series of contracts that we have secured. Majority of the projects clinched stemmed from the electronic, semi-conductor and solar power manufacturing industries.

More notably, our expansion into the solar power sector has paid off, with the MYR$27 million (approximately S$12 million) industrial water project secured with US-based MEMC Electronic Materials Corporation, a leading player in the solar industry. This contract represents the largest order that Darco clinched in the solar industry to date. The project will contribute more to our earnings in the next half year as we progressively recognize the construction milestones.

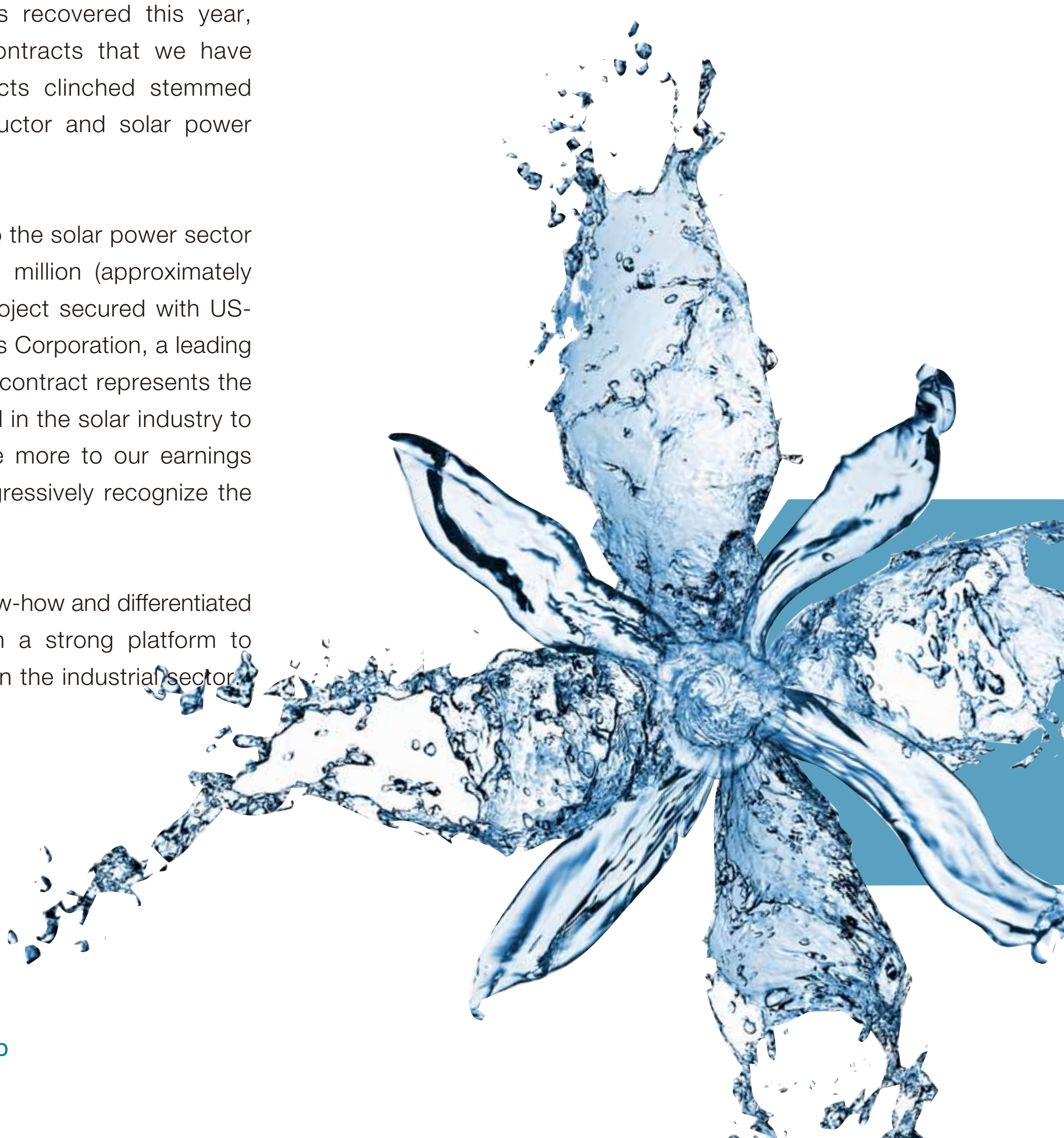
Our established track record, know-how and differentiated capabilities will provide us with a strong platform to continue our growth, especially in the industrial sector.

Appreciation

I would like to express my heartfelt gratitude to each of you, our Board of Directors, shareholders, business partners, management and staff, suppliers and customers, for your unfailing commitment and trust that you have placed with the company.

Together, let us persist and strive ahead as we begin a new chapter of growth.

Thye Kim Meng
Chairman and Managing Director



CORPORATE PROFILE

Established in 1999, Darco Water Technologies designs and delivers engineered solutions for the management of water and wastewater systems for industrial and municipal customers. Its core management team has more than 18 years of experience in water treatment for a wide range of industries. Its markets include Taiwan, Mainland China and Southeast Asia.

Darco Water Technologies works as a systems integrator – designing, building, operating and maintaining water management processes based on membrane, ion exchange and thermal technologies. To do that, it sources generic components from global suppliers in order to meet its design requirements.

However, the company's success is not just because of its strong technology. It owes a lot to its business model, the service and the solutions it offers, and the in-house knowledge of its staff.

Darco Water Technologies' Chief Executive Officer, Thye Kim Meng says that efficiency is one of the company's core strengths. The company excels in operating, energy and business efficiency. It designs, manufactures and services water and wastewater systems for a wide range of industries, including electronics, petrochemicals, pharmaceuticals and food and beverage.

The company's business efficiency can be seen in its quality maintenance services. It derives 10 – 15 per cent of its income from long-term maintenance services through the service centres that it has established, and these service centres are supported by its trading division, which supplies essential chemicals and other products. This focus on service has helped Darco Water Technologies maintain an excellent record of customer retention – 90 per cent of its customers are repeat customers.

Wastewater Treatment Plant in Singapore ▶

Wastewater Treatment Plant in Singapore

The company aims to provide complete solutions to customers' water problems and it works so that those customers – whether industrial or municipal – can focus on their core business. In order to achieve that, the company has a wide range of capabilities. It has plants in Singapore, Malaysia and China that are capable of fabrication, assembly and integration of systems for water purification, wastewater treatment and water recycling.

To produce water systems at the lowest cost per unit of water delivered, Darco Water Technologies pays great attention to the efficiency of its designs. This means energy efficiency and pump efficiency, and using control systems that focus on minimising the number of people needed to operate the plant.

The company has a strong track record for both industrial solutions and municipal applications. In the industrial sector, many of the contracts won by Darco Water Technologies have been secured on a 'best-offer' basis. In this case there is no tender and the company that wins the contract is the one that offers the best complete solution. This was how Darco Water Technologies won two contracts in Taiwan reaching a total value of S$80 million. For its contracts with municipal customers, its preferred partnership model is the 'BOOT' model – to Build, Own, Operate, and then Transfer the projects to the customer at the end of 25 – 30 years.

In Deqing County, Zhejiang Province, $2^1/_2$ hours from Shanghai, the commitment of Darco Water Technologies is to deliver water management solutions that will meet the needs of the community for the next 25 years. For this, it has developed two water treatment plants located at strategic sites in the province. With one producing 60,000 tonnes per day and the second producing 100,000 tonnes, this approximately US$30 million investment forms the first phase of a programme to replace 11 older treatment plants. A second phase is planned to increase the capacity to 320,000 tonnes per day.

Over the years, Darco Water Technologies has quickly grown its business capabilities, sales and expertise. Established in 1999, it became a listed company just $2^1/_2$ years later and saw its sales levels increase from S$18 million to S$88 million by the year 2007. Its starting point was in providing water solutions for Singapore-based companies in the PCB, electro-plating, and electronics sectors. As the economy develops, the company has kept pace with the changing demands of different industries and cultivated new customers around the region. It has designed and built a number of water treatment plants, with a value of about US$10 million for electronic and semi-conductor plants that require ultra-filtration and a very large amount of water at a high level of purity.

Municipal BOT project in Deqing, China

The company's long-term business plan also includes attracting investors by building up Build-Own-Operate (BOO) assets, possibly in the form of Real Estate Investment Trusts (REITs). This will require assets in the region of S$100 – S$200 million and Thye Kim Meng points to his company's experience as proof that it can 'scale up' and deliver such projects.

Darco employs an active business model to respond to the growth of its business. For instance, when demand increased, the company added more office and factory space, and made sure that its staff was operationally ready so that there would be minimal disruption to operations. The company's maintenance service guarantees consistent revenues, retains key staff and ensures the continuous development of product knowledge. It also provides a pool of talent that the company can call upon when time is short. The result of this is a business model that is well-placed to manage the business cycle.

The company places great value on strategic alliances and has had several successful collaborations with multinational companies. Darco has worked with Kennicott Water Systems to penetrate the power and petrochemical sectors in Southeast Asia, with Showa Engineering (a subsidiary of Showa Denko Group from Japan) to engage the large-scale wastewater market, and with Process Automation of Hong Kong to explore the automotive and plating industries. Its latest strategic partner is EnviDan A/S of Denmark, a leading engineering company in the treatment of high strength organic waste (HSOW).

The company plans to consolidate its operations in the markets it is already established in and develop new markets and new BOT agreements. Darco Water Technologies is exploring markets such as Vietnam and India, especially where its established customers are setting up new operations. The company is well-positioned to undertake BOO projects and is looking to take on much larger ones. Whether customers are industrial or municipal, the company aims to be seen as its customers' best partner in managing all aspects of their water needs.

BOARD OF
DIRECTORS

Mr Thye Kim Meng Malaysian, Aged 58
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 24 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 (formerly Darchet Engineering & Water Treatment Pte Ltd) and Senior Director/Technical Consultant with U.S. Filter (Asia) Pte Ltd and he founded Darchet in 1984. Mr Thye has a Bachelor of Science in Mechanical Engineering (Bsc. Hons) and a Bachelor of Law degree (LLb. Hons) from the United Kingdom.

Ms Heather Tan Chern Ling Malaysian, Aged 30
Executive Director (Process Engineering and Design)

Ms Heather Tan was appointed to the Board of Directors of the Company on 25 May 2006 and is currently a member of the Remuneration Committee.

She was recently promoted to head the Group's Business Development department, in charge of business development including sales and marketing of water treatment systems and services. She also coordinates contractual matters between the sales and project management departments and our clients.

Ms Tan graduated from the University of Melbourne, with a 1st Class Honours degree in Chemical Engineering and was awarded the Western Mining Corporation award for excellence in Process Engineering. She completed Contract Law and Company Law modules from the University of London (External) in 2008 and 2010 respectively. Her work in the University of Melbourne secured her a place on the Dean's Honours role. Ms Tan 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 a short-term position as a researcher with Orica Adhesives and Resins in Australia to explore the relationship between Tannin & Formaldehyde resins.

Ms Teo Sin Yng Malaysian, Aged 29
Executive Director

Ms Teo Sin Yng was appointed to the Board of Directors of the Company on 4 May 2011. Ms Teo joined the Group in 2006, and is currently heading the Application Engineers department. She is responsible for standardizing the Group's water system treatment process and the engineering segment of the Engineered Water System (EW System). She coordinates technical and costing control matters between the process, engineering and project management departments.

Ms Teo graduated from the University Technology Malaysia, with a Bachelor in Chemical Engineering in 2005. She has since completed Contract Law and Company Law subjects from University of London (External) in 2008 and 2010 respectively. Prior to joining Darco she held a short-term position as a Testing Engineer with Bureau Veritas, Singapore.

Mr Robert Wong Kwan Seng Singaporean, Aged 53
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 56
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 29 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 MANAGEMENT

Lim Boon Kuan

Group's Financial Controller

Lim Boon Kuan, aged 43 years, 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.

Thye Kim Fah

General Manager – Darco Systems (M) Sdn. Bhd ("DSM")

Thye Kim Fah, aged 60 years, 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 19 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.

Yeoh Choo Seng

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

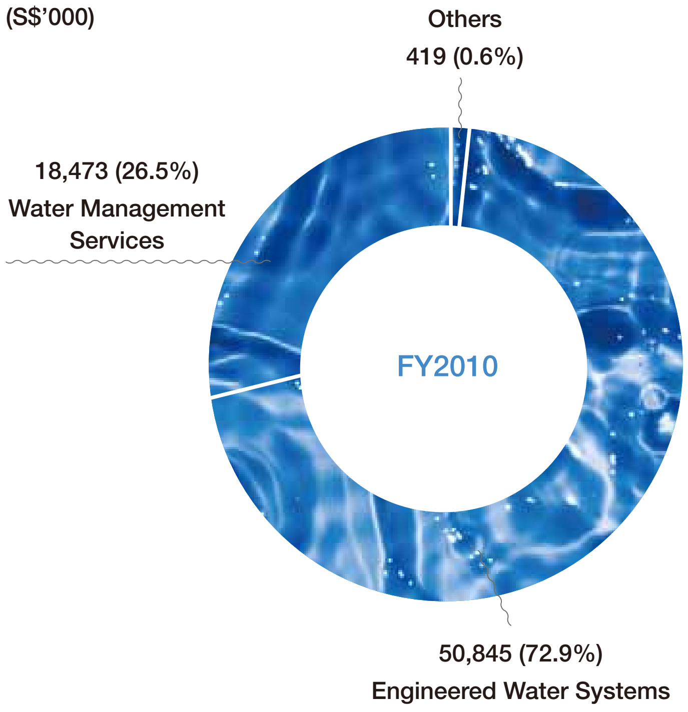
Yeoh Choo Seng, aged 43 years, is the General Manager of Darco Industrial Water Sdn Bhd ("DIW"). Mr Yeoh is responsible for the overall management and operations of DIW in relation to our business in the northern region of Peninsula Malaysia, in particular Penang and Kuching. Mr Yeoh has over 18 years 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).

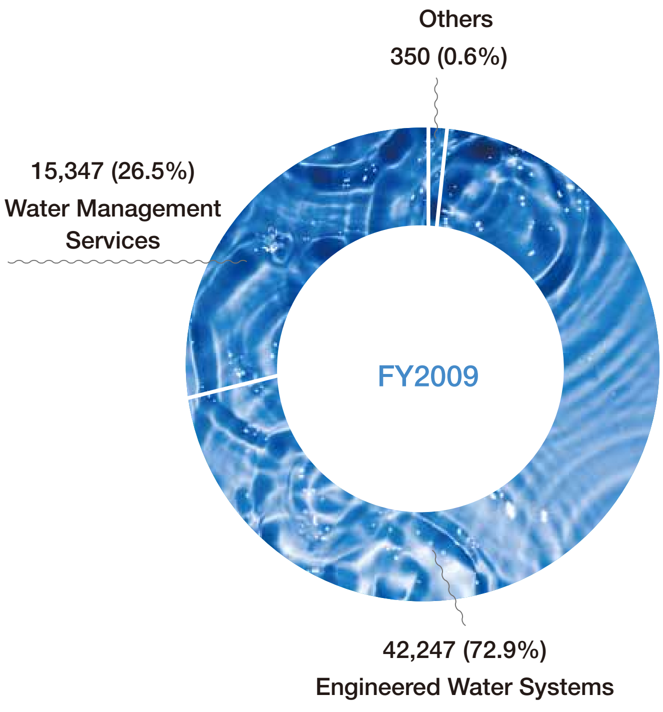
Zach Thye Ze Pin

Head of Operations – Engineering

Zach Thye Ze Pin, aged 29 years, is the head of our engineering operations in the group for project management and water systems manufacturing. He has been with the company for five years, working as an Application Engineer in the Group's water and wastewater plant construction. Zach is the son of Mr Thye Kim Fah, the brother of our Group C.E.O. Zach graduated from the University of New South Wales, Australia with B.Eng (1st Class Honours) in Mechanical Engineering and also obtained a M.Sc in Water and Wastewater Engineering from Loughborough University, U. K.

OPERATIONS REVIEW





Revenue

Group revenue for FY2010 increased 20.4% to S$69.7 million as compared to S$57.9 million for the previous year.

Segmental Contribution

Revenue from the Engineered Water Systems grew to $50.8 million from $42.2 million in FY2009 due to higher engineering activities in the industrial sector. Meanwhile, revenue from the Water Management Services generated S$18.5 million from S$15.3 million in FY2009 as a result of the new waste management contracts in Malaysia stemming from the electronic and semi-conductor industry.

The remaining revenue contribution came from the Group's Trading segment (chemical, spare parts and others) up 19.7% to S$0.4 million.

Geographical Contribution

By Geographical Market	Year ended 31 Dec 2010 (S$'000)	Year ended 31 Dec 2009 (S$'000)
Malaysia	20,321	16,885
China	19,693	16,360
Taiwan	19,178	15,932
Singapore	3,138	2,604
Indonesia	5,872	4,878
Others	1,535	1,285
Total	**69,737**	**57,944**

Overall, Malaysia and China emerged the revenue driver, overtaking Taiwan as the traditionally largest revenue contributor.

Malaysia contributed S$20.3 million or 29.1% of FY2010 revenue, an increase of 20.3% from S$16.9 million in FY2009. The recovery of the industrial sectors, especially the electronic, semi-conductor and solar power manufacturing sectors resulted in the significant increase in orders in FY2010.

People's Republic of China contributed S$19.7 million or 28.2% of FY2010 revenue, representing 20.4% increase from S$16.4 million in FY2009. The increase was largely due to the increase in revenue contribution arising from the construction milestones of the Group's second BOT project in Deqing ("Deqing Qianyuan").

Taiwan generated S$19.2 million or 27.5% of FY2010 revenue, an increase of 20.4% from S$15.9 million in FY2009, due to the restructuring of the Taiwan subsidiary and contracts clinched in FY2010.

Gross profit stood at S$15.5 million in FY2010, an increase of 30.2% from S$11.9 million in FY2009 in tandem with higher revenue. As industrial projects typically yield higher margins than municipal projects, gross profit margin increased to 22.2% in FY2010 from 20.5% in FY2009.

With significant staff layoff in Darco Engineering Taiwan, the Group's operational efficiency improved, resulting in a decline in expenses. Administrative expenses decreased 46.4% to $11.6 million in FY2010 while finance expenses reduced 15.0% to S$1.6 million in FY2010.

Consequently, the Group turned in a net profit attributable to shareholders of S$1.3 million from a loss of S$11.5 million in FY2009.

Balance Sheet Review

Current assets stood at S$50.0 million as at 31 December 2010, largely comprising trade and other receivables. Trade and other receivables maintained at $32.8 million in FY2010 as compared to $32.5 million as at 31 December 2009.

Non-current assets stood at S$67.7 million as at 31 December 2010, largely comprising of trade and other receivables. Trade and other receivables increased to S$50.4 million in FY2010 from S$36.5 million in FY2009 due to the recognition of the fair value services that will be delivered for the Deqing Qianyuan BOT 100,000m3/day potable water plant project.

Total assets stood at S$117.7 million as at 31 December 2010 as compared to S$99.9 million as at 31 December 2009.

Current liabilities increase slightly to S$51.1 million as at 31 December 2010 from S$45.9 million as at 31 December 2009 due to increase in trade and other payables as a result of higher customer advances received and purchases needed to meet the contracts.

Non-current liabilities stood at S$22.0 million as at 31 December 2010 mainly due to the increase in long-term borrowings obtained by our China subsidiary to finance the Deqing Qianyuan BOT 100,000m3/day portable water plant project.

Total liabilities stood at S$73.2 million as at 31 December 2010 as compared to S$59.9 million as at 31 December 2009.

Shareholders' equity increased to S$38.0 million as at 31 December 2010 from S$36.5 million as at 31 December 2009.

Cash Flow Statement

In FY2010, the Group reported net cash used in operating activities of S$4.0 million and a net cash used in investing activities of S$5.5 million. Cash from financing activities generated positive cashflow of S$8.0 million in FY2010 mainly due to the draw down of term loan facilities to finance the Deqing Qianyuan BOT project.

OUR MISSION

To be the water company of choice by providing customer driven multi-technology solutions.

To design and manufacture a wide range of high performance water and wastewater systems and provide services of highest quality at affordable prices.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Thye Kim Meng
(Managing Director and Chief Executive Officer)
Heather Tan Chern Ling
(Executive Director)
Ms Teo Sin Yng
(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
Heather Tan Chern Ling

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

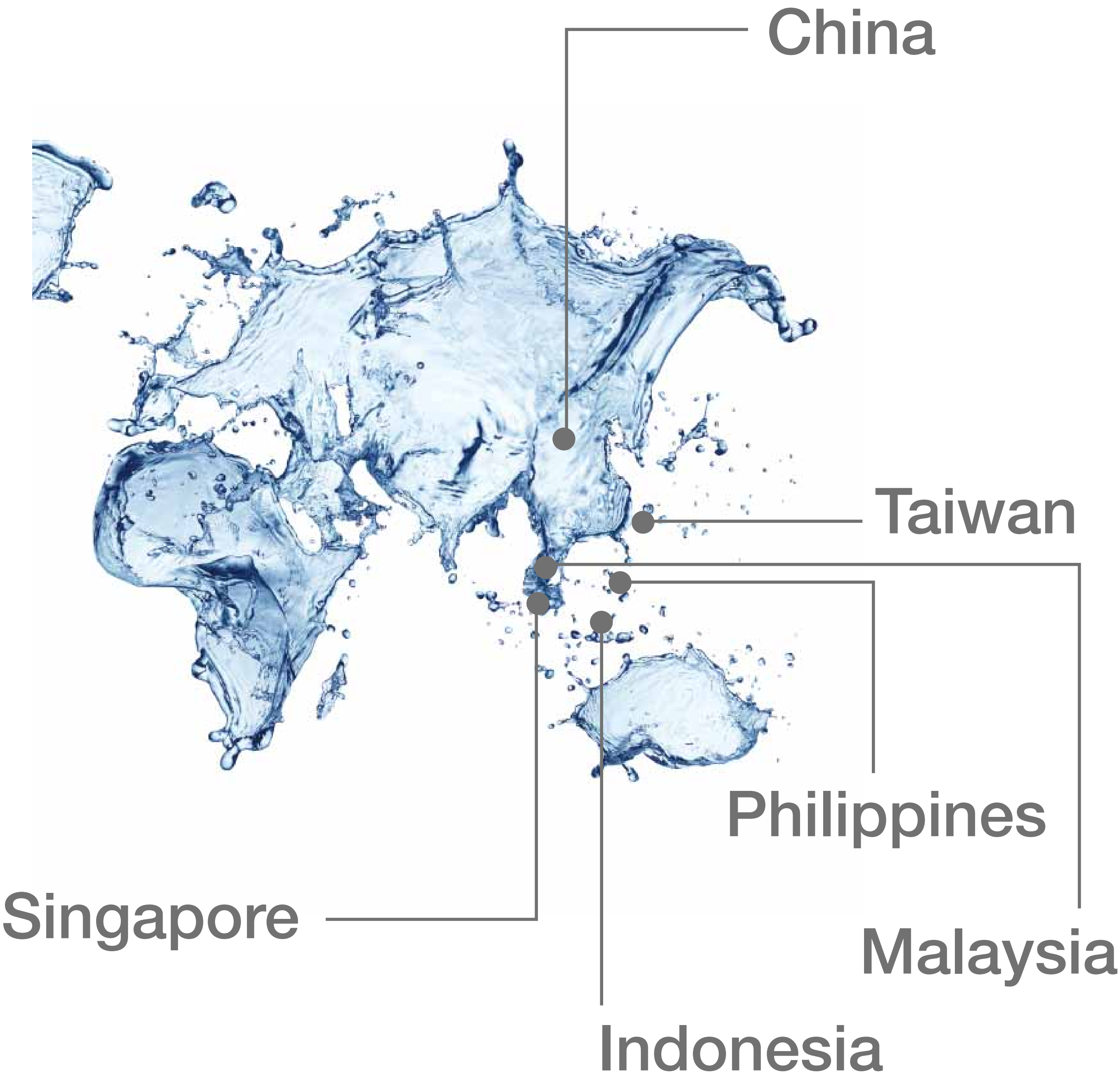
Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

AUDITORS

LTC LLP
Certified Public Accountants
1 Raffles Place
#20-02 One Raffles Place
Singapore 048616

Partner-in-charge:
Alex Chai Chon Fatt (appointment effective from financial year ended 31 December 2009)

OUR REGIONAL PRESENCE



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 2010, 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 and was upgraded to the SGX Mainboard on 7 May 2008. 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 two Non-Executive Independent Directors. 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")
Heather Tan Chern Ling	Executive Director
Teo Sin Yng	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 protect shareholders' interests and enhancing long-term shareholders' 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 objectives

(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 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.

Corporate Governance Statement

For the year ended 31 December 2010

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*	1	–	0	–
Heather Tan Chern Ling	2	–	–	–

* deceased on 2 March 2011

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 two Non-Executive Independent Directors, therefore two fifth 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 8 to 10 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
Heather Tan Chern Ling	Executive Director	–	Member	–
Teo Sin Yng	Executive Director	–	–	–
Robert Wong Kwan Seng	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 holds 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 item 3 of the Directors' 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 2010 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 Ms Heather Tan Chern Ling. 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 2009. The remuneration package is also designed to align the Directors' 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 Mainboard 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 breakdown of each Director's annual remuneration is set out below:–

Remuneration Bands & Name of Directors	Salaries, including CPF	Variable Bonus	Director's Fees	Total
Below $250,000				
Thye Kim Meng	73%	–	27%	100%
Teh Swee Heng (passed away on 2 March 2011)	77%	–	23%	100%
Heather Tan Chern Ling	68%	–	32%	100%
Robert Wong Kwan Seng	–	–	100%	100%
Joshua Siow Chee Keong	–	–	100%	100%

The remuneration of the Directors and top five senior executives (who are not Directors of the Company) whose remuneration fell within the following ranges are as follows:–

Remuneration Bands & Name of Key Executive	Salaries, including CPF	Variable Bonus	Director's Fees	Total
Below $250,000				
Thye Kim Fah	84%	6%	10%	100%
Lim Boon Kuan	89%	5%	7%	100%
Yeoh Chee Seng	89%	5%	7%	100%
Zach Thye Ze Pin	100%	–	–	100%

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.

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 LLP, 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 Board 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 the 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.

Material Contracts

During the financial year, there were no material contracts entered into by the Company or any of its subsidiary companies involving the interests of the CEO, any Director or the controlling shareholder of the Company.

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.

During the year under review, there have been no material interested person transactions requiring disclosure pursuant to the SGX Listing Manual.

Securities Transactions

The Company has adopted its own internal compliance code modeled after the Best Practices Guide issued by SGX to provide guidance for both Directors and employees on their dealings in the Company's securities.

Directors and employees are not allowed to deal in the Company's shares during the period commencing one month before the announcement of the Company's half year and full year results. Additionally, they are not allowed to deal in the Company's shares while in possession of price sensitive information. The Directors are required to report to the Company Secretary whenever they deal in the Company's shares and the Company Secretary will make the necessary announcements.

The directors present their report to the members together with the audited financial statements of the Group for the financial years ended 31 December 2010 and 31 December 2009 and the statements of financial position of the Company as at 31 December 2010 and 31 December 2009.

1. DIRECTORS

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)]
Heather Tan Chern Ling	(Executive Director)[(b)]
Teo Sin Yng	(Executive Director)
Joshua Siow Chee Keong	(Non-Executive Independent Director)[(a)(b)(c)]
Robert Wong Kwan Seng	(Non-Executive 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 SHARES OR DEBENTURES

Neither at the end of nor at any time during the financial years was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, 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 years had no interests in the share capital and debentures of the Company and related corporations as recorded in the Register of Directors' Shareholdings kept by the Company under section 164 of the Singapore Companies Act, except as follows:

	Direct interest				Deemed interest			
Name of directors and companies in which interests are held	At beginning of financial year 2010 or date of appointment, if later	At end of financial year 2010	At beginning of financial year 2009 or date of appointment, if later	At end of financial year 2009	At beginning of financial year 2010 or date of appointment, if later	At end of financial year 2010	At beginning of financial year 2009 or date of appointment, if later	At end of financial year 2009
Darco Water Technologies Limited (the Company)				Ordinary shares				
Thye Kim Meng	29,295,711	36,795,711	29,295,711	29,295,711	34,500,000	27,000,000	34,500,000	34,500,000
Heather Tan Chern Ling	68,000	68,000	68,000	68,000	–	–	–	–

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

The directors' interests as at 30 April 2011 were the same as those at the end of the year.

4. DIRECTORS' CONTRACTUAL BENEFITS

Since the end of the financial year ended 31 December 2008, no director has received or become entitled to receive a benefit which is required to be disclosed under Section 201(8) of the Singapore Companies Act, 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.

5. OPTIONS GRANTED

During the financial years ended 31 December 2010 and 31 December 2009, there were no options granted to any person to take up unissued shares in the Company.

6. OPTIONS EXERCISED

During the financial years ended 31 December 2010 and 31 December 2009, there were no shares of the Company issued by virtue of any exercise of option to take up unissued shares.

7. OPTIONS OUTSTANDING

At the end of the financial years ended 31 December 2010 and 31 December 2009, there were no unissued shares of the Company under option.

8. AUDIT COMMITTEE

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

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

The audit committee performs the functions specified by section 201B (5) of the Singapore 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. INDEPENDENT AUDITOR

The independent auditor, LTC LLP, has expressed its willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS

Thye Kim Meng
Managing Director and Chief Executive Officer

Heather Tan Chern Ling
Executive Director

Singapore, 31 May 2011

Statement by Directors

For the financial years ended 31 December 2010 and 31 December 2009

In the opinion of the directors:

(i) The statements of financial position of the Company and the consolidated financial statements of the Group 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 2010 and 31 December 2009 and of the results of the business, changes in equity and cash flows of the Group for the financial years then ended; and

(ii) 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

Heather Tan Chern Ling
Executive Director

Singapore, 31 May 2011

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Darco Water Technologies Limited (the "Company") and its subsidiaries (the "Group") set out on pages 36 to 124, which comprise the statements of financial position of the Company and of the Group as at 31 December 2010 and 31 December 2009, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the financial years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards, and for 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, that 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Singapore Standards on Auditing ("SSA"). Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1. The auditors of several of the Company's subsidiaries expressed Disclaimer of Opinions on the financial statements of several of the Company's subsidiaries. The relevant extracts from the Basis for Disclaimer Opinion paragraphs in respect of the subsidiaries are as follows:

   Subsidiary – Darco Engineering Pte Ltd

   (a) Property, plant and equipment

   We were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the valuation of certain property, plant and equipment amounting to $1,311,240 (2009:$1,415,505) as disclosed in Note 15 to the statements of financial position of the Company. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of property, plant and equipment and the elements making up the financial statements.

   (b) Litigation

   We were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the completeness, validity and disclosure of litigation matters in the Company. Therefore, we were unable to determine whether any adjustments to, or disclosures in the financial statements, may be required in accordance with Singapore Financial Reporting Standards.

(c) Trade and other payables

We were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the completeness, existence and valuation in respect of amount due to a related party of the Company amounting to $20,000 as disclosed in Note 16 to the financial statements as at 31 December 2010. Consequently, we were unable to determine whether any adjustments to this amount might have been found necessary in respect of recorded or unrecorded trade and other payables and the elements making up the financial statements.

Subsidiary – Globe Industrial Technology Co., Ltd

(a) Trade and other payables

We were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the completeness, existence and valuation in respect of an amount due to a shareholder of the Group and of the Company as at 31 December 2010 and 31 December 2009 as disclosed in Note 16 to the financial statements. Consequently, we were unable to determine whether any adjustments to these amounts might have been found necessary in respect of recorded or unrecorded trade and other payables and the elements making up the financial statements.

(b) Contingent and other liabilities

We were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves on the completeness of the disclosures relating to banking facilities, liabilities due to a bank and assets pledged with a bank. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of the elements making up the financial statements.

2. The component auditor expressed a qualified opinion on the financial statements of the Company's subsidiary on the following basis:-

Subsidiary – Deqing Darco Producing Water Co., Ltd

(a) Breach of loan covenant

The subsidiary's term loan for the financing of its project is subject to covenant clauses. The subsidiary did not fulfill a requirement to complete the construction of a water treatment plant and to commence water treatment operations by 31 December 2010.

Due to this breach of covenant clause, the bank can contractually stop the financing and is entitled to request for immediate repayment of the outstanding loan amount of RMB59,229,353 ($11,845,870) as at 31 December 2010 as reflected in the statement of financial position of the subsidiary.

However, the bank continued to disburse funds subsequent to the end of the financial year ended 31 December 2010 and had not requested for early repayment of the loan as at 28 February 2011. The management is in the process of renegotiating the terms of the loan agreement with the bank and expects that a revised loan agreement will be in place in the second quarter of 2011. No adjustments have been made to reclassify the non-current portion of the loan as current liability.

3. Property, plant and equipment

We were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the valuation of the property, plant and equipment of the following subsidiaries as disclosed in Note 17 to the statements of financial position:-

(a) P.T. Darco Indonesia $21,000 (2009: $42,000)
(b) Darco Engineering (Taiwan) Co., Ltd $6,922,000 (2009: $4,162,000)
(c) Darco Remediation Technologies Inc. $439,000
(d) WLF Industrial Co., Ltd $366,000
(e) Darco Puding Wastewater Management Co., Ltd. $1,527,000

Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of property, plant and equipment and the elements making up the financial statements.

4. Related Party Transactions

We were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the occurrence, accuracy, completeness and classification of the disclosures of related party transactions of the Group for the financial years ended 31 December 2010 and 2009. Therefore, we were unable to determine whether any adjustments to, or disclosures in the financial statements, may be required in accordance with Singapore Financial Reporting Standards.

5. Subsequent events

We were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether events occurring from the end of financial years to the date of the auditor's report, that might require adjustments to, or disclosures in the financial statements, are appropriately reflected in those financial statements in accordance with Singapore Financial Reporting Standards.

6. PT Darco Indonesia

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the existence, occurrence, accuracy, completeness, classification, measurement, and valuation of total assets of $4,667,000; total liabilities of $3,667,000; and the elements of the income statement of a subsidiary, PT Darco Indonesia. We were also not able to perform any other satisfactory alternative procedures. Consequently, we are unable to determine whether any adjustments might have been found necessary in respect of the elements making up the financial statements relating to PT Darco Indonesia.

7. Investigation

In March 2010, an investigation was triggered by management after a wholly-owned subsidiary in Taiwan, Darco Engineering (Taiwan) Co., Ltd recorded two consecutive years of losses and when management discovered that the subsidiary had been connected with several extraordinary and large administrative cash advances, provided unsatisfactory explanation for general expenses, and there were unsubstantiated project costs and doubtful treatment of these items in the subsidiary's accounting records. The management is of the view that it was unusual for a company with an established track record to have massive cost overruns and suspects that some fraudulent activities might have taken place.

The Company has since then appointed a firm of independent accountants to undertake a special investigation into the irregular transactions. The investigation by the independent accountants were completed and the report issued on 27 May 2011. However, the adjustments have been made in these financial statements based on the investigations completed by the management, and not based on the investigation of the independent accountants. The adjustments based on the investigation by the management are different from the investigation by the independent accountants.

As at the date of this report, we were not provided access to the working papers of the independent accountants. We were also not able to perform any other satisfactory alternative procedures. Therefore, we were unable to obtain sufficient appropriate evidence to satisfy ourselves as to the accuracy and completeness of the outcome of the investigations on these financial statements.

Consequently, we are unable to determine whether any further adjustments might have been found necessary in respect of the elements making up the financial statements. ***(See Supplementary Notes. Attachment (V), (VI) & (VII))***

8. Breach of loan covenants

The Company had breached the covenants clauses relating to bank borrowings amounting to $33,993,000 (2009: $36,031,000) as disclosed in Note 23(D) to the financial statements during the financial years ended 31 December 2010 and 31 December 2009.

Due to this breach of the covenants clauses, the bank may contractually stop the financing and is entitled to request for immediate repayment of the outstanding loan. No adjustments have been made to reclassify the non-current portion of the loans as current liability. Under Singapore Financial Reporting Standards, these borrowings should have been reclassified as current liability as the Group and the Company have breached the covenants clauses of these borrowings as at 31 December 2010 and 31 December 2009.

9. Intangible assets – Goodwill arising on consolidation

We were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the valuation of goodwill for impairment amounting to $1,231,000 (2009: $1,231,000) as included in Note 19 to the statements of financial position of the Group. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of intangible assets and the elements making up the financial statements.

10. Business combination

We were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the accuracy and completeness of the fair values of the identifiable assets acquired and liabilities assumed in the business combination which occurred during the financial year ended 31 December 2010, and that the business combination is accounted for correctly and in compliance with Singapore Financial Reporting Standard 103 – Business Combinations as disclosed in Note 11 to the financial statements. Consequently, we have not been able to satisfy ourselves as to the accuracy of the computation for the goodwill on acquisition for the business combination during the financial year ended 31 December 2010.

Furthermore, the disclosure of the business combination is not compliant with Singapore Financial Reporting Standard 103 as the information that enables users of its financial statements to evaluate the nature and financial effect of a business combination was not disclosed.

11. Discontinued Operations

During the financial year ended 31 December 2009, a subsidiary, Northern Union Assortment Recycling Co., Ltd. had discontinued its operations as several months into its operation, the Group discovered that it was operating at a big loss due to very low levels of recyclable material as disclosed in Note 28(b)(iii) to the financial statements.

However, no disclosures were made for the discontinued operations in accordance with Singapore Financial Reporting Standard 105 – *Non-current Assets Held for Sale and Discontinued Operations* as the entire assets and liabilities related to Northern Union Assortment Recycling Co., Ltd. are not classified as a disposal group held for sale on the statement of financial position, and the entire results from Northern Union Assortment Recycling Co., Ltd. are not presented separately on the statement of comprehensive income as "Discontinued operations".

12. Litigations

We were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the completeness, validity and disclosure of litigation matters in the Company. Therefore, we were unable to determine whether any adjustments to, or disclosures in the financial statements, may be required in accordance with Singapore Financial Reporting Standards.

13. Trade and other receivables

As disclosed in Note 12 to the financial statements, included in trade and other receivables of the Company is a non-trade amount due from a subsidiary amounting to $14,132,000 (2009: $14,663,000) which is past due for more than 1 year. We were not able to obtain sufficient appropriate evidence to ascertain the recoverability of the amount. Therefore, we were unable to determine whether any adjustments might have been found necessary in respect of other receivables and the elements making up the financial statements.

14. Borrowings

Included in the borrowings of the Company of $34,449,000 as at 31 December 2010 as disclosed in Note 23 to the financial statements, is an amount of approximately $8,373,000 in which we were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the valuation assertion. Consequently, we were unable to determine whether any adjustments to these amounts might have been found necessary in respect of recorded or unrecorded borrowings and the elements making up the financial statements.

15. Contingent and other liabilities

We were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves on the completeness, if any, of the disclosures relating to banking facilities, liabilities due to banks and assets pledged with banks. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of the elements making up the financial statements.

16. Going concern

As disclosed in Note 1 of the financial statements, as at 31 December 2010, the Group's current liabilities exceeded its current assets by $1,134,000. During the financial year ended 31 December 2010, the Group incurred negative operating cash flows of $3,969,000. During the financial year ended 31 December 2009, the Group incurred a net loss of $11,461,000.

As at 31 December 2010 and 31 December 2009, the Company is not in compliance with the financial covenants in the facility agreement with the lenders for the syndicated loan facilities, including borrowings of $33,993,000 and $36,031,000 respectively as disclosed in Note 23. ***(Company Notes: without taking into consideration the financial impact of the Right Issues of approximate S$4.0 million announced by the Company on 4 November 2010.)***

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

The financial statements have been prepared on the assumption that the Group will continue as a going concern. The validity of the going concern assumption on which the Group's and the Company's financial statements are prepared is dependent on the negotiation with the lenders of the syndicated loan facilities on possible alternatives, including restructuring of the syndicated loan facilities or obtaining a waiver on the non-compliance of financial covenants, of which the ultimate outcome of the matter cannot presently be determined.

Based on the information available to us, we are unable to carry out audit procedures that we believe are necessary to assess the appropriateness of the use of the going concern assumption in the preparation of these financial statements.

If the Group is unable to continue in operational existence for the foreseeable future, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statement of financial position. In addition, the Group may have to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No such adjustments have been made in these financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements. ***(See Supplementary Notes)***

Other matter

As disclosed in Note 36 to the financial statements, the auditor's report dated 31 March 2010 in respect of the financial year ended 31 December 2009 was withdrawn on 27 April 2010 because of possible accounting irregularities in the major subsidiary in Taiwan, Darco Engineering (Taiwan) Co., Ltd. As such, the previous audit opinion included in the Annual Report for the financial year ended 31 December 2009 is superseded by this auditor's report.

Report on Other Legal and Regulatory Requirements

In our opinion, except for the accounting and other records pertaining to those matters referred to in the Basis for Disclaimer of Opinion paragraphs, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditor have been properly kept in accordance with the provisions of the Act.

LTC LLP
Public Accountants and
Certified Public Accountants

Singapore, 31 May 2011

Consolidated Statements of Comprehensive Income

For the financial years ended 31 December 2010 and 31 December 2009

	Notes	Group 2010 $'000	2009 $'000	2008 $'000 (Restated)
Revenue	4	**69,737**	57,944	97,371
Cost of sales		**(54,259)**	(46,053)	(81,138)
Gross profit		**15,478**	11,891	16,233
Other income	5	**2,555**	2,393	2,550
Distribution expenses		**(1,854)**	–	(4,109)
Administrative expenses		**(11,556)**	(21,605)	(15,122)
Finance expenses	6	**(1,621)**	(1,908)	(2,040)
Share of loss of joint venture	16	**–**	(65)	–
Profit/(Loss) before income tax	7	**3,002**	(9,294)	(2,488)
Income tax (expense)/credit	9	**(1,688)**	(2,167)	180
Total profit/(loss)		**1,314**	(11,461)	(2,308)
Other comprehensive income:				
Currency translation differences arising from consolidation		**3,215**	(509)	770
Other comprehensive income/(expense), net of tax		**3,215**	(509)	770
Total comprehensive income/(expense)		**4,529**	(11,970)	(1,538)
Profit/(Loss) attributable to:				
Equity holders of the Company		**1,316**	(12,460)	(2,986)
Non-controlling interests		**(2)**	999	678
		1,314	(11,461)	(2,308)
Total comprehensive income/(expense) attributable to:				
Equity holders of the Company		**313**	(12,471)	(2,178)
Non-controlling interests		**4,216**	501	640
		4,529	(11,970)	(1,538)
Profit/(Loss) per share attributable to the equity holders of the Company (expressed in cents per share)	10			
– Basic		**0.48**	(4.50)	(1.13)
– Diluted		**0.48**	(4.50)	(1.08)

The accounting policies and explanatory notes form an integral part of the consolidated financial statements.

Statements of Financial Position

As at 31 December 2010 and 31 December 2009

	Notes	Group 2010 $'000	Group 2009 $'000	Group 2008 $'000 (Restated)	Group 2007 $'000 (Restated)	Company 2010 $'000	Company 2009 $'000	Company 2008 $'000 (Restated)	Company 2007 $'000 (Restated)
ASSETS									
Current assets:									
Cash and cash equivalents	11	**14,953**	16,203	17,101	25,522	**1,438**	60	83	360
Trade and other receivables	12	**32,799**	32,511	57,930	64,650	**60,782**	61,298	64,783	59,964
Inventories	13	**2,141**	2,025	2,453	2,102	**–**	–	–	–
Non-current asset held for sale	30	**110**	–	–	–	**–**	–	–	–
Total current assets		**50,003**	50,739	77,484	92,274	**62,220**	61,358	64,866	60,324
Non-current assets:									
Investments in subsidiaries	15	**–**	–	–	–	**4,597**	4,597	6,957	7,376
Investment in a joint venture	16	**63**	63	–	–	**–**	–	–	–
Property, plant and equipment	17	**13,722**	10,664	11,195	7,215	**–**	–	–	–
Investment properties	18	**–**	110	112	115	**–**	–	–	–
Intangible assets	19	**1,231**	1,231	1,463	1,266	**–**	–	–	–
Land use rights	20	**1,652**	1,777	1,859	301	**–**	–	–	–
Trade and other receivables	21	**50,382**	36,494	28,277	23,800	**–**	–	–	–
Deferred income tax assets	22	**595**	193	1,613	–	**–**	–	–	–
Total non-current assets		**67,645**	49,128	44,519	32,697	**4,597**	4,597	6,957	7,376
Total assets		**117,648**	99,867	122,003	124,971	**66,817**	65,955	71,823	67,700
LIABILITIES									
Current liabilities:									
Borrowings	23	**29,067**	28,761	26,373	25,944	**26,176**	25,558	21,993	19,798
Trade and other payables	24	**21,312**	16,900	26,422	37,027	**5,183**	1,723	1,823	3,609
Current income tax liabilities		**758**	247	507	527	**230**	7	30	–
Total current liabilities		**51,137**	45,908	53,302	63,498	**31,589**	27,288	23,846	23,407
Non-current liabilities:									
Deferred income tax liabilities	22	**2,631**	2,374	1,922	1,730	**–**	241	–	–
Borrowings	23	**19,400**	11,634	15,446	14,700	**8,273**	10,651	15,297	14,083
Total non-current liabilities		**22,031**	14,008	17,368	16,430	**8,273**	10,892	15,297	14,083
Total liabilities		**73,168**	59,916	70,670	79,928	**39,862**	38,180	39,143	37,490
NET ASSETS		**44,480**	39,951	51,333	45,043	**26,955**	27,775	32,680	30,210
EQUITY									
Capital and reserves attributable to equity holders of the Company									
Share capital	25	**36,985**	36,985	36,252	27,062	**36,985**	36,985	36,252	27,062
Other reserves	26	**(1,642)**	(790)	(759)	(1,358)	**–**	–	187	506
Retained earnings/ (Accumulated losses)		**2,680**	311	12,896	17,035	**(10,030)**	(9,210)	(3,759)	2,642
		38,023	36,506	48,389	42,739	**26,955**	27,775	32,680	30,210
Non-controlling interests		**6,457**	3,445	2,944	2,304	**–**	–	–	–
Total equity		**44,480**	39,951	51,333	45,043	**26,955**	27,775	32,680	30,210

The accounting policies and explanatory notes form an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Equity

For the financial years ended 31 December 2010 and 31 December 2009

	← Attributable to equity holders of the Company					→		
	Share Capital $'000	Currency translation reserves $'000	Equity component of convertible notes $'000	Legal reserves $'000	Retained Earnings $'000	Total $'000	Non-controlling interests $'000	Total Equity $'000
2010								
Beginning of financial year	36,985	(1,067)	–	277	311	36,506	3,445	39,951
Total comprehensive income for the year	–	(1,003)	–	–	1,316	313	4,216	4,529
Transfer of reserves	–	–	–	151	(151)	–	–	–
Acquisition of non-controlling interests	–	–	–	–	1,204	1,204	(1,204)	–
End of financial year	36,985	(2,070)	–	428	2,680	38,023	6,457	44,480
2009								
Beginning of financial year	36,252	(1,056)	187	110	12,896	48,389	2,944	51,333
Total comprehensive expense for the year	–	(11)	–	–	(12,460)	(12,471)	501	(11,970)
Transfer of reserves	–	–	–	167	(167)	–	–	–
Issue of shares upon conversion of convertible notes (Note 23)	733	–	(187)	–	42	588	–	588
End of financial year	36,985	(1,067)	–	277	311	36,506	3,445	39,951
2008								
Beginning of financial year	27,062	(1,855)	–	–	16,414	41,621	3,529	45,150
Prior years restatement – convertible note (Note 34(c))	–	–	506	–	(90)	416	–	416
Prior years restatement – prepayments (Note 34(d))	–	–	–	–	(326)	(326)	–	(326)
Prior years restatement – non-controlling interests (Note 34(g))	–	(9)	–	–	130	121	(1,698)	(1,577)
Prior years restatement – INT FRS 112 (Note 34(h))	–	–	–	–	907	907	473	1,380
Beginning of financial year as restated	27,062	(1,864)	506	–	17,035	42,739	2,304	45,043
Convertible notes – equity component (Note 23)	–	–	1,663	–	–	1,663	–	1,663
Transfer of reserves (Note 34(e))	–	–	–	110	(110)	–	–	–
Total comprehensive expense for the year	–	808	–	–	(2,986)	(2,178)	640	(1,538)
Issue of shares upon conversion of convertible notes (Note 23)	9,190	–	(1,982)	–	–	7,208	–	7,208
Dividends paid (Note 27)	–	–	–	–	(1,043)	(1,043)	–	(1,043)
End of financial year	**36,252**	**(1,056)**	**187**	**110**	**12,896**	**48,389**	**2,944**	**51,333**

The accounting policies and explanatory notes form an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

For the financial years ended 31 December 2010 and 31 December 2009

	Group		
	2010	2009	2008
	$'000	$'000	$'000
			(Restated)
Cash flows from operating activities:			
Total loss	**1,314**	(11,461)	(2,308)
Adjustments for:			
Income tax expense/(credit)	**1,688**	2,167	(180)
Amortization of intangible assets	**–**	37	69
Amortization of land use rights	**37**	39	32
Impairment loss of intangible assets	**–**	160	–
Impairment loss of goodwill	**–**	35	–
Impairment loss of property, plant and equipment	**–**	571	–
Depreciation of property, plant and equipment	**1,076**	1,418	1,384
Depreciation of investment properties	**–**	2	3
Impairment on trade receivables no longer required	**–**	(11)	(42)
Reversal of inventory write-down	**–**	(59)	–
Bad debts written off - trade and other receivables	**278**	52	3
Impairment on trade and other receivables	**11,278**	499	3,204
Loss on disposal of plant and equipment	**–**	10	5
Share of loss of a joint venture	**–**	65	–
Finance income from service concession arrangements	**(2,140)**	(1,733)	(1,466)
Interest income	**(82)**	(63)	(247)
Interest expense	**1,621**	1,908	2,040
Change in working capital, net of effects from acquisition and disposal of subsidiaries	**15,070**	(6,364)	2,497
Inventories	**(229)**	487	(351)
Trade and other receivables	**(19,752)**	19,611	1,667
Trade and other payables	**3,695**	(8,857)	(10,670)
Cash generated from/(used in) operations	**(1,216)**	4,877	(6,857)
Interest received	**82**	63	247
Interest paid	**(1,560)**	(1,887)	(1,993)
Income tax paid	**(1,275)**	(1,230)	(1,477)
Net cash (used in)/generated from operating activities	**(3,969)**	1,823	(10,080)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired (Note 11)	**–**	–	(386)
Investment in a joint venture	**–**	(128)	–
Additions to property, plant and equipment	**(5,602)**	(1,543)	(5,415)
Additions of intangible assets	**–**	–	(266)
Additions of land use rights	**–**	–	(1,570)
Loans to a joint venture	**–**	82	–
Repayment of loan by a joint venture	**–**	(8)	–
Disposal of property, plant and equipment	**107**	3	102
Net cash used in investing activities	**(5,495)**	(1,594)	(7,535)

Consolidated Statements of Cash Flows

For the financial years ended 31 December 2010 and 31 December 2009

	Group		
	2010	2009	2008
Cash flows from financing activities			
Fixed deposits with bank with maturity of more than three months	**–**	976	4,104
Proceeds from borrowings	**10,567**	4,098	6,470
Repayment of borrowings	**(2,509)**	(4,844)	(4,296)
Repayment of lease liabilities	**(30)**	(40)	(358)
Interest	**(7)**	(21)	(47)
Dividend paid	**–**	–	(1,043)
Proceeds from issuance of convertible notes	**–**	–	8,000
Net cash generated from financing activities	**8,021**	169	12,830
Net decrease in cash and cash equivalents	**(1,443)**	398	(4,785)
Cash and cash equivalents			
Beginning of financial year	**13,463**	13,335	18,506
Effects of currency translation on cash and cash equivalents	**(435)**	(270)	(386)
End of financial years (Note 11)	**11,585**	13,463	13,335

During the financial year ended 31 December 2010, the Company acquired plant and equipment with an aggregate cost of $nil (2009: $1,543,000; 2008: $5,602,000) of which $nil (2009: $nil; 2008: $187,000) was acquired by means of finance leases. Cash payment of $5,602,000 (2009: $1,543,000; 2008: $5,415,000) was made to purchase plant and equipment.

The accounting policies and explanatory notes form an integral part of the consolidated financial statements.

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL INFORMATION

Darco Water Technologies Limited (the “Company”) is listed on the Singapore Exchange and incorporated and domiciled in Singapore. The address of its registered office and its principal place of business is at 41 Loyang Drive, Singapore 508952.

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 principal activities of the subsidiaries are described in Note 15 to the financial statements.

As at 31 December 2010, the Group’s current liabilities exceeded its current assets by $1,134,000. During the financial year ended 31 December 2010, the Group incurred negative operating cash flows of $3,969,000. During the financial year ended 31 December 2009, the Group incurred a total loss of $11,461,000.

As at 31 December 2010 and 31 December 2009, the Group and the Company is not in compliance with the financial covenants in the facility agreement with the lenders for the syndicated loan facilities, including borrowings of $33,993,000 and $36,031,000 respectively as disclosed in Note 23(D).

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s and the Company’s ability to continue as a going concern.

The financial statements have been prepared on the assumption that the Group will continue as a going concern. The validity of the going concern assumption on which the Group’s and the Company’s financial statements are prepared is dependent on the negotiation with the lenders of the syndicated loan facilities on possible alternatives, including restructuring of the syndicated loan facilities or obtaining a waiver on the non-compliance of financial covenants, of which the ultimate outcome of the matter cannot presently be determined.

If the Group is unable to continue in operational existence for the foreseeable future, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group may have to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No such adjustments have been made in these financial statements.

The statement of financial position of the Company and the consolidated financial statements of the Group for the financial years ended 31 December 2010 and 31 December 2009 were authorised for issue in accordance with a resolution of the directors on the date of the Statement by Directors.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(I) Basis of preparation

(a) Basis of accounting

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

(b) Adoption of new and revised Singapore Financial Reporting Standards

On 1 January 2010 and 1 January 2009, the Group adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS. The following are the new or revised FRS and INT FRS that are relevant to the Group:

- FRS 1 (revised) Presentation of financial statements (effective from 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. All non-owner changes in equity are shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has chosen to adopt the former alternative. Where comparative information is restated or reclassified, a restated statement of financial position is required to be presented as at the beginning comparative period.

- FRS 108 Operating segments (effective from 1 January 2009) replaces FRS 14 Segment reporting, and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. Segment revenue, segment profits and segment assets are also measured on a basis that is consistent with internal reporting.

- Amendment to FRS 107 Improving disclosures about financial statements (effective from 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the accounting policies and measurement bases adopted by the Group.

- FRS 27 (revised) Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). The revisions to FRS 27 principally change the accounting for transactions with non-controlling interests. Please refer to the revised accounting policy for "Group accounting" on changes in ownership interest that results in a lost of control and on changes in ownership interests that do not result in lost of control. As the changes have been implemented prospectively, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(I) Basis of preparation (Cont'd)

(b) Adoption of new and revised Singapore Financial Reporting Standards (Cont'd)

- Amendment to FRS 7 Cash Flow Statements (effective for annual periods beginning on or after 1 January 2010). Under the amendment, only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Previously, such expenditure could be classified as investing activities in the statement of cash flows. This change has been applied retrospectively. It had no material effect on the amounts presented in the statement of cash flows for the current or prior year.

- FRS 103 (revised) Business Combinations (effective for annual periods beginning on or after 1 July 2009). Please refer to note 2(II)(b)(i)(2) for the revised accounting policy on business combinations which the Group has applied for its acquisition. As the changes have been implemented prospectively, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

(II) Summary of significant accounting policies

(a) Revenue recognition

Sales comprise the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Sales are presented net of value-added tax, rebates and discounts, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, when it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

(i) Sales of goods – Chemicals, electrical controls and related instruments used in water treatment systems

Revenue from these sales is recognised when a Group entity has delivered the products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) Rendering of service – water management services

Revenue from logistics services is recognised when the services are rendered, using the percentage of completion method based on the actual service provided as a proportion of the total services to be performed.

(iii) Construction of engineered water systems

Please refer to the paragraph "Construction Contracts" for the accounting policy for revenue from construction contracts.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(a) Revenue recognition (Cont'd

(iv) Interest income

Interest income, including income arising from finance leases and other financial instruments, is recognised using the effective interest method.

(v) Rental income

Rental income from operating leases (net of any incentives given to the lessees) is recognised on a straight-line basis over the lease term.

(b) Group Accounting

(i) Subsidiaries

(1) Consolidation

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statements of comprehensive income, statements of changes in equity and statements of financial position. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(b) Group Accounting (Cont'd)

(i) Subsidiaries (Cont'd)

(2) Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the Group.

The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. Please refer to the paragraph "Intangible assets – Goodwill on acquisitions" for the subsequent accounting policy on goodwill.

(3) Disposals of subsidiaries or businesses

When a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific standard.

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to the paragraph "Investments in subsidiaries and joint ventures" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(b) Group Accounting (Cont'd)

(ii) Transactions with non-controlling interests

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Group. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised in retained earnings within equity attributable to the equity holders of the Company.

(iii) Joint venture

The Group's joint ventures are entities over which the Group has contractual arrangements to jointly share the control over the economic activity of the entities with one or more parties. The Group's interest in joint ventures is accounted for in the consolidated financial statements using the equity method of accounting less impairment losses.

Investment in a joint venture is initially recognised at cost. The cost of the acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In applying the equity method of accounting, the Group's share of its joint venture's post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition movements in reserves is recognised in equity directly. These post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in joint ventures equals or exceeds its interest in the joint ventures, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of joint ventures have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Dilution gains and losses arising from investments in joint ventures are recognised in profit or loss.

Please refer to the paragraph "Investments in subsidiaries and joint ventures" for the accounting policy on investments in joint ventures in the separate financial statements of the Company.

(c) Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are carried at cost less accumulated impairment losses in the Company's statements of financial position. On disposal of investments in subsidiaries and joint ventures, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(d) Property, plant and equipment

(i) Measurement

1) Land and buildings and leasehold properties

Land and buildings and leasehold properties are initially recognised at cost. Freehold land is subsequently carried at cost less accumulated impairment losses. Freehold buildings and leasehold properties are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

2) Other property, plant and equipment

All other items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

3) Components of cost

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(ii) Depreciation

Freehold land are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	Useful lives
Freehold buildings	50 years
Leasehold properties	30 to 50 years
Plant and equipment	3 to 10 years

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at the end of each reporting period. The effects of any revision are recognised in profit or loss when the changes arise.

Fully depreciated assets still in use are retained in the financial statements.

(iii) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(d) Property, plant and equipment (Cont'd)

(iv) Disposal

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss.

(e) Land use rights

Land use rights are stated at cost less accumulated amortisation and any impairment losses. Land use rights are amortised on a straight line basis over the remaining years of rights allocated to use the land of 50 years.

The amortisation period and amortisation method are reviewed at each financial year-end.

(f) Intangible assets

(i) Goodwill on acquisitions

Goodwill on acquisitions of subsidiaries on or after 1 January 2010 represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired.

Goodwill on acquisition of subsidiaries prior to 1 January 2010 and on acquisition of joint ventures represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets acquired.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Goodwill on joint ventures is included in the carrying amount of the investments.

Gains and losses on the disposal of subsidiaries and joint ventures include the carrying amount of goodwill relating to the entity sold, except for goodwill arising from acquisitions prior to 1 January 2001. Such goodwill was adjusted against retained earnings in the years of acquisition and not recognised in profit or loss on disposal.

(ii) Franchise

Franchise is initially measured at cost. Following initial recognition, franchise is measured at cost less accumulated amortisation and accumulated impairment losses. It is amortised on a straight-line basis over the estimated useful life of 6 years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at the end of each reporting period. The effects of any revision are recognised in profit or loss when the changes arise.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(g) Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method.

(h) Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date ("percentage-of-completion method"). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in the contract work and claims that can be measured reliably. A variation or a claim is recognised as contract revenue when it is probable that the customer will approve the variation or negotiations have reached an advanced stage such that it is probable that the customer will accept the claim.

The stage of completion is measured by reference to the ratio of contract costs incurred to date to the estimated total costs for the contract. Costs incurred during the financial years in connection with future activity on a contract are excluded from costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract work-in-progress on the statement of financial position unless it is not probable that such contract costs are recoverable from the customers, in which case, such costs are recognised as an expense immediately.

At the reporting date, the cumulative costs incurred plus recognised profit (less recognised loss) on each contract is compared against the progress billings. Where costs incurred plus the recognised profits (less recognised losses) exceed progress billings, the balance is presented as due from customers on construction contracts within "trade and other receivables". Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is presented as due to customers on construction contracts within "trade and other payables".

Progress billings not yet paid by customers and retentions are included within "trade and other receivables". Advances received are included within "trade and other payables".

(i) Impairment of non-financial assets

(i) Goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Goodwill included in the carrying amount of an investment in a joint venture is tested for impairment as part of the investment, rather than separately.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units ("CGU") expected to benefit from synergies arising from the business combination.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(i) Impairment of non-financial assets (Cont'd)

(i) Goodwill (Cont'd)

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised as expense and is not reversed in a subsequent period.

(ii) Intangible assets

Property, plant and equipment
Investments in subsidiaries and a joint venture
Investment properties
Land use rights

Intangible assets, property, plant and equipment, investments in subsidiaries and a joint venture, investment properties and land use rights are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(j) Financial assets

(i) Classification

The classification of financial assets depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition. Management has classified its financial assets as "loans and receivables"

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the reporting date which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables" and "cash and cash equivalents" on the statement of financial position.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

<u>Loans and receivables</u>

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss.

(iii) Initial measurement

Loans and receivables are initially recognised at fair value plus transaction costs.

(iv) Subsequent measurement

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(v) Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(j) Financial assets (Cont'd)

(v) Impairment (Cont'd)

Loans and receivables (Cont'd)

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost, had no impairment been recognised in prior periods.

(k) 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 statement of financial position.

Financial guarantees are subsequently amortised to profit or loss 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 statement of financial position.

Intra-group transactions are eliminated on consolidation.

(l) Investment properties

Investment properties include those portions of office buildings that are held for long term rental yields and/or for capital appreciation. Investment properties include properties that are being constructed or developed for future use as investment properties.

Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 50 years. The residual values, useful lives and depreciation method of investment properties are reviewed, and adjusted as appropriate, at each reporting date. The effects of any revision are included in profit or loss when the changes arise.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(l) Investment properties (Cont'd)

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are recognised in profit or loss. The cost of maintenance, repairs and minor improvements is recognised in profit or loss when incurred.

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

(m) Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the end of the reporting period.

(i) Borrowings

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(ii) Convertible bonds

When convertible bonds are issued, the total proceeds are allocated to the liability component and the equity component, which are separately presented on the statement of financial position.

The liability component is recognised initially at its fair value, determined using a market interest rate for equivalent non-convertible bonds. It is subsequently carried at amortised cost using the effective interest method until the liability is extinguished on conversion or redemption of the bonds.

The difference between the total proceeds and the liability component is allocated to the conversion option (equity component), which is presented in equity net of deferred tax effect. The carrying amount of the conversion option is not adjusted in subsequent periods. When the conversion option is exercised, its carrying amount will be transferred to the share capital account. When the conversion option lapses, its carrying amount will be transferred to retained profits.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

(o) Fair value estimation of financial assets and liabilities

The carrying values of current financial assets and current financial liabilities approximate their fair values due to the short-term maturity of these instruments. Disclosures of fair value are not made when the carrying value is a reasonable approximation of fair value.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(p) Leases

(i) When the Group is the lessee

The Group leases motor vehicles and certain plant and machinery under finance leases and offices, hostels, factories and warehouses under operating leases from non-related parties.

(1) Lessee – Finance leases

Leases where the Group assumes substantially all risks and rewards incidental to ownership of the leased assets are classified as finance leases.

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the statement of financial position as plant and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognised in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

(2) Lessee – Operating leases

Leases of offices, hostels, factories and warehouses where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

(ii) When the Group is the lessor

The Group leases investment properties under operating leases to non-related parties.

(1) Lessor – Operating leases

Leases of properties where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in profit or loss on a straight-line basis over the lease term.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in the profit or loss over the lease term on the same basis as the lease income.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(q) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted-average method. Cost of inventories includes costs of purchase and other costs incurred in bringing the stocks to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

(r) Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date; and

(ii) based on the tax consequence that will follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past events, it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Other provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognised in the profit or loss as finance expense.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(s) Provisions (Cont'd)

Changes in the estimated timing or amount of the expenditure of discount rate are recognised in the profit or loss when the changes arise.

(t) Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(i) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

(ii) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for leave as a result of services rendered by employees up to the end of the reporting period.

(u) Currency translation

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Singapore Dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the reporting date are recognised in profit or loss.

(iii) Translation of Group entities' financial statement

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(u) Currency translation (Cont'd)

(iii) Translation of Group entities' financial statement (Cont'd)

(1) Assets and liabilities are translated at the closing exchange rates at the reporting date;

(2) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated using the exchange rates at the dates of the transactions); and

(3) All resulting currency translation differences are recognised in the currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date. For acquisitions prior to 1 January 2005, the exchange rates at the dates of acquisition are used.

(v) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee whose members are responsible for allocating resources and assessing performance of the operating segments.

(w) Cash and cash equivalent

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings on the statement of financial position.

(x) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

(y) Dividends to Company's shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

(z) Government grants

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(aa) Service concession arrangements

The Group has entered into service concession arrangements with the various governing bodies or agencies of the government of the People's Republic of China and Indonesia (the grantors) to construct and operate water treatment plants. Under the concession arrangements, the Group will construct and/or operate the plants for concession periods of between 20 to 25 years and transfer the plants to the grantors at the end of the concession periods. Such concession arrangements fall within the scope of INT FRS 112 Service Concession Arrangements and are accounted for as follows:

Financial receivables

The Group recognised a financial receivable arising from a service concession arrangement when it has a right to receive a fixed and determinable amount of payments during the concession period irrespective of the usage of the concession infrastructure. The financial receivable is accounted for in accordance with the accounting policy set out in Note 2 (II)(j).

When the Group receives a payment during the concession period, it will apportion such payment between (i) a repayment of the financial receivable (if any), which will be used to reduce the carrying amount of the financial receivable on its statement of financial position, (ii) interest income, which will be recognised as finance income in its statement of comprehensive income and (iii) revenue from operating and maintaining the infrastructure to be recognised in its statement of comprehensive income.

Intangible assets

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure but does not have any contractual rights under the concession agreements to receive a fixed and determinable amount of payments during the concession period. Intangible assets received as consideration for providing construction services in a service concession arrangement are measured at fair value upon initial recognition, estimated by reference to the fair value of the construction services provided. When the Group receives an intangible asset and a financial asset as consideration for providing construction services in a service concession arrangement, the Group estimates the fair value of intangible assets as the difference between the fair value of the construction services provided and the fair value of the financial asset received. Subsequent to initial recognition, the intangible asset is measured at cost less accumulated amortisation and impairment losses.

The estimated useful life of an intangible asset in a service concession arrangement is the period when it is available for use to the end of the concession period.

Revenue recognition

Revenue relating to construction services under a service concession arrangement is recognised in accordance with the Group's accounting policy on recognising revenue on construction contracts (see Note 2 (II)(h)). Operation or service revenue is recognised in the period in which the services are provided by the Group. When the Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(II) Summary of significant accounting policies (Cont'd)

(ab) Legal reserve

In accordance with the relevant laws and regulations of the People's Republic of China ("PRC"), the subsidiaries of the Company established in the PRC is required to transfer 10% of its profit after income tax prepared in accordance with the accounting regulations in the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

(i) Estimated impairment of non-financial assets

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Intangible assets, property, plant and equipment and investments in subsidiaries, and joint ventures are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

The recoverable amounts of these assets and where applicable, cash-generating units, have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 19(a)).

(ii) Uncertain tax positions

The Group has exposure to income taxes mainly in Singapore, The People's Republic of China, Taiwan, Malaysia and Indonesia. Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues 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 recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONT'D)

(a) Critical accounting estimates and assumptions (Cont'd)

(iii) Construction contracts

The Group uses the percentage-of-completion method to account for its contract revenue. The stage of completion is measured by reference to the contract costs incurred to date compared to the estimated total costs for the contract.

Significant assumptions are required to estimate the total contract costs and the recoverable variation works that will affect the stage of completion and the contract revenue respectively. In making these estimates, management has relied on past experience and the work of specialists.

The stage of completion of each construction contract is assessed on a cumulative basis in each accounting year. Changes in estimates of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract could impact the amount of revenue and expenses recognised in the profit or loss in the years in which the change is made and in subsequent years. Such impact could potentially be significant.

If the revenue on contracts that are work-in-progress increases/decreases by 10% from management's estimates, the Group's revenue will increase/decrease by $7,000,000 (2009:$6,000,000) and $7,000,000 (2009:$6,000,000) respectively.

If the contract costs to be incurred increase/decrease by 10% from management's estimates, the Group's profit will decrease/increase by $5,000,000 (2009:$4,000,000) and $5,000,000 (2009:$4,000,000) respectively.

(iv) Service concession arrangements

The consideration for the services provided under the concession arrangements is allocated to the components by reference to their relative fair values. Revenue for construction services provided under the concession arrangements and the corresponding financial receivables and/or intangible assets arising are recognised based on the percentage of completion method during the construction phase.

The percentage of completion method during the construction phase is measured by reference to the proportion that construction costs incurred to date bear to the estimated total construction costs. Significant judgement is required in determining the stage of completion, the extent of the construction costs incurred and the estimated total construction costs.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONT'D)

(a) Critical accounting estimates and assumptions (Cont'd)

(iv) Service concession arrangements (Cont'd)

Significant judgement is also exercised in determining the fair values of the financial receivable and/or intangible assets. Discount rates, estimates of future cash flows and other factors are used in the determination of the fair value of financial asset and/or intangible assets on initial recognition, as well as the amortised cost and corresponding financial income during the operation phase of financial asset. The residual consideration is recognised as operating income. The assumptions used and estimates may result in different fair value estimates.

(v) Impairment of loans and receivables

Management reviews its loans and receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management makes judgements as to whether an impairment loss should be recorded as an expense. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

(b) Critical judgements in applying the entity's accounting policies

(i) Deferred income tax assets

The Group recognises deferred income tax assets on carried forward tax losses to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised and that the Group is able to satisfy the continuing ownership test.

4. REVENUE

	Group		
	2010	2009	2008
	$'000	$'000	$'000
			(Restated)
Revenue from construction contracts	**51,415**	41,961	78,641
Rendering of services	**17,477**	15,633	18,024
Sales of goods	**845**	350	706
	69,737	57,944	97,371

5. OTHER INCOME

	Group		
	2010	2009	2008
	$'000	$'000	$'000
			(Restated)
Finance income from service concession arrangements	**2,140**	1,733	1,466
Bad debts recovered	**–**	–	14
Trade payable no longer required	**–**	–	2
Impairment on trade receivables no longer required			
– non-related parties (Note 33(b))	**–**	11	42
Interest income from bank deposits	**82**	63	247
Rental income from investment properties	**4**	4	4
Government grant – job credit scheme	**154**	56	–
VAT tax refund from government	**–**	175	–
Gain on disposal of property, plant and equipment	**3**	–	–
Miscellaneous income	**172**	351	775
	2,555	2,393	2,550

The Jobs credit scheme is a cash grant introduced in Singapore Budget 2009 to help businesses preserve jobs in the economic downturn. The amount an employer can receive depends on the fulfillment of certain conditions under the scheme.

6. FINANCE EXPENSES

	Group		
	2010	2009	2008
	$'000	$'000	$'000
			(Restated)
Interest expense			
– bank borrowings	**1,603**	1,887	1,993
– convertible notes (Note 23)	**11**	10	43
– finance lease liabilities	**7**	11	4
	1,621	1,908	2,040

7. PROFIT/(LOSS) BEFORE INCOME TAX

	Group		
	2010	2009	2008
	$'000	$'000	$'000
			(Restated)
This was arrived at after charging/(crediting):			
Amortisation of land use rights (Note 20)	**37**	39	32
Amortisation of intangible assets (Note 19)	**–**	37	69
Allowance for impairment of intangible assets (Note 19)	**–**	160	–
Depreciation of property, plant and equipment (Note 17)	**1,076**	1,418	1,384
Depreciation of investment properties (Note 18)	**–**	2	3
Allowance for Impairment of property, plant and equipment (Note 17)	**–**	571	–
Allowance for Impairment of goodwill (Note 19)	**–**	35	–
Foreign exchange translation (gain)/loss – net	**(1,522)**	1,385	355
Trade receivables written off – non-related parties	**–**	–	–
Other receivables written off – non-related parties	**278**	52	3
Loss on disposal of property, plant and equipment	**–**	10	5
Allowance for impairment of trade receivables – non-related parties (Note 33(b))	**1,004**	84	3,163
Allowance for impairment of other receivables – non-related parties	**10,274**	415	41
Directors' fees	**128**	128	145
Rental expense for operating leases	**300**	295	236
Employee compensation (Note 8)	**9,539**	8,145	9,739
Reversal of inventory write-down	**–**	(59)	–

8. EMPLOYEE COMPENSATION

	Group		
	2010	2009	2008
	$'000	$'000	$'000
			(Restated)
Wages and salaries	**8,310**	6,886	8,306
Employer's contribution to defined contribution plans including Central Provident Fund	**528**	627	831
Other long-term benefits	**701**	632	602
	9,539	8,145	9,739

9. INCOME TAX EXPENSE/(CREDIT)

	Group		
	2010	2009	2008
	$'000	$'000	$'000
			(Restated)
Tax expense attributable to loss is made up of:			
– Profit from current financial year:			
Current income tax			
– Singapore	**1,460**	668	200
– Foreign	**–**	–	954
Deferred income tax assets (Note 22)	**–**	892	(1,660)
Deferred income tax liabilities (Note 22)	**320**	504	135
– (Over)/Under provision in prior financial years:			
income tax	**(92)**	103	191
	1,688	2,167	(180)

The reconciliation between tax expense/(credit) and the product of multiplying the Singapore statutory income tax rate to profit/(loss) before income tax is as follows:-

	Group		
	2010	2009	2008
	$'000	$'000	$'000
Profit/(Loss) before income tax	**3,002**	(9,294)	(2,488)
Tax calculated at tax rate of 17% (2009: 17%; 2008: 18%)	**510**	(1,580)	(448)
Effects of			
– expenses not deductible for tax purposes	**1,270**	3,841	1,083
– (over)/under-provision for prior year's income tax	**(92)**	103	191
– different tax rates in other countries	**–**	257	(359)
– income not subject to tax	**–**	(651)	(377)
– deferred tax benefit not recognised	**–**	197	–
– utilisation of previously unrecognised			
– tax losses	**–**	–	(270)
Tax charge	**1,688**	2,167	(180)

During the financial year ended 31 December 2009, the Singapore corporate tax rate was reduced from 18% to 17% for the years of assessment 2010 and onwards.

10. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the net profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	Group		
	2010	2009	2008
Net profit/(loss) attributable to equity holders of the Company ($'000)	**1,316**	(12,460)	(2,986)
Weighted average number of ordinary shares outstanding for basic earnings/(loss) per share ('000)	**276,684**	276,684	263,488
Basic earnings/(loss) per share (cents per share)	**0.48**	(4.50)	(1.13)

(b) Diluted earnings/(loss) per share

For the purpose of calculating diluted earnings/(loss) per share, profit/(loss) attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Company has convertible notes with dilutive potential ordinary shares.

Convertible bonds are assumed to have been converted into ordinary shares at issuance and the net profit/(loss) is adjusted to eliminate the interest expense less the tax effect.

Diluted earnings/(loss) per share for profit/(loss) attributable to equity holders of the Company is calculated as follows:

	Group		
	2010	2009	2008
Net profit/(loss) attributable to equity holders of the Company and used to determine diluted earnings per share ($'000)	**1,316**	(12,460)	(2,986)
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	**276,684**	276,684	263,488
Adjustments for ('000)			
– Convertible notes	**–**	–	13,196
	276,684	276,684	276,684
Diluted earnings/(loss) per share (cents per share)	**0.48**	(4.50)	(1.08)

11. CASH AND CASH EQUIVALENTS

	Group			Company		
	2010	2009	2008	**2010**	2009	2008
	$'000	$'000	$'000	**$'000**	$'000	$'000
Cash at bank and on hand	**13,017**	13,804	14,078	**1,438**	60	83
Short-term bank deposits	**1,936**	2,399	3,023	**–**	–	–
	14,953	16,203	17,101	**1,438**	60	83

The short-term bank deposits have original maturities of three months or less.

For the purpose of presenting the consolidated statements of cash flows, the consolidated cash and cash equivalents comprise the following:

	Group		
	2010	2009	2008
	$'000	$'000	$'000
Cash and bank balances (as above)	**14,953**	16,203	17,101
Less: Bank overdraft (Note 23)	**(1,432)**	(804)	(854)
Less: Bank deposits pledged (a)	**(1,936)**	(1,936)	(2,912)
Cash and cash equivalents per consolidated statements of cash flows	**11,585**	13,463	13,335

(a) This amount has been pledged to a bank as collateral for banking facilities granted to the subsidiaries (Note 31).

11. CASH AND CASH EQUIVALENTS (CONT'D)

ACQUISITION OF SUBSIDIARIES, NET OF CASH ACQUIRED IN YEAR 2008

On 27 February 2008, the Group acquired 100% of the issued capital of Darco Wan Yuan Develop Co., Ltd. and its subsidiary, Northern Union Assortment Recycling Co., Ltd. for a cash consideration of NT$28,915,000 (SGD$1,305,875).

The aggregate effects of the acquisition of subsidiaries on the cash flows of the Group were:

	Group Acquisition	
	At fair values	Carrying amounts in acquiree's books
	2008	2008
	$'000	$'000
Identifiable assets and liabilities		
Cash and cash equivalents	920	920
Other receivables and prepayments	907	907
Total assets	1,827	1,827
Borrowings	(521)	(521)
Total liabilities	(521)	(521)
Identifiable net assets acquired/Cash consideration paid	1,306	1,306
Less: Cash and cash equivalents in subsidiaries acquired	(920)	
Net cash outflow on acquisition	386	

Subsequent to the acquisition, the Group had increased its investment in these subsidiaries to NT$80,000,000 (S$3,586,000) during the year 2008.

BUSINESS COMBINATION DURING 2010

On 4 October 2010, the Group acquired 100% of the issued capital of WLF Industrial Co. Ltd. by way of share-swap agreement. The consideration for the shares was NT$10,000,000 (S$431,835).

12. TRADE AND OTHER RECEIVABLES – CURRENT

	Group				Company			
	2010	2009	2008	2007	**2010**	2009	2008	2007
	$'000	$'000	$'000	$'000	**$'000**	$'000	$'000	$'000
			(Restated)	(Restated)			(Restated)	
Trade receivables:								
– Non-related parties	**17,493**	18,617	32,244	15,755	**621**	973	212	996
Less: Allowance for impairment of receivables								
– non-related parties	**(3,307)**	(2,303)	(3,384)	(279)	**–**	–	–	–
– Related parties (Note 31) (b)	**–**	85	–	–	**–**	–	–	–
	14,186	16,399	28,860	15,476	**621**	973	212	996
Construction contracts								
– Due from customers (Note 14)	**11,439**	5,949	17,398	41,479	**–**	–	1,052	–
– Retentions (Note 14)	**–**	271	4,763	2,088	**–**	–	–	–
	11,439	6,220	22,161	43,567	**–**	–	1,052	–
Financial receivable from service concession arrangements	**51,150**	36,764	28,277	23,800	**–**	–	–	–
Less: Non-current portion (Note 21)	**(50,382)**	(36,494)	(28,277)	(23,800)	**–**	–	–	–
	768	270	–	–	**–**	–	–	–
Other receivables:								
– Subsidiaries (Notes 15 and 31) (b)	**195**	–	–	–	**65,501**	65,631	68,806	58,662
Less: Allowance for impairment of receivables								
– subsidiaries	**–**	–	–	–	**(5,348)**	(5,348)	(5,348)	–
– Joint venture	**–**	74	–	–	**–**	–	–	–
– Non-related parties	**11,059**	6,576	5,335	2,567	**–**	–	5	54
Less: Allowance for impairment of receivables								
– non-related parties	**(10,727)**	(453)	(41)	–	**–**	–	–	–
	527	6,197	5,294	2,567	**60,153**	60,283	63,463	58,716
Deposits (a)	**4,718**	1,307	1,554	895	**–**	–	–	–
Less: Allowance for impairment of deposits	**–**	(767)	(767)	(767)	**–**	–	–	–
	4,718	540	787	128	**–**	–	–	
Deposits for investment in subsidiaries (d)	**–**	2,310	–	–	**–**	–	–	–
Staff loans (c)	**57**	48	41	–	**–**	–	–	–
Prepayments	**1,046**	61	697	2,242	**2**	36	50	171
Tax refundable	**58**	466	90	670	**6**	6	6	81
	32,799	32,511	57,930	64,650	**60,782**	61,298	64,783	59,964

12. TRADE AND OTHER RECEIVABLES – CURRENT (CONT'D)

The average credit period on trade receivables is 30 days (2009: 30 days; 2008: 30 days).

(a) Included in deposits of the Group is an amount of $767,000 (2009: $767,000; 2008: $767,000) (or US$500,000) which relates to a refundable deposit paid to a third party vendor for the Company'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 $3,874,000 (2009: $4,281,000; 2008: $4,328,000) (or US$3,000,000). The remaining consideration $3,107,000 (2009: $3,514,000; 2008: $3,561,000) (or US$2,500,000) is payable upon the fulfillment 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 and the project has been put on hold for the past four years. In the financial year ended 31 December 2006, management has made a full impairment loss of the said deposits.

(b) Amount owing by joint venture and subsidiaries are non-trade in nature, unsecured, interest-free, and repayable on demand except for an amount owing by a subsidiary ("Globe Industrial Technology Co., Ltd.") which bears interest rate of 6.85% (2009: 6.85%; 2008: 6.85%) per annum.

(c) Staff loans include the loan amounting to $20,000 (2009:$20,000; 2008:$20,000) made to a member of key management personnel of the Group. The loan is unsecured, interest free and repayable on demand.

(d) These deposits are related to the setting up of the following companies:

(i) Darco Puding Wastewater Management Co., Ltd (NT$43,000,000, S$1,874,000) in Taiwan

(ii) Darco Remediation Technologies Inc. (NT$10,000,000, S$436,000) in Taiwan

As of 31 December 2009, the registration of the investment in these two companies had not been completed; thus, the Group recognised the amounts invested as deposits for investments.

13. INVENTORIES

	Group		
	2010	2009	2008
	$'000	$'000	$'000
Raw materials	**1,557**	1,187	1,243
Trading goods	**584**	838	1,210
	2,141	2,025	2,453

The cost of inventories recognised as an expense and included in "cost of sales" amounts to $588,000 (2009:$288,000; 2008:$562,000).

The Group has recognised a reversal of $Nil (2009: $59,000; 2008: $Nil), being part of an inventory write-down made in prior years, as the inventories were sold above the carrying amounts during the financial year.

14. CONSTRUCTION CONTRACTS

	Group			Company		
	2010	2009	2008	**2010**	2009	2008
	$'000	$'000	$'000	**$'000**	$'000	$'000
Aggregate costs incurred and profits recognised (less losses recognised) to date on uncompleted construction contracts	**54,658**	59,992	73,360	**–**	–	3,652
Less: Progress billings	**(48,010)**	(56,677)	(60,934)	**–**	–	(2,600)
	6,648	3,315	12,426	**–**	–	1,052
Presented as:						
Due from customers on construction contracts (Note 12)	**11,439**	5,949	17,398	**–**	–	1,052
Due to customers on construction contracts (Note 24)	**(4,791)**	(2,634)	(4,972)	**–**	–	–
	6,648	3,315	12,426	**–**	–	1,052
Retentions on construction contracts (Note 12)	**–**	271	4,763	**–**	–	–

15. INVESTMENTS IN SUBSIDIARIES

	Company		
	2010	2009	2008
	$'000	$'000	$'000
Equity investments at cost	**7,276**	7,276	7,276
Less: Accumulated impairment losses	**(2,679)**	(2,679)	(319)
	4,597	4,597	6,957

Details of subsidiaries held by the Company are as follows:

Name of subsidiaries, country of business/ incorporation	**Principal activities**	**Cost of the Investments**			**Effective percentage of equity held**		
		2010	2009	2008	**2010**	2009	2008
		$'000	$'000	$'000	**%**	%	%
					(restated)		
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	**2,679**	2,679	2,679	**100**	100	100
Singaway FluidControls Private Limited Singapore (a)	Dormant	**–**	–	–	**–**	–	–
Darco Environmental Pte. Ltd. @ Singapore	Investment holding	**200**	200	200	**100**	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	**2,338 (RM4,802,000)**	2,338 (RM4,802,000)	2,338 (RM4,802,000)	**100**	100	100
PV Vacuum Engineering Pte. Ltd. @@ Singapore	Design and supply of environmental related equipment	**2,059**	2,059	2,059	**100**	100	100
		7,276	7,276	7,276			

15. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Details of subsidiaries held by subsidiaries of the Company are as follows:

Name of subsidiaries, country of business/ incorporation	Principal activities	Effective percentage of equity held 2010 %	2009 %	2008 %
Held by subsidiaries:				
Darco Engineering (Taiwan) Co., Ltd. #, 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	**100**	100	100
PT Darco Indonesia *, Indonesia	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	**51**	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	**65**	65	65
Shanghai Challenge Environmental Engineering Co., Ltd. (b) The People's Republic of China	Design, fabrication, installation and commissioning of environmental engineering system and providing consultancy services in relation to such business	**–**	–	100
Globe Industrial Technology Co., Ltd. @, (d) Hong Kong	Investment holding	**91**	75	75
Deqing Darco Producing Water Co., Ltd. @@@, The People's Republic of China	Supply of potable water	**100**	100	100
Shanghai Darco Engineering Co., Ltd. @@@, The People's Republic of China	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	**100**	100	100
Darco Systems (M) Sdn. Bhd. ##, Malaysia	Designing, fabrication and constructing pure and waste water treatment plants and trading in related industrial products	**100**	100	100
Darco Industrial Water 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	**100**	100	100

15. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Details of subsidiaries held by subsidiaries of the Company are as follows: (Cont'd)

Name of subsidiaries, country of business/ incorporation	Principal activities	Effective percentage of equity held		
		2010	2009	2008
		%	%	%
Held by subsidiaries:				
WWMG Environmental Sdn. Bhd. ##, Malaysia	Dormant	**100**	100	100
Deqing Huanzhong Producing Water Co., Ltd. @@@, The People's Republic of China	Supply of potable water	**91**	75	75
Darco Environmental (Taiwan) Inc. #, Taiwan	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	**59.58**	59.58	59.58
Darco Wan Yuan Develop Co., Ltd. #, Taiwan	Investment holding	**100**	100	100
Northern Union Assortment Recycling Co., Ltd. #, Taiwan	Design and build solid waste and waste water treatment systems	**100**	100	100
Puzer Asia Pte Ltd @@, Singapore	Trading in vacuum cleaning systems and provision of related services	**56**	56	56
Darco Puding Wastewater Management Co., Ltd. #, Taiwan (e)	Supply of potable water	**51**	–	–
Darco Remediation Technologies Inc. #, Taiwan (e)	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	**100**	–	–
WLF Industrial Co., Ltd #, Taiwan (f)	Sludge scrapper systems for sedimentation tanks	**100**	–	–

@ Audited by LTC LLP, Singapore.

@@ Audited by Tan, Teo & Partners, Singapore.

@@@ Audited by Lixin International, Singapore.

Audited by Sun Rise CPAs & Company, Taiwan in 2010. Audited by Deloitte & Touche, Taiwan in 2009.

Audited by Peter Chong & Co., Malaysia.

^ Audited by Fernandez, Santos & Lopez, Philippines

* Audited by Doli, Bambang. Sudarmadji & Dadang, Indonesia

15. INVESTMENTS IN SUBSIDIARIES (CONT'D)

(a) the subsidiary was liquidated in financial year 2008.

(b) Shanghai Challenge Environmental Technology Co., Ltd has merged with Shanghai Darco Engineering Co., Ltd. during the financial year ended 31 December 2009.

(c) In accordance to Rule 716 of The Singapore Exchange Securities Trading Limited – Listing Rules, the Audit Committee and Board of Directors of the Company confirmed that they are satisfied that the appointment of different auditors for its subsidiaries would not compromise the standard and effectiveness of the audit of the Company.

(d) During the financial year ended 31 December 2010, the Group increased its investment in the capital of Globe Industrial Technology Co., Ltd from HK$7,990,000 to HK$21,718,148.

(e) Newly incorporated during the financial year ended 31 December 2010.

(f) Newly acquired during the financial year ended 31 December 2010.

(g) The increase in the effective equity of the Group in Deqing Huanzhong Producing Water Co., Ltd during the financial year ended 31 December 2010 is by virtue of the increase in the investment in Globe Industrial Technology Co., Ltd as per (d) above.

Acquisition of subsidiaries in 2008 – Darco Wan Yuan Develop Co., Ltd. and its subsidiary, Northern Union Assortment Recycling Co., Ltd.

On 27 February 2008, the Group acquired 100% of the issued capital of Darco Wan Yuan Develop Co., Ltd. and its subsidiary, Northern Union Assortment Recycling Co., Ltd. for a cash consideration of NT$28,915,000 (SGD$1,305,875).

The fair value of identifiable net assets of the acquiree at the date of acquisition amounted to $1,306,000. Details of the identifiable net assets acquired are disclosed in Note 11.

Subsequent to the acquisition, the Group had increased its investment in these subsidiaries to NT$80,000,000 (S$3,586,000) during the year 2008.

The acquired subsidiaries contributed revenue of $1,620,000 and net loss of $995,000 to the Group for the period from 27 February 2008 to 31 December 2008. The subsidiary's assets and liabilities as at 31 December 2009 were $4,507,000 and $1,944,000 respectively. If the acquisition had occurred on 1 January 2008, Group revenue and total profit would have remained unchanged.

Acquisition of WLF Industrial Co., Ltd during the financial year ended 31 December 2010

On 4 October 2010, the Group acquired 100% of the issued capital of WLF Industrial Co., Ltd. by way of share-swap agreement. The consideration for the shares was NT$10,000,000 (S$431,835).

16. INVESTMENT IN A JOINT VENTURE

The Company has a 51% equity interest at a cost of $128,000 in Darco-Envidan Sdn. Bhd., which provides designing, fabricating and constructing pure and waste water treatment plants and trading in related industrial products in Malaysia. Darco-Envidan Sdn. Bhd. is deemed to be a joint venture of the Company as the appointment of its directors and the allocation of voting rights for key business decisions require the unanimous approval of its venturers.

		Group	
	2010	2009	2008
	$'000	$'000	$'000
Equity investment at cost	**128**	128	–
Share of losses	**(65)**	(65)	–
	63	63	–

Movement in share of losses:

		Group	
	2010	2009	2008
Balance at beginning of the financial year	**(65)**	–	–
Share of losses for the financial year	**–**	(65)	–
Balance at end of the financial year	**(65)**	(65)	–

The summarised financial information of the joint venture is as follows:

		Group	
	2010	2009	2008
Current assets	**465**	669	–
Non-current assets	**34**	43	–
Total assets	**499**	712	–
Current liabilities	**321**	564	–
Non-current liability	**21**	30	–
Total liabilities	**342**	594	–
Net assets	**157**	118	–
Revenue	**1,119**	885	–
Cost of sales	**(945)**	(875)	–
Gross profit	**174**	10	–
Distribution expenses	**(15)**	(8)	–
Administrative expenses	**(121)**	(128)	–
Finance expenses	**(2)**	(2)	–
Profit/(Loss) before income tax	**36**	(128)	–
Income tax expense	**–**	–	–
Total comprehensive income/(expenses) for the financial year	**36**	(128)	–

There are no capital commitments or contingencies relating to the Group's investment in a joint venture at the end of the reporting period.

16. INVESTMENT IN A JOINT VENTURE (CONT'D)

Details of joint venture held by a subsidiary of the Company are as follows:

Name of joint venture, country of business/ incorporation, and principal activities	Cost of the Investments			Effective percentage of equity held		
	2010	2009	2008	**2010**	2009	2008
	$'000	$'000	$'000	**%**	%	%
Held by the subsidiary:						
Darco-Envidan Sdn. Bhd. ##	**128**	128	–	**51**	51	51
Malaysia	**(RM 306,000)**	(RM 306,000)	(RM51)			
Designing, fabricating and constructing pure and waste water treatment plants and trading in related industrial products.						

Audited by Peter Chong & Co., Malaysia.

17. PROPERTY, PLANT AND EQUIPMENT

Group 2010	Freehold land $'000	Freehold buildings $'000	Leasehold properties $'000	Plant and equipment $'000	Total $'000
Cost:					
Beginning of financial year	244	984	3,589	12,370	17,187
Currency translation differences	26	144	726	737	1,633
Additions	–	–	–	4,050	4,050
Reclassification	–	–	–	(28)	(28)
Disposals	(20)	(122)	–	(6)	(148)
End of financial year	250	1,006	4,315	17,123	22,694
Accumulated depreciation:					
Beginning of financial year	–	141	812	4,999	5,952
Currency translation differences	–	32	389	1,012	1,433
Depreciation charge for the year	–	23	311	742	1,076
Reclassification	–	–	–	(28)	(28)
Disposals	–	(32)	–	–	(32)
End of financial year	–	164	1,512	6,725	8,401
Accumulated impairment losses:					
Beginning and end of financial year	–	–	277	294	571
Net book value:					
End of financial year	250	842	2,526	10,104	13,722

17. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group 2009	Freehold land $'000	Freehold buildings $'000	Leasehold properties $'000	Plant and equipment $'000	Total $'000
Cost:					
Beginning of financial year	247	994	3,445	11,292	15,978
Currency translation differences	(3)	(10)	(32)	(73)	(118)
Additions	–	–	176	1,367	1,543
Written off	–	–	–	(135)	(135)
Disposals	–	–	–	(81)	(81)
End of financial year	244	984	3,589	12,370	17,187
Accumulated depreciation:					
Beginning of financial year	–	122	539	4,122	4,783
Currency translation differences	–	(1)	(2)	(43)	(46)
Depreciation charge for the year	–	20	275	1,123	1,418
Written off	–	–	–	(135)	(135)
Disposals	–	–	–	(68)	(68)
End of financial year	–	141	812	4,999	5,952
Accumulated impairment losses:					
Beginning of financial year	–	–	–	–	–
Impairment losses for the year	–	–	277	294	571
End of financial year	–	–	277	294	571
Net book value:					
End of financial year	244	843	2,500	7,077	10,664

Group 2008	Freehold land $'000	Freehold buildings $'000	Leasehold properties $'000	Plant and equipment $'000	Total $'000
Cost:					
Beginning of financial year	261	1,055	2,676	8,585	12,577
Currency translation differences	(14)	(61)	70	(218)	(223)
Additions	–	–	699	4,903	5,602
Disposals	–	–	–	(1,978)	(1,978)
End of financial year	247	994	3,445	11,292	15,978
Accumulated depreciation:					
Beginning of financial year	–	109	390	4,863	5,362
Currency translation differences	–	(6)	4	(90)	(92)
Depreciation charge for the year	–	19	145	1,220	1,384
Disposals	–	–	–	(1,871)	(1,871)
End of financial year	–	122	539	4,122	4,783
Net book value:					
End of financial year	247	872	2,906	7,170	11,195

17. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group 2007	Freehold land $'000	Freehold buildings $'000	Leasehold properties $'000	Plant and equipment $'000	Total $'000
Cost:					
Beginning of financial year	260	1,053	2,671	8,120	12,104
Currency translation differences	1	2	5	157	165
Additions	–	–	–	522	522
Disposals	–	–	–	(214)	(214)
End of financial year	261	1,055	2,676	8,585	12,577
Accumulated depreciation:					
Beginning of financial year	–	88	304	3,815	4,207
Currency translation differences	–	1	–	119	120
Depreciation charge for the year	–	20	86	1,069	1,175
Disposals	–	–	–	(140)	(140)
End of financial year	–	109	390	4,863	5,362
Net book value:					
End of financial year	261	946	2,286	3,722	7,215

(a) Included in additions in the consolidated financial statements are plant and equipment, acquired under finance leases amounting to $nil (2009: $nil; 2008:$187,000).

The carrying amounts of plant and equipment held under finance leases are $120,000 (2009: $147,000; 2008: $225,000) at the reporting date.

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 Ringgan, Permatang Tinggi, 14000 Bukit Mertajam, Pulau Pinang, Malaysia	Freehold 11/2 storey semi-detached light industrial factory	622	290	Investment properties
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

18. INVESTMENT PROPERTIES

Group	Freehold land $'000	Freehold buildings $'000	Total $'000
2010			
Cost:			
Beginning of financial year	19	120	139
Reclassified to non-current asset held for sale	(19)	(120)	(139)
End of financial year	–	–	–
Accumulated depreciation:			
Beginning of financial year	–	29	29
Reclassified to non-current asset held for sale	–	(29)	(29)
End of financial year	–	–	–
Net book value:			
End of financial year	–	–	–
2009			
Cost:			
Beginning/End of financial year	19	120	139
Accumulated depreciation:			
Beginning of financial year	–	27	27
Depreciation charge for the year	–	2	2
End of financial year	–	29	29
Net book value:			
End of financial year	19	91	110

Group	Freehold land $'000 (Restated)	Freehold buildings $'000 (Restated)	Total $'000 (Restated)
2008			
Cost:			
Beginning/End of financial year	19	120	139
Accumulated depreciation:			
Beginning of financial year	–	24	24
Depreciation charge for the year	–	3	3
End of financial year	–	27	27
Net book value:			
End of financial year	19	93	112
2007			
Cost:			
Beginning/End of financial year	19	120	139
Accumulated depreciation:			
Beginning of financial year	–	21	21
Depreciation charge for the year	–	3	3
End of financial year	–	24	24
Net book value:			
End of financial year	19	96	115

18. INVESTMENT PROPERTIES (CONT'D)

The following amounts are recognised in profit and loss:

	Group		
	2010	2009	2008
	$'000	$'000	$'000
Rental income	**4**	4	4

There is no active market for the investment property held by the Group. However, the Directors are of the opinion that the carrying amount approximates the fair value.

19. INTANGIBLE ASSETS

	Group			
	2010	2009	2008	2007
	$'000	$'000	$'000	$'000
			(Reclassified)	(Reclassified)
Goodwill arising on consolidation (Note (a))	**1,231**	1,231	1,266	1,266
Franchise (Note (b))	**–**	–	197	–
	1,231	1,231	1,463	1,266

(a) Goodwill arising on consolidation

	Group			
	2010	2009	2008	2007
	$'000	$'000	$'000	$'000
Cost				
Beginning/End of financial year	**1,266**	1,266	1,266	1,266
Accumulated impairment				
Beginning of financial year	**35**	–	–	–
Impairment charge (Note 7)	**–**	35	–	–
End of financial year	**35**	35	–	–
Net book value	**1,231**	1,231	1,266	1,266

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to countries of operation and business segments.

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

19. INTANGIBLE ASSETS (CONT'D)

(a) Goodwill arising on consolidation (Cont'd)

A segment-level summary of the goodwill allocation is as follows:

	Group			
	2010	2009	2008	2007
	EW Systems	EW Systems	EW Systems	EW Systems
		$'000	$'000	$'000
Name of subsidiary, and Country:				
PV Vacuum Engineering Pte Ltd ("Singapore")	**905**	905	905	905
Darco Engineering (Taiwan) Co., Ltd. ("Taiwan")	**–**	–	35	35
Shanghai Challenge Environmental Engineering Co., Ltd. ("People's Republic of China")	**15**	15	15	15
Globe Industrial Technology Co., Ltd. ("Hong Kong")	**311**	311	311	311
	1,231	1,231	1,266	1,266

The recoverable amount of a CGU was determined based on value-in-use. Cash flow projections used in the value-in-use calculations were based on financial budgets approved by management covering a five-year period. Cash flows beyond the five years period were extrapolated using the estimated growth rates stated below. The growth rate did not exceed the long-term average growth rate for the engineered water systems business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	EW Systems			
	Singapore	**Taiwan**	**People's Republic of China**	**Hong Kong**
2010				
Gross margin (1)	40%	–	7%	60%
Growth rate (2)	*	–	*	**
Discount rate (3)	6%	–	6%	6%
2009				
Gross margin (1)	40%	–	7%	60%
Growth rate (2)	*	–	*	**
Discount rate (3)	6%	–	6%	6%
2008				
Gross margin (1)	40%	35%	7%	60%
Growth rate (2)	*	2%	*	**
Discount rate (3)	7%	7%	7%	6%

* No growth rate is required as the cash flows projection is within 5 years

** No growth rate is required as the cash flows projection is not extrapolated.

(1) Budgeted gross margin

(2) Weighted average growth rate used to extrapolate cash flows beyond the budget period

(3) Pre-tax discount rate applied to the pre-tax cash flow projections

19. INTANGIBLE ASSETS (CONT'D)

(a) Goodwill arising on consolidation (Cont'd)

These assumptions were used for the analysis of each CGU within the business segment. Management determined budgeted gross margin based on past performance and its expectations of the market development. The weighted average growth rates used were consistent with the forecasts included in industry reports. The discount rates used were pre-tax and reflected specific risks relating to the relevant segments.

An impairment charge of $nil (2009: $35,000; 2008: $nil) is included within "Administrative expenses" in the consolidated statement of comprehensive income. The impairment charge has arisen from the EW Systems CGU in the Taiwan segment following a decision to cease the operation of one of the subsidiary as a result of early termination of the contract from the county. The Group has also reassessed the useful lives of its property, plant and equipment and franchise and provided the impairment loss.

(b) Franchise

	Group			
	2010	2009	2008	2007
	$'000	$'000	$'000	$'000
Cost				
Beginning of financial year	**266**	266	–	–
Addition	**–**	–	266	–
End of financial year	**266**	266	266	–
Accumulated amortisation				
Beginning of financial year	**106**	69	–	–
Amortisation charge (Note 7)	**–**	37	69	–
End of financial year	**106**	106	69	–
Accumulated impairment				
Beginning of financial year	**160**	–	–	–
Impairment charge (Note 7)	**–**	160	–	–
End of financial year	**160**	160	–	–
Net book value	**–**	–	197	–

(c) Amortisation expense included in the statement of comprehensive income is analysed as follows:

	Group		
	2010	2009	2008
	$'000	$'000	$'000
Administrative expenses (Note 7)	**–**	37	69

20. LAND USE RIGHTS

	Group			
	2010	2009	2008	2007
	$'000	$'000	$'000	$'000
Cost				
Beginning of financial year	**1,872**	1,917	326	324
Currency translation differences	**(94)**	(45)	21	2
Addition	**–**	–	1,570	–
End of financial year	**1,778**	1,872	1,917	326
Accumulated amortisation				
Beginning of financial year	**95**	59	25	18
Currency translation differences	**(6)**	(3)	1	–
Amortisation charge (Note 7)	**37**	39	32	7
End of financial year	**126**	95	58	25
Net book value	**1,652**	1,777	1,859	301

Banking borrowings amounting to $11,561,000 (RMB 59,228,000) of the Group as at 31 December 2010 are secured on land use rights of the Group with carrying amounts of $1,408,000.

Banking facility amounting to $12,741,000 (RMB 62,000,000) granted to the Group during the financial year ended 31 December 2009 (undrawn as at year end) are secured on land use rights of the Group with carrying amounts of $1,477,000.

The details of the land use rights as at 31 December 2010 and 31 December 2009 are as follows:

Location	**Description and tenure**	**Gross land area (sqm)**	**Gross built-in area (sqm)**	**Use of property**
Songkai No.III-32, Songjiang Development Zone, Shanghai, The People's Republic of China	50 years land use rights with effect from 30 April 2002	6,960	3,391	Office, factory and warehouse
North of Qianyuan Water Intake, Qianyuan Town, Deqing City, Zhejiang Province, The People's Republic of China	50 years land use rights with effect from 29 February 2008	40,159	8,755	Water Treatment plant

21. TRADE AND OTHER RECEIVABLES – NON-CURRENT

	Group			
	2010	2009	2008	2007
	$'000	$'000	$'000	$'000
			(restated)	(restated)
Financial receivable from service concession arrangements (Note 12)	**50,382**	36,494	28,277	23,800

Financial receivables recognised in respect of the Group's service concession arrangement to build, operate and transfer a water treatment plant. The fair values of non-current service concession receivables are computed based on cash flows discounted at market borrowing rates of 6% (2009:6%; 2008:6%; 2007: 6%) per annum. Receivables that are current are carried at amortised cost using the effective interest method.

22. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the statements of financial position as follows:

	Group				Company			
	2010	2009	2008	2007	**2010**	2009	2008	2007
	$'000	$'000	$'000	$'000	**$'000**	$'000	$'000	$'000
			(Restated)	(Restated)			(Restated)	
Deferred income tax assets								
– to be recovered after one year	**595**	193	1,613	–	**–**	–	–	–
Deferred income tax liabilities								
– to be settled within one year	**69**	69	69	64	**–**	–	–	–
– to be settled after one year	**2,562**	2,305	1,853	1,666	**–**	241	–	–
	2,631	2,374	1,922	1,730	**–**	241	–	–

22. DEFERRED INCOME TAX (CONT'D)

Deferred income tax assets are recognised for tax losses and capital allowances carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of $3,010,000 (2009: $1,125,000; 2008: $nil) and capital allowances of $870,000 (2009: $36,000; 2008: $nil) at the reporting date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses and capital allowances in their respective countries of incorporation.

At 31 December 2010, a deferred tax liability of $932,000 (2009: $738,000; 2008: $526,000) for temporary differences of $11,087,000 (2009: $9,032,000; 2008:$6,560,000) related to investments in the subsidiaries were not recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) is as follows:

	Accelerated tax depreciation $'000	Financial Receivables $'000	Interest income not remitted $'000	Unrealised foreign exchange losses $'000	Total $'000
Group					
Deferred income tax liabilities					
2010					
Beginning of financial year	36	2,078	241	39	2,394
Currency translation differences	(14)	199	–	(42)	143
Charged/(credited) to					
– profit or loss	52	352	(241)	157	320
End of financial year	74	2,629	–	154	2,857
2009					
Beginning of financial year	163	1,758	–	114	2,035
Currency translation differences	(66)	(51)	–	(28)	(145)
Charged/(credited) to					
– profit or loss	(61)	371	241	(47)	504
End of financial year	36	2,078	241	39	2,394
2008					
Beginning of financial year	142	1,527	–	131	1,800
Currency translation differences	–	100	–	–	100
Charged/(credited) to					
– profit or loss	21	131	–	(17)	135
End of financial year	163	1,758	–	114	2,035

22. DEFERRED INCOME TAX (CONT'D)

	Accelerated tax depreciation $'000	Financial Receivables $'000	Unrealised foreign exchange losses $'000	Total $'000
Group				
Deferred income tax liabilities				
2007				
Beginning of financial year	94	722	137	953
Currency translation differences	(4)	6	1	3
Charged/(credited) to				
– profit or loss	52	799	(7)	844
End of financial year	142	1,527	131	1,800

	Tax losses $'000	Allowance for doubtful debts $'000	Unrealised foreign exchange gains $'000	Total $'000
Group				
Deferred income tax assets				
2010				
Beginning of financial year	(786)	(20)	–	(806)
Currency translation differences	(56)	41	–	(15)
End of financial year	(842)	21	–	(821)
2009				
Beginning of financial year	(743)	(725)	(258)	(1,726)
Currency translation differences	(43)	61	10	28
Charged/(credited) to				
– profit or loss	–	644	248	892
End of financial year	(786)	(20)	–	(806)
2008				
Beginning of financial year	(24)	(29)	(17)	(70)
Currency translation differences	1	2	1	4
Charged/(credited) to				
– profit or loss	(720)	(698)	(242)	(1,660)
End of financial year	(743)	(725)	(258)	(1,726)
2007				
Beginning of financial year	(23)	(27)	(16)	(66)
Currency translation differences	(1)	(2)	(1)	(4)
End of financial year	(24)	(29)	(17)	(70)

22. DEFERRED INCOME TAX (CONT'D)

	Interest incomes not remitted $'000
Company	
Deferred income tax liabilities	
2010	
Beginning of financial year	241
Credited to profit or loss	(241)
End of financial year	–
2009	
Beginning of financial year	–
Charged to profit or loss	241
End of financial year	241

23. BORROWINGS

	Group				Company			
	2010 $'000	2009 $'000	2008 $'000 (Restated)	2007 $'000 (Restated)	**2010 $'000**	2009 $'000	2008 $'000 (Restated)	2007 $'000 (Restated)
Current								
Revolving loan facility (secured) (a)	**20,496**	21,865	18,965	17,020	**20,496**	21,865	18,965	17,020
Bills payable to bank (secured) (b)	**8**	1,447	2,005	3,090	**–**	–	–	–
Bank overdraft (secured) (Note 11) (c)	**1,432**	804	854	–	**267**	–	258	–
Finance lease liabilities (h)	**42**	31	36	323	**–**	–	–	–
Financial notes payable (f)	**–**	329	750	–	**–**	–	–	–
Term loan I (d)	**5,413**	3,693	2,770	2,778	**5,413**	3,693	2,770	2,778
Term loan II (e)	**520**	592	993	–	**–**	–	–	–
Term loan III (i)	**–**	–	–	2,733	**–**	–	–	–
Term loan IV (j)	**1,156**	–	–	–	**–**	–	–	–
	29,067	28,761	26,373	25,944	**26,176**	25,558	21,993	19,798
Non-current								
Term loan I (d)	**8,084**	10,473	14,541	12,499	**8,084**	10,473	14,541	12,499
Term loan IV (j)	**10,405**	–	–	–	**–**	–	–	–
Financial notes payable (f)	**616**	869	–	584	**–**	–	–	–
Finance lease liabilities (h)	**106**	114	149	33	**–**	–	–	–
Convertible notes (g)	**189**	178	756	1,584	**189**	178	756	1,584
	19,400	11,634	15,446	14,700	**8,273**	10,651	15,297	14,083
Total borrowings	**48,467**	40,395	41,819	40,644	**34,449**	36,209	37,290	33,881

23. BORROWINGS (CONT'D)

(a) Revolving loan facility of $20,496,000 (2009: $21,865,000; 2008: $18,965,000) bears floating interest at rates ranging from 3.00% p.a to 6.00% p.a (2009: 2.93% p.a to 5.53% p.a; 2008: 2.82% p.a to 7.19% p.a) per annum and are secured by corporate guarantees from certain subsidiaries and compliance with certain financial covenants. This amount was partially drawndown from the total revolving loan facility of US$24 million and S$5 million (2009: US$24 million and S$5 million; 2008: US$24 million and S$5 million) renewed in September 2008.

(b) The bills payable of $8,000 (2009: $1,447,000; 2008:$2,005,000) bears floating interest at rates ranging from 2.00% to 5.00% (2009: 2.40% to 4.76%; 2008:2.40% to 4.76%) and was covered by corporate guarantees by the Company (Note 28) and pledging of certain fixed deposits of subsidiaries (Note 11).

(c) The bank overdrafts are covered by corporate guarantees by the Company (Note 28) and bears interest rate of 6.00% (2009: 6.00%; 2008:3.76%).

(d) The term loan I has been restructured in years 2009 and bears interest at floating rate ranging from 3.00% to 6.00% (2009: 3.02% to 4.80%; 2008: 4.33% to 7.09%) per annum and is secured by corporate guarantee from certain subsidiaries and compliance with certain financial covenants. This loan is repayable by 16 quarterly instalments over 4 years commencing from January 2009.

(e) The term loan II bears interest at floating rate ranging from 3.00% to 5.00% (2009: 3.79% to 4.24%; 2008: 3.79% to 4.24%) per annum and is due by July 2010. This loan is secured by the contractor of a municipal waste treatment plant sludge digester and energy recovery project and pledging of certain fixed deposits of subsidiaries (Note 11).

(f) In year 2009, the financial notes payables bear interest rate of 8.00% (2009:8.37%) and are due by August 2011. This borrowing is secured by a refundable deposit amounting to $131,000 of a subsidiary (Note 12).

In year 2008, the financial notes payables bear interest rate of 6.52% and are due by October 2009. This borrowing is secured by a refundable deposit amounting to $325,000 of a subsidiary (Note 12).

(g) **Convertible notes**

In financial year 2007, the Company issued non-interest bearing convertible notes to Pacific Capital Investment Management Limited ("PCIM") to fund the Group's build-own-transfer municipal potable water project in The People's Republic of China and for the Group's working capital. In accordance with the agreement signed between the Company and PCIM, these notes are to be exercised and converted at the option of PCIM into ordinary shares 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.

During the financial year ended 31 December 2009, PCIM subscribed an additional non-interest bearing convertible notes issued by the Company of $nil (2008:$8,000,000) and exercised its rights to convert $700,000 (2008:$9,100,000) of convertible notes into ordinary shares.

23. BORROWINGS (CONT'D)

(g) Convertible notes (Cont'd)

As at 31 December 2009, the remaining convertible notes will be repayable to PCIM in years 2012 and its conversion options had lapsed as PCIM has exercised the conversion rights up to 50% of the Company's issued share capital as agreed and no further conversion is allowed.

The fair value of the liability component, included in non-current borrowings, is calculated using a market interest rate for an equivalent non-convertible bond at the date of issue. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves (Note 26).

The details of the convertible notes are as follows:

	Group and Company			
	2010	2009	2008	2007
	$'000	$'000	$'000	$'000
			(Restated)	(Restated)
Beginning of financial year	**178**	756	1,584	–
Convertible notes subscribed during the financial year	**–**	–	8,000	2,000
Equity conversion component (Note 26(b)(ii))	**–**	–	(1,663)	(506)
Liability component on initial recognition	**–**	–	6,337	1,494
Interest expenses charged to profit or loss (Note 6)	**11**	10	43	90
Conversion exercised	**–**	(588)	(7,208)	–
End of financial year	**189**	178	756	1,584

The details of the issue of share upon conversion of convertible notes are as follows:

	Group and Company			
	2010	2009	2008	2007
	$'000	$'000	$'000	$'000
Liability component	**–**	588	7,208	–
Equity Component (Note 26(b)(ii))	**–**	145	1,982	–
Total shares issued	**–**	733	9,190	–

23. BORROWINGS (CONT'D)

(g) Convertible notes (Cont'd)

The carrying amount of the liability component of the convertible bonds at the end of the reporting period is derived as follows:

	Group and Company			
	2010	2009	2008	2007
	$'000	$'000	$'000	$'000
Face value of convertible bonds	**200**	200	900	2,000
Equity conversion component (Note 26)	**(42)**	(42)	(187)	(506)
Liability component on initial recognition	**158**	158	713	1,494
Accumulated Interest expense	**31**	20	43	90
Liability component at end of financial year	**189**	178	756	1,584

The details of the accumulated interest expense charged to date are as follows:

	Group and Company			
	2010	2009	2008	2007
	$'000	$'000	$'000	$'000
Beginning of financial year	**20**	43	90	–
Interest expenses charged to profit or loss	**11**	10	43	90
Conversion exercised	**–**	(33)	(90)	–
End of financial year	**31**	20	43	90

(h) Finance lease liabilities

The Group leases certain plant and equipment from non-related parties under finance leases. The lease agreements do not have renewal clauses but provide the Group with options to purchase the leased assets at nominal values at the end of the lease term.

	Group		
	2010	2009	2008
	$'000	$'000	$'000
Minimum lease payments due			
– Not later than one year	**48**	37	41
– Between one and five years	**110**	123	156
– Later than five years	**–**	3	18
	158	163	215
Less: Future finance charges	**(10)**	(18)	(30)
Present value of finance lease liabilities	**148**	145	185

23. BORROWINGS (CONT'D)

(h) Finance lease liabilities (Cont'd)

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

	Group		
	2010	2009	2008
	$'000	$'000	$'000
Not later than one year	**42**	31	36
Later than one year			
– Between one and five years	**106**	111	134
– Later than five years	**–**	3	15
	106	114	149
Total	**148**	145	185

Finance lease liabilities of the Group are effectively secured over the leased plant and equipment (Note 17) as the legal title is retained by the lessor and will be transferred to the Group upon full settlement of the finance lease liabilities.

(i) The term loan III bears interest at 5.13% per annum and was fully repaid during the financial year 2008. This loan was secured by the project for the Taiwan government and guarantee deposits of a subsidiary.

(j) The term loan IV represents a 5-year term loan obtained from a bank for the financing of the subsidiary's project. It bears interest at 110% of the PBOC Base Rate per annum of 5.76% for a tenor of 3 to 5 years, or at an interest rate to be determined by the bank from time to time as permitted by the applicable laws. The loan is repayable in 9 instalments every quarter with the first instalment due on 29 August 2011. The amount repayable for the first 6 instalments shall be 5% of the principal amount, the next 2 instalments shall be 8% of the principal amount and the last instalment shall be 54% of the principal amount.

It is secured by:-

(1) a stand-by letter of credit of not less than 110% of the facility amount in favour of the bank;

(2) a first legal mortgage over the subsidiary's land use right;

(3) an assignment of a political risk insurance coverage of US$11,600,000 on the subsidiary's capital;

(4) an assignment over its accounts receivables upon commencement of operations.

23. BORROWINGS (CONT'D)

(A) The exposure of the borrowings of the Group and of the Company to interest rate changes and the contractual repricing dates at the end of financial reporting dates are as follows:

	Group			Company		
	2010	2009	2008	**2010**	2009	2008
	$'000	$'000	$'000	**$'000**	$'000	$'000
12 months or less	**48,130**	40,072	40,878	**34,260**	36,031	36,534
2 – 5 years	**337**	323	941	**189**	178	756
	48,467	40,395	41,819	**34,449**	36,209	37,290

(B) Fair value of non-current borrowings

The fair value of the non-current borrowings approximates their carrying value.

(C) Undrawn borrowing facilities

	Group			Company		
	2010	2009	2008	**2010**	2009	2008
	$'000	$'000	$'000	**$'000**	$'000	$'000
Not later than one year	**–**	12,741	39,622	**–**	–	39,622

(D) Breaches of loan covenants

Term loan I and revolving loan facility

The Company's loan agreements for term loan I and revolving loan facility (classified as non-current during the financial years ended 31 December 2010 and 31 December 2009) are subject to covenant clauses, whereby the Company is required to meet certain key financial ratios. The Company did not fulfil the gearing ratio as required in the contract for a credit line of $33,993,000 (2009:$36,031,000), of which the Company has currently drawndown an amount of $33,993,000 (2009:$36,031,000).

Due to this breach of the covenant clause, the bank is contractually entitled to request for immediate repayment of the outstanding loan amount of $33,993,000 (2009:$36,031,000). The outstanding balance is presented as a non-current liability as at 31 December 2010 and 31 December 2009.

The bank had not requested early repayment of the loan as of the date when these financial statements were approved by the Board of Directors. Management is in the process of renegotiating the terms of the loan agreement with the bank and expects that a revised loan agreement will be in place in the second quarter of 2011.

23. BORROWINGS (CONT'D)

Term loan IV

The Group's term loan IV for the financing of the BOT project of a subsidiary is subject to covenant clauses. The subsidiary did not fulfil a requirement to complete the construction of its water treatment plant and commencement of water treatment operations by 31 December 2010.

Due to this breach of covenant clause, the bank can contractually stop the financing and is entitled to request for immediate repayment of the outstanding loan amount of $11,561,000. The outstanding balance is presented as a non-current liability as at 31 December 2010.

However, the bank continued to disburse funds subsequent to the end of the financial year and had not requested for early repayment of the loan. On 31 March 2011, the bank has agreed to extend the completion date of the construction of its water treatment plant to 15 May 2011 and commencement of water treatment operations by 31 May 2011.

24. TRADE AND OTHER PAYABLES

		Group			Company	
	2010	2009	2008	**2010**	2009	2008
	$'000	$'000	$'000	**$'000**	$'000	$'000
Trade payables to:						
– Non-related parties	**11,363**	9,724	14,675	**365**	265	371
Construction contracts						
– Due to customers (Note 14)	**4,791**	2,634	4,972	**–**	–	–
Other payables to:						
– Related party (Note 31)	**390**	740	952	**370**	720	852
– Subsidiaries (Notes 15 and 31)	**–**	–	–	**4,126**	393	–
– Non-related parties	**2,389**	2,099	1,459	**–**	–	–
	2,779	2,839	2,411	**4,496**	1,113	852
Accrued liabilities	**2,379**	1,703	4,364	**322**	345	600
	21,312	16,900	26,422	**5,183**	1,723	1,823

Amount due to subsidiaries is non-trade in nature, unsecured, interest free, and repayable on demand.

The average credit period on trade payables is 30 days (2009: 30 days; 2008: 30 days).

Amount due to related party is non-trade in nature, unsecured, with interest rate ranging from 3.50% to 6.00% (2009: 3.50% to 6.00%; 2008: 3.5% to 4.81%) per annum and repayable on demand.

25. SHARE CAPITAL

Group and Company	Number of ordinary shares	Issued share capital $'000 (Restated)
2010		
Beginning and end of financial year	276,684,812	36,985
2009		
Beginning of financial year	263,487,812	36,252
Issue of share upon conversion of convertible notes (Note 23)	13,197,000	733
End of financial year	276,684,812	36,985
2008		
Beginning of financial year	184,456,812	27,062
Issue of share upon conversion of convertible notes (Note 23)	79,031,000	9,190
End of financial year	263,487,812	36,252
2007		
Beginning and end of financial year	184,456,812	27,062

All issued ordinary shares are fully paid. There is no par value for these ordinary shares. The newly issued shares rank pari passu in all respects with the previously issued shares.

26. OTHER RESERVES

(a) Composition:

	Group				Company			
	2010 $'000	2009 $'000	2008 $'000 (Restated)	2007 $'000 (Restated)	**2010 $'000**	2009 $'000	2008 $'000 (Restated)	2007 $'000
Currency translation reserve (b)(i)	**(2,070)**	(1,067)	(1,056)	(1,864)	**–**	–	–	–
Equity component of convertible bonds (b)(ii)	**–**	–	187	506	**–**	–	187	506
Legal reserves (b)(iii)	**428**	277	110	–	**–**	–	–	–
	(1,642)	(790)	(759)	(1,358)	**–**	–	187	506

26. OTHER RESERVES (CONT'D)

(b) Movements:

(i) Currency translation reserve

	Group			
	2010	2009	2008	2007
	$'000	$'000	$'000	$'000
			(Restated)	(Restated)
Beginning of financial year	**(1,067)**	(1,056)	(1,864)	(1,569)
Net currency translation differences of financial statements of foreign subsidiaries, and a joint venture	**3,215**	(509)	770	(337)
Less: Non-controlling interests	**(4,218)**	498	38	42
	(1,003)	(11)	808	(295)
End of financial year	**(2,070)**	(1,067)	(1,056)	(1,864)

(ii) Equity component of convertible bonds

	Group and Company			
	2010	2009	2008	2007
	$'000	$'000	$'000	$'000
			(Restated)	(Restated)
Beginning of financial year	**–**	187	506	–
Issue of shares upon conversion (Note 23(g))	**–**	(145)	(1,982)	–
Convertible bond – equity component (Note 23(g)	**–**	–	1,663	506
Transfer to retained earnings [a]	**–**	(42)	–	–
End of financial year	**–**	–	187	506

[a] The conversion options have lapsed during the financial year ended 31 December 2009.

(iii) In accordance with the relevant laws and regulations of the People's Republic of China ("PRC"), the subsidiaries of the Company established in the PRC is required to transfer 10% of its profit after income tax prepared in accordance with the accounting regulations in the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital.

27. DIVIDENDS

	Group and Company		
	2010	2009	2008
	$'000	$'000	$'000
Ordinary dividends paid			
Final dividend paid in respect of the financial years 2007 of 0.5 cents per share	**–**	–	1,043

28. CONTINGENCIES

(a) Contingent liabilities

Contingent liabilities, excluding those relating to the investment in a joint venture (Note 16), of which the probability of settlement is not remote at the reporting date, are as follows:

Group

(i) During the financial year ended 31 December 2009, Taoyuan Construction Co. Ltd. ("TCCL") had filed a claim on Darco Engineering Taiwan ("DET") for the breach of contract. TCCL is claiming for damages amounting to NTD$9,269,181 (S$403,999) from DET. The legal case is still ongoing as at year end.

(ii) During the financial year ended 31 December 2009, the Sewer Systems Office of the Taipei City Government ("TCG") had filed a claim for damages amounting to NTD$21,966,000 (S$957,391) from DET for the breach of contract with TCG. The DET's representative, Weisheng Wastewater Treatment Co., Ltd. ("WWTCL") had served as the mediator on behalf of DET during the financial year. However, the mediation had failed. The legal case is still ongoing as at years end.

Further to the above legal case, WWTCL had also filed a claim for damages amounting to NTD$17,463,065 (S$761,130) from Sewer Systems Office of the Taipei City Government ("TCG") for certain construction projects done for TCG. The court trial has not started for this case.

(iii) The Executive Council of Environmental Protection Administration had filed a legal case to DET During the financial year ended 31 December 2009. Based on the Environmental Impact Assessment report done, the unit had claimed a penalty amounting to NTD$300,000 (S$13,076) from DET for certain projects done during the financial year. The legal case is still ongoing as at year end.

(iv) The Construction and Planning Agency under the Ministry of the Interior had a dispute with DET on the deferral of the deadline for certain construction During the financial year ended 31 December 2009. The Agency had filed a claim of damages amounting to NTD$8,568,000 (S$373,437) during the financial year. The legal case was still pending the court judgement as at year end.

Company

The Company has given corporate guarantees of up to $20.5 million (2009: $18.5 million; 2008: $14.0 million) to certain banks and financial institutions for credit facilities granted to the subsidiaries (Note 23).

(b) Contingent assets

Group

(i) In years 2009, DET had a dispute with National Cheng Kung University (NCKU) on operating service expenses provided. The damages being claimed by DET amounts to NTD$21,090,371 (S$919,227). DET is negotiating with NCKU for the out of court settlement.

(ii) In years 2009, DET had filed a claim for damages amounted to NTD$8,162,616 (S$355,769) from RPTI International Ltd. for certain repair expenses incurred. This case was still pending for the court trial as at year end.

28. CONTINGENCIES (CONT'D)

(b) Contingent assets (Cont'd)

Group (Cont'd)

(iii) On November 2007, under a Taiwan Government sponsored scheme to encourage private participation, Darco Engineering Taiwan ("DET") entered into a build, own and operate (BOO) contract with Taoyuan County Government (TCG). Under the contract, DET will buy from the County and process a minimum of 50 tonnes per day domestic garbage. DET will have to recover from valuable recyclable products for sale after processing the garbage.

The Group invested NT$80 million (S$3,516,000), to construct and operate a Waste Recycling Plant pursuant to the BOO contract in FY2008. Several months into the operation, the DET discovered that it was operating at a big loss due to very low levels of recyclable material. An independent audit was commissioned to look for the cause of this problem Based on the independent audit, there is only an average of 9% yield of recyclable product from the garbage. This is a deviation from the 17% yield that was represented in the tender document.

The Group filed a claim on 12 February 2010 to recover the franchise and concession fees paid, as well as compensation for the cost of investment and expected profit amounting to a total of NTD$120 million (S$ 5,230,000).

29. COMMITMENTS

(a) Capital commitments

Capital expenditures contracted for at the reporting date but not recognised in the financial statements are as follows:

	Group		
	2010	2009	2008
	$'000	$'000	$'000
Approved but not yet contracted for investment in unquoted equity instruments	**3,107**	3,514	3,607
Construction costs for the water treatment plants	**14,200**	14,365	15,409

As disclosed in Note 12 to the financial statements, the Group is committed to acquire 10% interest in PT Air Bintan Biru for a consideration of $3,874,000 (2009: $4,281,000; 2008: $4,328,000) (or US$3,000,000). As at 31 December 2010, a refundable deposit of $767,000 (2009: $767,000; 2008: $767,000) (or US$500,000) had been paid with the remaining $3,107,000 (2009: $3,514,000; 2008: $3,561,000) (or US$2,500,000) payable upon fulfilment of certain conditions set out in the sale and purchase agreement. The Group has decided not to pursue the project any longer and consider this business case as closed.

29. COMMITMENTS (CONT'D)

(b) Operating lease commitments – where the Group is a lessee

The Company leases water pipe, leasehold land, staff hostels, offices, factories and warehouses from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are as follows:

	Group		
	2010	2009	2008
	$'000	$'000	$'000
Not later than one year	**514**	593	681
Between two and five years	**1,321**	1,374	1,685
Later than five years	**2,416**	2,509	2,889
	4,251	4,476	5,255

Operating lease payments represent mainly rentals payable by the Group for its leasehold land. The lease from the Jurong Town Corporation is for 30 years from 1 April 2002. The lease rental terms are negotiated for an average term of three 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.

(c) Other commitments

The subsidiary, Deqing Huanzhong Producing Water Co., Ltd's articles of association provide that the subsidiary must pay the grantor of the service concession arrangement a fixed distribution regardless of whether the subsidiary is profitable or loss making. The amounts payable are RMB1,000,000 (approximately to $200,000) in the first to the fifth year of operations, RMB600,000 (approximately to $120,000) in the sixth to the tenth year of operations, and RMB400,000 (approximately to $80,000) in the eleventh to the twenty-second year of operations, and are subject to the approval by the board of directors.

In addition, the subsidiary will distribute part of its revenue as a return on the Group's investment through returns of capital upon approval by the local authorities.

30. NON-CURRENT ASSET HELD FOR SALE

On 2 December 2010, the subsidiary, Darco Industrial Water Sdn. Bhd. Entered into a Sale and Purchase Agreement ("SAP") to dispose of the investment property for a total cash consideration of RM330,000 (approximate to $138,000).

The net carrying amount transferred from investment property is $110,000.

The disposal is estimated to be completed within 12 months from the date of SAP.

31. RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

(a) Significant related party transactions:

	Group		
	2010	2009	2008
	$'000	$'000	$'000
Sales of goods and/or services to related party	**–**	1,884	–
Rental expense paid to:			
– a person who is related to an Executive Officer of the Company	**5**	5	5
– a company of which a Director is a shareholder	**–**	–	20

Related parties comprise mainly companies which are controlled or significantly influenced by the Group's key management personnel and their close family members.

Outstanding balances at 31 December 2010 and 31 December 2009, arising from sale of goods and services, are set out in Note 12.

(b) Key management personnel compensation:

Key management personnel compensation is as follows:

	Group		
	2010	2009	2008
	$'000	$'000	$'000
Wages and salaries	**1,211**	1,114	876
Employer's contribution to defined contribution plans, including Central Provident Fund	**221**	227	58
Directors' fees	**128**	128	145
	1,560	**1,469**	1,079

Included in the above was total compensation to directors of the Company amounting to $400,000 (2009: $389,000; 2008: $278,000).

32. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the executive directors ("Exco") that are used to make strategic decisions.

For management purposes, the Group is currently organised into three operating divisions – Engineered Water Systems ("EW Systems"), Water Management Services ("WM Services") and trading. The principal activities of the Group are summarised as follows:

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

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

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

The Exco considers the business from both a geographic and business segment perspective. Geographically, management manages and monitors the business in the four primary geographic areas: Singapore, Taiwan, Malaysia, and People's Republic of China. All geographic locations are engaged in the EW Systems and WM Services. In addition, the segments in Indonesia and Philippines also derive revenues from EW Systems and WM Services respectively.

Other services included within Singapore included Trading; but these are not included within the reportable operating segments, as they are not included in the reports provided to the Exco. The results of these operations are included in the "all other segments" column.

32. SEGMENT INFORMATION

The segment information provided to the Exco for the reportable segments for the years ended 31 December 2010 is as follows:

	Singapore		Taiwan		Malaysia		People's Republic of China		Indonesia	Philippines		
	EW Systems $'000	WM Services $'000	EW Systems $'000	WM Services $'000	EW Systems $'000	WM Services $'000	EW Systems $'000	WM Services $'000	EW Systems $'000	WM Services $'000	All other segment $'000	Total $'000
Group												
Sales	5,736	350	16,079	3,551	6,370	10,879	16,453	3,241	5,876	965	962	70,462
Inter-segment sales	–	(74)	–	(589)	–	(62)	–	–	–	–	–	(725)
Sales to external parties	5,732	276	16,079	2,962	6,370	10,817	16,453	3,241	5,876	965	962	69,737
Adjusted EBITDA	(231)	(4)	(1,589)	458	2,199	1,120	3,792	1,154	(670)	(543)	(2)	5,684
Depreciation	91	2	246	52	101	155	277	46	93	13	–	1,076
Amortisation	–	–	–	37	–	–	–	–	–	–	–	37
Total assets	10,361	150	27,966	4,501	11,512	13,238	31,646	3,972	10,614	1,186	–	115,117
Total assets includes:												
Investment in a joint venture	–	–	–	–	63	–	–	–	–	–	–	63
Additions to:												
– property, plant and equipment	341	5	924	197	381	583	1,045	173	349	52	–	4,050
Total liabilities	1,918	26	5,183	833	2,131	2,451	5,859	733	1,963	215	–	21,312

32. SEGMENT INFORMATION (CONT'D)

The segment information provided to the Exco for the reportable segments for the years ended 31 December 2009 is as follows:

	Singapore		Taiwan		Malaysia		People's Republic of China		Indonesia	Philippines		
	EW Systems $'000	WM Services $'000	EW Systems $'000	WM Services $'000	EW Systems $'000	WM Services $'000	EW Systems $'000	WM Services $'000	EW Systems $'000	WM Services $'000	All other segment $'000	Total $'000
Group												
Sales	4,764	157	13,358	3,545	5,292	9,040	13,670	2,690	4,878	802	350	58,546
Inter-segment sales	–	(61)	–	(489)	–	(52)	–	–	–	–	–	(602)
Sales to external parties	4,764	96	13,358	3,056	5,292	8,988	13,670	2,690	4,878	802	350	57,944
Adjusted EBITDA	380	5	(1,565)	(1,044)	427	425	1,175	127	394	38	4	366
Depreciation	120	2	324	69	133	204	366	61	123	18	–	1,420
Amortisation	–	–	–	37	–	–	–	39	–	–	–	76
Impairment loss	–	–	–	731	–	–	–	–	–	–	–	731
Goodwill impairment	–	–	35	–	–	–	–	–	–	–	–	35
Share of loss of a joint venture	–	–	–	–	65	–	–	–	–	–	–	65
Total assets	8,987	209	22,889	3,563	9,950	12,194	25,542	3,765	8,867	1,310	–	97,276
Total assets includes:												
Investment in a joint venture	–	–	–	–	63	–	–	–	–	–	–	63
Additions to:												
– property, plant and equipment	130	2	352	75	145	222	398	66	133	20	–	1,543
Total liabilities	1,469	20	3,928	556	1,743	2,005	4,793	600	1,606	180	–	16,900

32. SEGMENT INFORMATION (CONT'D)

The segment information provided to the Exco for the reportable segments for the years ended 31 December 2008 is as follows:

	Singapore		Taiwan		Malaysia		People's Republic of China		Indonesia	Philippines		
	EW Systems $'000	WM Services $'000	EW Systems $'000	WM Services $'000	EW Systems $'000	WM Services $'000	EW Systems $'000	WM Services $'000	EW Systems $'000	WM Services $'000	All other segment $'000	Total $'000
Group												
Sales	9,777	1,634	44,147	4,583	13,881	10,099	5,443	4,006	5,393	933	706	100,602
Inter-segment sales	–	(1,094)	–	(1,992)	–	(145)	–	–	–	–	–	(3,231)
Sales to external parties	9,777	540	44,147	2,591	13,881	9,954	5,443	4,006	5,393	933	706	97,371
Adjusted EBITDA	80	4	343	21	113	92	44	33	44	9	10	793
Depreciation	140	8	617	37	198	162	78	58	77	12	–	1,387
Amortisation	–	–	–	69	–	–	–	32	–	–	–	101
Share of loss of a joint venture	–	–	–	–	–	–	–	–	–	–	–	–
Total assets	10,399	577	45,942	2,771	14,764	12,028	5,789	4,284	5,736	999	–	103,289
Total assets includes:												
Investment in a joint venture	–	–	–	–	–	–	–	–	–	–	–	–
Additions to:												
– property, plant and equipment	564	31	2,492	150	801	652	314	232	311	55	–	5,602
– intangible assets	–	–	–	266	–	–	–	–	–	–	–	266
– land use rights	–	–	–	–	–	–	–	1,570	–	–	–	1,570
Total liabilities	2,637	148	11,744	711	3,787	3,085	1,485	1,099	1,471	255	–	26,422

32. SEGMENT INFORMATION (CONT'D)

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Exco is measured in a manner consistent with that in the statement of comprehensive income.

The Exco assesses the performance of the operating segments based on a measure of Earnings before interest, tax, depreciation, impairment loss and amortisation ("adjusted EBITDA").

This measurement basis excludes the effects of expenditure from the operating segments such as restructuring costs and goodwill impairment that are not expected to recur regularly in every period. Interest income and finance expenses are not allocated to segments, as this type of activity is driven by the Board of Directors, which manages the cash position of the group.

A reconciliation of adjusted EBITDA to profit before tax is provided as follows:

		Group	
	2010	2009	2008
	$'000	$'000	$'000
Adjusted EBITDA for reportable segments	**5,684**	362	783
Other segments EBITDA	**6**	4	10
Depreciation	**(1,076)**	(1,420)	(1,387)
Amortisation	**(37)**	(76)	(101)
Impairment loss	**–**	(731)	–
Goodwill impairment	**–**	(35)	–
Finance expense	**(1,621)**	(1,908)	(2,040)
Interest income	**82**	63	247
Loss before tax	**3,002**	(9,294)	(2,488)

Reportable segments' assets are reconciled to total assets as follows:

The amounts provided to the Exco with respect to total assets are measured in a manner consistent with that of the financial statements. For the purposes of monitoring segment performance and allocating resources between segments, the Exco monitors the property, plant and equipment, intangible assets, land used rights, investment properties, inventories, receivables, and operating cash attributable to each segment. All assets are allocated to reportable segments other than deferred income tax assets, and short-term bank deposits.

		Group	
	2010	2009	2008
	$'000	$'000	$'000
Segment assets for reportable segments	**115,117**	97,276	103,289
Other segment assets	**–**	–	–
Unallocated:			
Deferred income tax assets	**595**	193	1,613
Short-term bank deposits	**1,936**	2,399	17,101
Total assets	**117,648**	99,867	122,003

32. SEGMENT INFORMATION (CONT'D)

Reportable segments' liabilities are reconciled to total liabilities as follows:

The amounts provided to the Exco with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment. All liabilities are allocated to the reportable segments other than income tax liabilities, and borrowings.

		Group	
	2010	2009	2008
	$'000	$'000	$'000
Segment liabilities for reportable segments	**21,312**	16,900	26,422
Other segment liabilities	**–**	–	–
Unallocated:			
Income tax liabilities	**758**	247	507
Deferred tax liabilities	**2,631**	2,374	1,922
Borrowings	**48,467**	40,395	41,819
Total liabilities	**73,168**	59,916	70,670

Revenue from major products and services

Revenue from external customers are derived mainly from the EW Systems and WM Services. Trading is included in "Others". Breakdown of the revenue is as follows:

		Group	
	2010	2009	2008
	$'000	$'000	$'000
EW Systems	**50,845**	42,247	78,641
WM Services	**18,473**	15,347	18,024
Others	**419**	350	706
	69,737	57,944	97,371

Geographical information

The Group's two business segments operate in five main geographical areas:

(i) Singapore – the Company is headquartered and has operations in Singapore. The operations in this area are principally the investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business;

(ii) People's Republic of China – the operations in this area are principally the supply of potable water, design, fabrication, installation and commissioning of environmental engineering system and providing consultancy services in relation to such business;

(iii) Taiwan – the operations in this area are principally the 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;

32. SEGMENT INFORMATION (CONT'D)

Geographical information (Cont'd)

(iv) Malaysia – the operations in this area are principally the 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;

(v) Indonesia – the operations in this area are principally the design and fabrication of water treatment systems and providing consultancy services in relation to such business; and

(vi) Other countries – the operations include the design, installation and commissioning of treatment systems for water purification, treatment of wastewater and other waste discharge for industrial use in Philippines.

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		
	2010	2009	2008
	$'000	$'000	$'000
Taiwan	**19,178**	15,932	45,784
Malaysia	**20,321**	16,885	29,568
People's Republic of China	**19,693**	16,360	8,267
Singapore	**3,138**	2,604	6,305
Indonesia	**5,872**	4,878	5,393
Other countries	**1,535**	1,285	2,054
	69,737	57,944	97,371

The following table provides an analysis of the Group's non-current assets (other than deferred income tax assets) by geographical market:

	Non-current assets by Geographical market		
	2010	2009	2008
	$'000	$'000	$'000
Taiwan	**7,831**	5,712	5,793
Malaysia	**2,541**	1,852	1,961
People's Republic of China	**30,440**	22,213	22,917
Singapore	**3,205**	2,335	2,494
Indonesia	**60**	42	42
Other countries	**22,973**	741	1,021
	67,050	48,935	42,906

32. SEGMENT INFORMATION (CONT'D)

Revenues of approximately $19,280,000 (2009: $12,060,000; 2008: $5,160,000) are derived from a single external customer. These revenues are attributable to the People's Republic of China EW Systems and WM Services segment.

The non-current assets of approximately $33,018,000 (2009: $27,070,000; 2008: $23,938,000) are attributable to the People's Republic of China EW Systems and WM Services segment.

33. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to market risk (including currency risk, and interest rate 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 Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The management then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits and hedging strategies, in accordance with the objectives and underlying principles approved by the Board of Directors.

(a) Market risk

(i) Currency risk

The Group operates in Asia with dominant operations in Singapore, People's Republic of China, Taiwan, Malaysia, Indonesia and Philippines. Entities in the Group regularly transact in currencies other than their respective functional currencies ("foreign currencies").

Currency risk arises within entities in the Group when transactions are denominated in foreign currencies such as the Singapore Dollar ("SGD"), United State Dollar ("USD"), Malaysia Ringgit ("MYR"), New Taiwan Dollar ("NTD") and Renminbi ("RMB"). Currency risk arises when transactions are denominated in foreign currencies. This risk is mitigated to certain extent by the natural hedge between sales receipts and purchases, and operating expenses disbursement.

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.

33. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Market risk (Cont'd)

(i) Currency risk (Cont'd)

The Group's currency exposure based on the information provided to key management is as follows:

Group	SGD $'000	USD $'000	MYR $'000	NTD $'000	RMB $'000	Others $'000	Total $'000
At 31 December 2010							
Financial assets							
Cash and cash equivalents	2,123	781	2,669	5,358	2,481	1,541	14,953
Trade and other receivables	2,612	2,976	6,656	22,459	44,960	3,518	83,181
	4,735	3,757	9,325	27,817	47,441	5,059	98,134
Financial liabilities							
Borrowings	6,388	37,232	233	2,869	–	1,745	48,467
Trade and other payables	4,742	2,102	2,237	10,200	876	1,155	21,312
	11,130	39,334	2,470	13,069	876	2,900	69,779
Net financial (liabilities)/ assets	(6,395)	(35,577)	6,855	14,748	46,565	2,159	28,355
Less: Net financial liabilities/ (assets) denominated in the respective entities' functional currencies	6,395	–	(5,394)	(13,719)	(46,565)	(1,563)	
Currency exposure	–	(35,577)	921	1,029	–	596	

Group	SGD $'000	USD $'000	MYR $'000	NTD $'000	RMB $'000	Others $'000	Total $'000
At 31 December 2009							
Financial assets							
Cash and cash equivalents	2,367	809	2,994	5,860	2,383	1,790	16,203
Trade and other receivables	445	981	6,130	19,450	38,288	3,711	69,005
	3,412	1,939	9,441	27,063	41,533	5,507	88,895
Financial liabilities							
Borrowings	5,322	31,031	194	2,391	–	1,457	40,395
Trade and other payables	2,579	897	1,734	9,216	714	1,760	16,900
	8,371	31,928	1,928	11,607	714	3,217	57,765
Net financial (liabilities)/ assets	(4,959)	(29,989)	7,513	15,456	40,819	2,290	31,130
Less: Net financial liabilities/ (assets) denominated in the respective entities' functional currencies	4,959	–	(7,564)	(12,003)	(40,819)	(2,100)	
Currency exposure	–	(29,989)	(51)	3,453	–	190	

33. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Market risk (Cont'd)

(i) Currency risk (Cont'd)

	SGD $'000	USD $'000	MYR $'000	NTD $'000	RMB $'000	Others $'000	Total $'000
At 31 December 2008							
Financial assets							
Cash and cash equivalents	3,169	1,085	1,366	4,904	5,768	809	17,101
Trade and other receivables	598	2,178	14,807	36,049	29,352	3,223	86,207
	3,767	3,263	16,173	40,953	35,120	4,032	103,308
Financial liabilities							
Borrowings	5,429	32,026	1,097	2,963	–	304	41,819
Trade and other payables	1,887	1,219	3,092	18,969	973	282	26,422
	7,316	33,245	4,189	21,932	973	586	68,241
Net financial (liabilities)/ assets	(3,549)	(29,982)	11,984	19,021	34,147	3,446	35,067
Less: Net financial liabilities/ (assets) denominated in the respective entities' functional currency	3,549	–	(12,276)	(19,136)	(34,147)	(3,478)	
Currency exposure	–	(29,982)	(292)	(115)	–	(32)	

The Company's currency exposure based on the information provided to key management is as follows:

Company	SGD $'000	USD $'000	Total $'000
At 31 December 2010			
Financial assets			
Cash and cash equivalents	15	1,423	1,438
Trade and other receivables	30,425	30,357	60,782
	30,440	31,780	62,220
Financial liabilities			
Borrowings	5,267	29,182	34,449
Trade and other payables	30,753	3,696	5,183
	36,020	32,878	39,632
Net financial (liabilities)/assets	(5,580)	(1,098)	22,588
Less: Net financial liabilities/ (assets) denominated in the Company's functional currency	5,580	–	
Currency exposure	–	(1,098)	

33. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Market risk (Cont'd)

(i) Currency risk (Cont'd)

Company	SGD $'000	USD $'000	MYR $'000	Total $'000
At 31 December 2009				
Financial assets				
Cash and cash equivalents	53	7	–	60
Trade and other receivables	30,589	30,709	–	61,298
	30,642	30,716	–	61,358
Financial liabilities				
Borrowings	5,178	31,031	–	36,209
Trade and other payables	1,330	299	94	1,723
	6,508	31,330	94	37,932
Net financial (liabilities)/assets	24,134	(614)	(94)	23,426
Less: Net financial liabilities/ (assets) denominated in the Company's functional currency	(24,134)	–	–	
Currency exposure	–	(614)	(94)	

Company	SGD $'000	USD $'000	MYR $'000	Total $'000
At 31 December 2008				
Financial assets				
Cash and cash equivalents	21	62	–	83
Trade and other receivables	45,239	18,368	1,176	64,783
	45,260	18,430	1,176	64,866
Financial liabilities				
Borrowings	5,264	32,026	–	37,290
Trade and other payables	1,705	118	–	1,823
	6,969	32,144	–	39,113
Net financial (liabilities)/assets	38,291	(13,714)	1,176	25,753
Less: Net financial liabilities/ (assets) denominated in the Company's functional currency	(38,291)	–	–	
Currency exposure	–	(13,714)	1,176	

33. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Market risk (Cont'd)

(i) Currency risk (Cont'd)

If the USD, MYR, NTD and RMB change against the SGD by 2% (2009:2%; 2008:2%), 2% (2009:2%; 2008:2%), 2% (2009:2%; 2008:2%) and 2% (2009:2%; 2008:2%) respectively with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

	Increase/(Decrease) in Loss after tax					
		Group			Company	
	2010	2009	2008	**2010**	2009	2008
	$'000	$'000	$'000	**$'000**	$'000	$'000
USD against SGD						
Strengthened	**711**	600	600	**22**	12	274
– weakened	**(711)**	(600)	(600)	**(22)**	(12)	(274)
MYR against SGD						
Strengthened	**(18)**	1	6	**–**	2	(24)
– weakened	**18**	(1)	(6)	**–**	(2)	24
NTD against SGD						
Strengthened	**(20)**	(69)	2	**–**	–	–
– weakened	**20**	69	(2)	**–**	–	–

(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 floating 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 variable-rate 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 USD. If the USD interest rates increase/decrease by 0.50% (2009: 0.50%; 2008: 0.50%) with all other variables including tax rate being held constant, the profit after tax will be lower/higher by $242,000 (2009: $202,000; 2008: $209,000) as a result of higher/lower interest expense on these borrowings.

33. FINANCIAL RISK MANAGEMENT (CONT'D)

(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. The major classes of financial assets of the Group and of the Company are bank deposits and trade receivables. 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 the Company do 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 statements of financial position, except as follows:

	Company		
	2010	2009	2008
	$'000	$'000	$'000
Corporate guarantees provided to banks on subsidiaries' credit facilities from the banks	**20,521**	18,534	14,028

The trade receivables of the Group and of the Company comprise 2 debtors (2009: 2 debtors; 2008: 3 debtors) and 1 debtor (2009: 1 debtor; 2008: 1 debtor) respectively that individually represented 10%-30% and 90% respectively of trade receivables.

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

	Group			**Company**		
	2010	2009	2008	**2010**	2009	2008
	$'000	$'000	$'000	**$'000**	$'000	$'000
By geographical areas						
Taiwan	**9,547**	8,054	23,703	**–**	–	–
China	**1,073**	1,230	915	**–**	–	–
Malaysia	**5,402**	3,875	2,610	**–**	–	–
Singapore	**1,093**	1,309	996	**–**	–	–
Other countries	**590**	440	287	**1,056**	973	212
	17,705	14,908	28,511	**1,056**	973	212
By types of customers						
Related parties	**102**	85	–	**–**	–	–
Non-related parties:						
– Multi-national companies	**9,028**	7,601	20,648	**–**	–	–
– Other companies	**8,575**	7,222	7,863	**1,056**	973	212
	17,705	14,908	28,511	**1,056**	973	212

33. 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 credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

(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		
	2010	2009	2008	**2010**	2009	2008
	$'000	$'000	$'000	**$'000**	$'000	$'000
Past due < 3 months	**6,783**	4,472	8,553	**–**	–	–
Past due over 3 months	**4,509**	2,982	5,702	**–**	–	–
	11,292	7,454	14,255	**–**	–	–

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		
	2010	2009	2008	**2010**	2009	2008
	$'000	$'000	$'000	**$'000**	$'000	$'000
Past due over 3 months	**3,307**	2,303	3,384	**–**	–	–
Less: Allowance for impairment	**(3,307)**	(2,303)	(3,384)	**–**	–	–
	–	**–**	–	–	**–**	–
Beginning of financial year	**2,303**	3,384	279	**–**	–	–
Allowance made (Note 7)	**1,004**	84	3,163	**–**	–	–
Allowance utilised	**–**	(1,121)	–	**–**	–	–
Impairment no longer required (Note 5)	**–**	(11)	42)	**–**	–	–
Currency translation difference	**–**	(33)	(16)	**–**	–	–
End of financial year	**3,307**	2,303	3,384	**–**	–	–

The impaired trade receivables arise mainly from long outstanding debts.

33. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities (Note 23(C)) and the ability to close out market positions at a short notice. At the reporting date, assets held by the Group and Company for managing liquidity risk included cash and short-term deposits as disclosed in Note 11.

Management monitors rolling forecasts of the Group's and Company's liquidity reserve (comprises undrawn borrowing facility (Note 23(C)) and cash and cash equivalents (Note 11)) on the basis of expected cash flow. This is generally carried out at local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these; monitoring liquidity ratios; and maintaining debt financing plans.

The table below analyses the Group's and Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Carrying amount	Cash flows			
		Contractual cash flows	Within 1 year	Within 1 to 5 years	More than 5 years
	$	$	$	$	$
Group					
2010					
Borrowings	48,467	50,890	10,178	40,712	–
Trade and other payables	21,312	21,312	–	–	–
	69,779	72,202	10,178	40,712	–
2009					
Borrowings	40,395	42,415	7,070	28,280	7,065
Trade and other payables	16,900	16,900	–	–	–
	57,295	59,315	7,070	28,280	7,065
2008					
Borrowings	41,819	43,910	6,273	25,092	12,545
Trade and other payables	26,422	26,422	–	–	–
	68,241	70,332	6,273	25,092	12,545

33. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (Cont'd)

	Carrying amount	Cash flows			
		Contractual cash flows	Within 1 year	Within 1 to 5 years	More than 5 years
	$	$	$	$	$
Company					
2010					
Borrowings	34,449	36,171	7,234	28,937	–
Trade and other payables	5,183	5,183	5,183	–	–
	39,632	41,354	12,417	28,937	–
2009					
Borrowings	36,209	38,019	6,337	25,348	6,334
Trade and other payables	1,723	1,723	1,723	–	–
	37,932	39,742	8,060	25,348	6,334
2008					
Borrowings	37,290	39,155	4,894	19,576	14,685
Trade and other payables	1,823	1,823	1,823	–	–
	39,113	40,978	6,717	19,576	14,685

(d) Capital 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 gearing ratio. The Group and the Company are also required by the banks to maintain a gearing ratio of not exceeding 170% (2009: 170%). The Group's and Company's strategies, which were unchanged from 2008, are to maintain gearing ratios below 170% and below 170% respectively.

The gearing ratio is calculated as total debt (borrowings) divided by total tangible networth. Total tangible networth is calculated as total equity less non-controlling interest less intangible assets.

	Group			Company		
	2010	2009	2008	**2010**	2009	2008
	$'000	$'000	$'000	**$'000**	$'000	$'000
Total debt	**48,467**	40,395	41,819	**34,449**	36,209	37,290
Total tangible networth	**35,588**	35,275	46,926	**26,955**	32,680	30,210
Gearing ratio	**136%**	115%	89%	**128%**	111%	123%

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2009 and 2010.

33. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Fair value measurements

The Company does not have any financial instruments as at end of the financial years ended 31 December 2010 and 31 December 2009 which are measured at fair value.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated based on quoted market prices or dealer quotes for similar instruments by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of current borrowings approximates their carrying amount.

34. COMPARATIVE FIGURES AND PRIOR YEARS RESTATEMENTS

Summary of the restated consolidated statement of comprehensive income and statements of financial position are as follows:

Consolidated statements of comprehensive income

	Group 2008			
	As previously reported $'000	Adjustments Increase/ decrease $'000		Reclassified/ Restated $'000
Revenue	98,664	(1,293)	(h)	97,371
Cost of sales	(81,799)	(583)	(d)	(81,138)
		1,244	(h)	
Gross profit	16,865			16,233
Other operating income	1,134	305	(a)	2,550
		1,111	(h)	
Finance income	247	(247)	(a)	–
Distribution costs	(4,109)			(4,109)
Administrative expenses	(12,835)	(3,567)	(a)	(15,122)
		165	(g)	
		1,115	(h)	
Other charges	(3,509)	3,509	(a)	–
Finance expenses	(1,997)	(43)	(c)	(2,040)
Loss before income tax	(4,204)			(2,488)
Income tax credit	225	(45)	(h)	180
Total loss	(3,979)			(2,308)
Other comprehensive income:				
Currency translation differences arising from consolidation	618	(97)	(g)	770
		249	(h)	
Other comprehensive income, net of tax	618			770
Total comprehensive expense	(3,361)			(1,538)

34. COMPARATIVE FIGURES AND PRIOR YEARS RESTATEMENTS (CONT'D)

Statements of financial position

	Group 2008 As previously reported $'000	Adjustments Increase/ decrease $'000		Reclassified/ Restated $'000
Assets				
Trade and other receivables – current	58,839	(909)	(d)	57,930
Trade and other receivables – non-current	–	28,277	(h)	28,277
Goodwill	1,266	(1,266)	(f)	–
Land use rights	–	3,368	(f)	1,859
		(1,509)	(g)	
Intangible assets	26,939	(2,102)	(f)	1,463
		(23,374)	(h)	
Investment properties	–	112	(i)	112
Property, plant and equipment	11,307	(112)	(i)	11,195
Liabilities				
Borrowings – current	25,623	750	(j)	26,373
Borrowings – non-current	16,340	(144)	(c)	15,446
		(750)	(j)	
Deferred income tax liabilities – non-current	780	1,142	(h)	1,922
Equity				
Share capital	36,162	90	(c)	36,252
Equity component of convertible notes	–	187	(c)	187
Currency translation reserves	1,207	98	(g)	1,056
		(249)	(h)	
Non-controlling interests	4,034	(1,706)	(g)	2,944
		616	(h)	

34. COMPARATIVE FIGURES AND PRIOR YEARS RESTATEMENTS (CONT'D)

Statements of financial position

	Group 2007 As previously reported $'000	Group 2007 Adjustments Increase/ decrease $'000		Group 2007 Reclassified/ Restated $'000
Assets				
Trade and other receivables – current	64,976	(326)	(d)	64,650
Trade and other receivables – non-current	–	23,800	(h)	23,800
Goodwill	1,266	(1,266)	(f)	–
Land use rights	–	1,878	(f)	301
		(1,577)	(g)	
Intangible assets	23,305	(612)	(f)	1,266
		(21,427)	(h)	
Investment properties	–	115	(i)	115
Property, plant and equipment	7,330	(115)	(i)	7,215
Liabilities				
Borrowings – non-current	15,116	(416)	(c)	14,700
Deferred income tax liabilities – non-current	737	993	(h)	1,730
Equity				
Equity component of convertible notes	–	506	(c)	506
Currency translation reserves	1,855	9	(g)	1,864
Non-controlling interests	3,529	(1,698)	(g)	2,304
		473	(h)	

(a) "Other charges" amounting to $3,509,000 and "Finance income" amounting to $247,000 has been reclassified to "Other operating income" and "Administrative expenses" to better reflect the nature of the balances and to conform to current year's classification.

Consolidated statements of comprehensive income

	Group 2008 $'000
Decrease in other charges	3,509
Increase in administrative expenses	(3,567)
Increase in other operating income	305
Decrease in finance income	(247)

34. COMPARATIVE FIGURES AND PRIOR YEARS RESTATEMENTS (CONT'D)

(b) In prior year, interest-free loans to subsidiaries were stated at amortised cost with an expectation to settle these within six years. The annual instalment commenced in 2009. Based on further evaluation of the terms and conditions of these loans, management is of the view that these balances are unsecured, interest free and repayable on demand at inception.

As a result, loans amounting to $58,305,000 have been restated to better reflect the nature of the balances and to conform to current year's classification.

Statements of financial position

	Company 2008	
	As previously reported $'000	Restated $'000
Trade and other receivables – Current	26,179	64,783
Trade and other receivables – Non-current	32,126	–
Accumulated losses	10,104	3,626

(c) In year 2007, the Company issued non-interest bearing convertible notes to Pacific Capital Investment Management Limited ("PCIM") for funding of the Group's build-own-transfer municipal potable water project in The People's Republic of China and for the Group's working capital. In accordance with the agreement signed between the Company and PCIM, these notes are to be exercised and converted at the option of PCIM into ordinary shares 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.

The convertible notes were classified and treated as financial liability in prior years. Based on further evaluation of the terms contained in the agreement, the convertible notes are debt instruments with an embedded conversion option. In consideration of the option, the convertible notes are split into liabilities with an equity component in FY2008 and FY2007 accordingly.

The restated comparative figures in 2008 and 2007 at Group and Company level are as follows:

(i) Restatement of retained earnings as at 1 January 2008

	Group 2008 Restated $'000	Company 2008 Restated $'000
Retained earnings as at 1 January 2008 – as previously reported	16,414	2,732
Prior years restatement – correction of errors	(90)	(90)
Restated retained earnings as at 1 January 2008	16,324	2,642

34. COMPARATIVE FIGURES AND PRIOR YEARS RESTATEMENTS (CONT'D)

(c) (Cont'd)

(ii) Statements of financial position and note to the financial statements

	Group and Company	
	2008 $'000	2007 $'000
Decrease in Non-current Borrowings – convertible notes (Note 23)	(144)	(416)
Increase in Share Capital	90	–
Increase in Equity component of convertible notes	187	506

(iii) Consolidated statements of comprehensive income

	Group 2008 $'000
Increase in finance expenses	(43)

(d) In years 2008 and 2007, payments amounting to $583,000 and $326,000 respectively were made to suppliers. These payments were classified as prepayments although the goods and services were already received. As such, an adjustment was made to charge out the prepayments to the respective financial years as expenses which is included in "Cost of sales".

(i) Restatement of retained earnings as at 1 January 2008

	Group 2008 Restated $'000
Retained earnings as at 1 January 2008 (after restatement, Note 34(c))	16,324
Prior years restatement – correction of errors	(326)
Restated retained earnings as at 1 January 2008	15,998

(ii) Statements of financial position

	Group	
	2008 $'000	2007 $'000
Decrease in Trade and other receivables – current	(909)	(326)

(iii) Consolidated statements of comprehensive income

	Group 2008 $'000
Increase in cost of sales	(583)

34. COMPARATIVE FIGURES AND PRIOR YEARS RESTATEMENTS (CONT'D)

(e) Legal reserves amounting to $110,000 was classified under "Retained earnings" in 2008 for a PRC subsidiary. The required amount has been reclassified from retained earnings to "Legal reserves".

Consolidated statement of changes in equity

	Group Increase/ (decrease) 2008 $'000
Legal reserves	110
Retained earnings	(110)

(f) Goodwill and land use rights amounting to $1,266,000 (2007: $1,266,000) and $3,368,000 (2007: $1,878,000) respectively were classified under "Goodwill" and "Intangible assets" in prior years. The amounts have been reclassified as "Intangible assets" and "Land use rights" respectively to better reflect the nature of the balances and to conform to the FRS.

Statements of financial position

	Group	
	2008 $'000	2007 $'000
Decrease in Goodwill	(1,266)	(1,266)
Increase in Land use rights	3,368	1,878
Decrease in Intangible assets	(2,102)	(612)

(g) One of the subsidiaries ("Deqing Huanzhong Producing Water Co., Ltd.") of the Company was formed under the joint venture agreement for designing, and constructing water treatment plants in the PRC.

Based on further evaluation of the terms contained in the agreement, the intention of the agreement was for the joint venture partner to provide the land for the construction of the plant. This land has to be returned to the joint venture partner upon completion of the service concession period. The land use right was initially accounted for as intangible assets while the joint venture partner was recognised as a non-controlling interest. Given the intention of the agreement, the asset and the non-controlling interest is adjusted out of the financial statements to reflect the fact that the land use rights do not constitute a contribution by the joint venture partner.

The restated comparative figures in 2008 and 2007 at Group level are as follows:

(i) Restatement of retained earnings as at 1 January 2008

	Group 2008 Restated $'000
Retained earnings as at 1 January 2008 (after restatement, Note 34(d))	15,998
Prior year restatement – correction of errors	130
Restated retained earnings as at 1 January 2008	16,128

34. COMPARATIVE FIGURES AND PRIOR YEARS RESTATEMENTS (CONT'D)

(g) (Cont'd)

(ii) Statements of financial position

	Group 2008 $'000	Group 2007 $'000
Decrease in Land use rights	(1,509)	(1,577)
Increase in Currency translation reserves	98	9
Decrease in Non-controlling interests	(1,706)	(1,698)

(iii) Consolidated statements of comprehensive income

	Group 2008 $'000
Decrease in administrative expenses	165
Decrease in currency translation differences arising from consolidation	(98)

(h) In prior years, the Group has concession arrangements with various governing bodies or agencies of the government of the PRC and Indonesia (the "grantor"). Under these concession arrangements, the Group will typically construct and operate water treatment plants for concession periods of between 20 – 25 years and transfer the plants to the grantors at the end of the concession periods. The Group has initially adopted INT FRS 112 on these concession arrangements in year 2008 and recognised the intangible assets.

Based on further evaluation of the terms contained in the agreements, the Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. Therefore, the concessions should be accounted for as financial assets instead of intangible assets.

The restated comparative figures in 2008 and 2007 at Group level are as follows:

(i) Restatement of retained earnings as at 1 January 2008

	Group 2008 Restated $'000
Retained earnings as at 1 January 2008 (after restatement, Note 34(g))	16,128
Prior years restatement – correction of errors	907
Restated retained earnings as at 1 January 2008	17,035

34. COMPARATIVE FIGURES AND PRIOR YEARS RESTATEMENTS (CONT'D)

(h) (Cont'd)

(ii) Statements of financial position

	Group	
	2008 $'000	2007 $'000
Decrease in Intangible assets	(23,374)	(21,427)
Increase in Trade and other receivables – Non-current	28,277	23,800
Increase in Deferred tax liabilities – Non-Current	1,142	993
Increase in Non-controlling interests	616	473
Decrease in Currency translation reserves	(249)	–

(iii) Consolidated statements of comprehensive income

	Group 2008 $'000
Decrease in Revenue	(1,293)
Decrease in Cost of sales	1,244
Increase in Other operating income	1,111
Decrease in Administrative expenses	1,115
Decrease in Income tax credit	(45)
Increase in currency translation differences arising from consolidation	249

(i) Investment properties amounting to $112,000 (2007: $115,000) was classified under "Property, plant and equipments" in prior years. The amounts have been reclassified as "Investment properties" to better reflect the nature of the balances and to conform to the FRS.

Statements of financial position

	Group	
	2008 $'000	2007 $'000
Increase in Investment properties	112	115
Decrease in Property, plant and equipment	(112)	(115)

(j) Financial notes payable which is repayable within 12 months amounting to $750,000 was classified under "Non-current Borrowings" in prior years. The amounts have been reclassified as "Current Borrowings" to better reflect the nature of the balances and to conform to the FRS.

Statements of financial position

	Group 2008
Increase in Borrowing – Current	750
Decrease in Borrowing – Non-current	(750)

35. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2011 or later periods and which the Group has not early adopted:

- Amendments to FRS 24 – Related party disclosures (effective for annual periods beginning on or after 1 January 2011)
- Amendments to FRS 32 Financial instruments: Presentation – classification of rights issues (effective for annual periods beginning on or after 1 February 2010)
- INT FRS 119 Extinguishing financial liabilities with equity instruments (effective for annual periods commencing on or after 1 July 2010)

The management anticipates that the adoption of the above FRSs, INT FRSs and amendments to FRS in the future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption, except for the amendments to FRS 24 – Related party disclosures.

The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government related entities. It also clarifies and simplifies the definition of a related party. However, the revised definition of a related party will also mean that some entities will have more related parties and will be required to make additional disclosures.

Management is currently considering the revised definition to determine whether any additional disclosures will be required and has yet to put systems in place to capture the necessary information. It is therefore not possible to disclose the financial impact, if any, of the amendment on the related party disclosures.

36. WITHDRAWAL OF AUDITOR'S REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

The auditor's report dated 31 March 2010 was withdrawn on 27 April 2010 because there are possible accounting irregularities in the major subsidiary in Taiwan, Darco Engineering (Taiwan) Co., Ltd. As such, the previous audit opinion included in the Annual Report for the financial year ended 31 December 2009 is superceeded.

37. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Darco Water Technologies Limited on 31 May 2011.

As at 27 June 2011

Number of Shares	–	276,684,812
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	73	2.75	2,995	0.00
1,000 – 10,000	1,253	47.25	7,141,278	2.58
10,001 – 1,000,000	1,293	48.76	98,301,701	35.53
1,000,001 AND ABOVE	33	1.24	171,238,838	61.89
TOTAL	**2,652**	**100.00**	**276,684,812**	**100.00**

As at 27 June 2011, approximately 70.19% 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	36,795,711	13.30
2.	STONE ROBERT ALEXANDER	22,860,000	8.26
3.	MAYBAN NOMINEES (S) PTE LTD	20,001,000	7.23
4.	HSBC (SINGAPORE) NOMINEES PTE LTD	8,883,443	3.21
5.	DBS NOMINEES PTE LTD	7,838,780	2.83
6.	PHILLIP SECURITIES PTE LTD	7,212,490	2.61
7.	TEH SWEE HENG	6,994,820	2.53
8.	OCBC SECURITIES PRIVATE LTD	6,931,000	2.51
9.	LEE SUE LIN	6,772,800	2.45
10.	UOB KAY HIAN PTE LTD	6,300,000	2.28
11.	THYE KIM FAH	4,493,140	1.62
12.	TAN CHENG HWEE	3,800,000	1.37
13.	UNITED OVERSEAS BANK NOMINEES PTE LTD	3,423,000	1.24
14.	TAN LEK LEK	2,871,000	1.04
15.	KANG SWEE LIAT	2,604,000	0.94
16.	WONG POH HWA @ KWAI SENG	1,700,000	0.61
17.	DAVID REGINALD KIRKWOOD	1,684,000	0.61
18.	THYE KIM LOY	1,564,840	0.57
19.	LIOU LOO SEAH	1,540,000	0.56
20.	OCBC NOMINEES SINGAPORE PTE LTD	1,386,010	0.50
	TOTAL	**155,656,034**	**56.27**

SUBSTANTIAL SHAREHOLDERS AS AT 27 JUNE 2011

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	36,795,711	27,000,000	63,795,711	23.06
STONE ROBERT ALEXANDER	22,860,000	–	22,860,000	8.26

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 Boardroom, Lower Lobby, The Fullerton Hotel Singapore, One Fullerton Square, Singapore 049178 on Friday, 29 July 2011 at 10.00 a.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 2010 and 31 December 2009 together with the Auditors' Report thereon.

   (Resolution 1)

2. 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 106) **(Resolution 2)**

   Mr Joshua Siow Chee Keong (Article 106) **(Resolution 3)**

   Ms Teo Sin Yng (Article 116) **(Resolution 4)**

   Mr Robert Wong Kwan Seng, if re-elected as a director, will remain as the Chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nominating Committee and will be considered independent.

   Mr Joshua Siow Chee Keong, if re-elected as a director, will remain as the Chairman of the Remuneration Committee, the Chairman of the Nominating Committee and a member of the Audit Committee and will be considered independent.

3. To approve the Directors' fees of S$143,000 payable by the Company for the year ended 31 December 2010 (2009: S$128,000).

   (Resolution 5)

4. To re-appoint Messrs LTC LLP as Auditors of the Company and to authorise the Directors to fix their remuneration.
   [See Explanatory Note (i)] **(Resolution 6)**

AS SPECIAL BUSINESS

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

5. **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 Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be authorised and empowered to:

   (a) (i) allot and issue shares in the Company ("shares") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares.

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force,

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares in the capital of the Company excluding treasury shares (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the percentage of issued shares and Instruments shall be based on the total number of issued shares in the capital of the Company, excluding treasury shares at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of the Instruments or any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards outstanding and subsisting at the time of the passing of this Resolution; and

(c) any subsequent bonus issue, consolidation or subdivision of shares;

(i) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Articles of Association of the Company; and

(ii) unless revoked or varied by the Company in a general meeting, such authority shall continue in force (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments.

[See Explanatory Note (ii)] **(Resolution 7)**

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

BY ORDER OF THE BOARD

Tan Lay Hong
Company Secretary

Singapore, 14 July 2011

Explanatory Notes:

(i) The Company had received a letter from LTC LLP on 6 June 2011 informing the Company on its intention to resign as auditors of the Company. As the Company has not found a suitable replacement and due to the short timeframe, the Company will convene a separate EGM to propose the change of auditors. In the meantime, the Board had proposed the re-election of LTC LLP as auditors at this AGM.

(ii) The Ordinary Resolution 7 proposed in item 5 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next AGM, to allot and issue Shares and convertible securities in the Company up to an amount not exceeding fifty per centum (50%) of the total number of issued shares in the capital of the Company, excluding treasury shares of which up to twenty per centum (20%) may be issued other than on a pro rata basis.

For determining the aggregate number of shares that may be issued, the percentage of issued shares in the capital of the Company will be calculated based on the issued shares in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of the instruments or any convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent consolidation or subdivision of shares.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. If the appointor is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

3. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 41 Loyang Drive Singapore 508952 (48) hours before the time appointed for holding the Meeting.

DARCO WATER TECHNOLOGIES LIMITED

Registration No. 200106732C
(Incorporated in Singapore)

IMPORTANT

1. For investors who have used their CPF monies to buy DARCO WATER TECHNOLOGIES LIMITED's shares, this Annual Report is forwarded to them at the request of the 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.
3. CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

PROXY FORM

(Please see notes overleaf before completing this Form)

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 or either or both of the persons, referred to above, 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 Boardroom, Lower Lobby, The Fullerton Hotel Singapore, One Fullerton Square, Singapore 049178 on Friday, 29 July 2011 at 10.00 a.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	Directors' Report and Audited Accounts for the year ended 31 December 2010 and 31 December 2009 together with Auditors' Report		
2	Re-election of Mr Robert Wong Kwan Seng as director (Article 106)		
3	Re-election of Mr Joshua Siow Chee Keong as director (Article 106)		
4	Re-election of Ms Teo Sin Yng as director (Article 116)		
5	Approval of Directors' fees amounting to S$143,000 for FY2010		
6	Re-appointment of Messrs LTC LLP as Auditors		
7	Authority to allot and issue new shares		

Dated this ____________ day of _______________ 2011

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 of Singapore), 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 entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall 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 one or two proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) 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 may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with its Articles of Association and Section 179 of the Companies Act, Chapter 50 of Singapore.

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.

General:

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 shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name 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.

Attachment (I)

10 June 2011
LTC LLP
1 Raffles Place
#20-02 One Raffles Place
Singapore 048616

Attention: Chong Wen Ai, Lawrence Chai, Alex Chai

Dear Sirs,

We refer to you to page 29-35 of draft Darco's Annual Report 2010.

In no less than 14 instances, you have stated that you "*were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to…*", as a result of which you concluded that "Accordingly, we do not express an opinion on the financial statements."

Our Management is not aware of any complaint of any instances whereby the component auditors or the local management were unwilling to provide documentary evidence which you might believe existed or have reasonable expectation that such documents could be made easily available.

We write to instruct you to provide an explanation to the Audit Committee on the circumstances that led you to reach the above conclusion.

We consider any lack of co-operation, by either the component auditor or local management, a matter of serious concern which may potentially attract legal liabilities.

Yours faithfully

……………………………….	……………………………….	……………………………….
Thye Kim Meng	Heather Tan Chern Ling	Teo Sin Yng
CEO	Executive Director	Executive Director

Cc: Audit Committee: Robert Wong, Joshua Siow

Attachment (II)

LTC.
public accountants

LTC LIP
Certified Public Accountants
1 Raffles Place
#20-02 One Raffles Place
Singapore 048616
Tel: +65 6226 0080
Fax: +65 6226 3345
ltc@ltc-cpa.com
www.ltc-cpa.com

Audit Committee
Darco Water Technologies Limited
41 Loyang Drive
Singapore 508952

Dear Audit Committee Members,

We refer to the letter by Mr Thye Kim Meng (CEO), Ms Heather Tan Chern Ling (Executive Director) and Ms Teo Sin Yng (Executive Director) dated 10 June 2011 requesting for an explanation to the Audit Committee on the circumstances that led us to disclaim on opinion on the draft financial statements of Darco Water Technologies Limited (the "Company") and its subsidiaries for the financial years ended 31 December 2010 and 31 December 2009 as indicated in our draft audit report sent to the management and copied Audit Committee on 6 June 2011.

The auditing standards require the auditor to disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, could be both material and pervasive. In addition, the standards require the auditor shall disclaim an opinion when, in circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

We have explained and described the matters that have led us to disclaim an opinion on the draft financial statements of Darco Water Technologies Limited in our draft audit report sent to the management and copied Audit Committee on 6 June 2011.

The following is a brief summary of these matters. Please note that the matters have been outstanding despite repeated reminders and requests to the relevant parties.

Subsidiary – Darco Engineering Pte Ltd

Para 1(a) As at the date of our auditor's report dated 31 May 2011, we did not receive the computation of the value in use of the recoverable amount of the property, plant and equipment from the management.

Para 1(b) As at the date of our auditor's report, we did not receive the solicitor's confirmation.

Para 1(c) As at the date of our auditor's report, we did not receive the confirmation for the amount due to Strikers Lane.

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LTC LLP is an accounting limited partnership. LLP UEN: T08LL0811J

Subsidiary – Globe Industrial Technology Co., Ltd

Para 1(a) As at the date of our auditor's report, we did not receive the confirmation for the amount due to a shareholder.

Para 1(b) As at the date of our auditor's report, we did not receive the bank confirmation from Bank of China.

Subsidiary – Deqing Darco Producing Water Co., Ltd

Para 2(a) This is due to a breach of loan covenant as at year ended 31 December 2010.

Darco Water Technologies Limited and its subsidiaries

Para 3 As these subsidiaries incurred net losses during the financial year, there is an indication that the property plant and equipment may be impaired. The subsidiaries were required to estimate the recoverable amount of the property, plant and equipment in accordance with FRS 36, Para 9. However, as at the date of our auditor's report, we did not receive the computation of the value in use of the recoverable amount from the management.

Para 4 As at the date of our auditor's report, we did not receive the intercompany confirmation and intercompany movement schedule from the management.

Para 5 As at the date of our auditor's report, we did not receive the latest management accounts for Darco Water Technologies Limited and its subsidiaries from the management.

Para 6 As at the date of our auditor's report, we did not receive a reply from Doli, Bambang. Sudarmadji & Dadang for the queries following our review of their audit working papers.

Para 7 As at the date of our auditor's report, we were not provided with access to the working papers of KPMG Advisory Services Pte Ltd.

Para 8 There was a breach of loan covenants for the financial years ended 31 December 2010 and 31 December 2009. There were no waivers from the banks as at the date of our audit report.

Para 9 As at the date of our auditor's report, we did not receive the computation of the value in use to support the recoverable amount of the goodwill and CGU from the management.

Para 10 a) As at the date of our auditor's report, we did not receive Sun Rise CPAs & Company's assessment on the computation of the goodwill arising from the acquisition of WLF Industrial Co., Ltd.

b) As at the date of our auditor's report, we also did not receive Sun Rise CPAs & Company's audit working papers on the impairment assessment if any on the goodwill, and valuation report of the subsidiary to account for the fair value of the identifiable assets and liabilities of the subsidiary as at the acquisition date.

Para 11 As at the date of our auditor's report, we did not receive the reply from Sun Rise CPAs & Company on the information for discontinued operation of one of the subsidiary, Northern Union Assortment Recycling Co., Ltd.

LTC.

Para 12 As at the date of our auditor's report, we did not receive the solicitor's confirmation.

Para 13 We did not receive the supporting documentation from the management as at the date of our auditor's report to assess the recoverability of the receivables from Darco Engineering Pte Ltd.

Para 14 As at the date of our auditor's report, we did not receive the bank confirmation from P.T. Bank Negara Indonesia (Persero) Tbk and PT Bank Mandiri (Persero) Tbk.

Para 15 As at the date of our auditor's report, we did not receive the bank confirmation from P.T. Bank Negara Indonesia (Persero) Tbk and PT Bank Mandiri (Persero) Tbk.

Para 16 As at the date of our auditor's report, we did not receive management's assessment of the going concern of the Group.

We wish to remind the Audit Committee that these outstanding matters were highlighted in the following emails:-

- To the management and copied to the Audit Committee on 26 March 2011, 31 March 2011, 4 April 2011 and 2 June 2011.

We would like to highlight that our auditor's report had been sent to the management for comments on 4 May 2011 by email. However, we did not receive any comments from the management up to the signing date on 31 May 2011.

Yours Sincerely,

LTC LLP

LTC LLP
Public Accountants and
Certified Public Accountants

Singapore, 17 June 2011
cc. Board of Directors of Darco Water Technologies Limited

Attachment (III)

21 June 2011
LTC LLP
1 Raffles Place
#20-02 One Raffles Place
Singapore 048616

Attention: Chong Wen Ai, Lawrence Chai, Alex Chai

Dear Sirs,

Thank you for your timely response to our letter through your correspondence dated 17th June 2011.

On behalf of Darco Water Technologies Limited (DWT), while I do appreciate and note the outstanding matters detailed by LTC for each of the instances where you have stated you were "*were unable to perform satisfactory procedures to obtain sufficient appropriate audit evidence…*" in DWT's draft audit report, you have not attempted to explain why they have remained so to this date.

We are especially concerned since the list contains some mundane matters that may be disposed fairly easily. Further, I have a duty on behalf of my Board to identify the reasons and the persons concerned that have put you in such predicament, and our company in breach of listing rules.

I therefore request for LTC to further enlighten the Board particularly with regards to the occasions whereby the local management or component auditors have been un-cooperative or evasive in the course of providing LTC with the required documents / information in such a way as to have prevented LTC from being able to come to express an audit opinion.

Thank you once again.

Yours faithfully,

……………………………………
Heather Tan Chern Ling
Executive Director

Cc: Audit Committee: Robert Wong, Joshua Siow
DWT Board of Directors

ATTACHMENT (IV)

Item No.	Issues	Component Auditor's Response	Management's Response	Comments
– Darco Engineering Pte Ltd (DEPL)				
Para 1(a)	As at the date of our auditor's report dated 31 May 2011, we did not receive the computation of the value in use of the recoverable amount of the property, plant and equipment from the management.	No response from LTC, as component auditor.	The Directors of DEPL were not aware of the issue raised by LTC.	Impairment of DEPL's assets may not be necessary. The Company has recovered from a loss of S$157,040.00 in FY 2010 and is likely to record a profit for FY 2011, as a result of the Company having secured S$13,650,840.00 worth of contracts, 58% of which shall be delivered in FY2011.
Para 1(b)	As at the date of our auditor's report, we did not receive the solicitor's confirmation.	No response from LTC, as component auditor.	The solicitor was unable to estimate the likely liability of the Company at the point of enquiry.	The claimant had yet to particularize his claim, allegedly for unfair dismissal in 2009. In any case, the company considers the claim to be frivolous and the company's financial exposure is likely to be less than S$80,000.00.
Para 1(c)	As at the date of our auditor's report, we did not receive the confirmation for the amount due to Strikers Lane.	No response from LTC, as component auditor.	Veron Cheung of DEPL has submitted the required information to Henry Lu of LTC on 19th January 2011. The information was emailed again to Henry Lu on 3rd June 2011.	Required responses and documentation were furnished in a timely manner.
– Globe Industrial Technology Co., Ltd. (GLOBE)				
Para 1(a)	As at the date of our auditor's report, we did not receive the confirmation for the amount due to a shareholder.	N/A	The Directors of GLOBE were not aware of the issue raised by LTC.	The amount owing to the Shareholder, Fan Ming Chun, amounting HK$99.00, is immaterial.
Para 1(b)	As at the date of our auditor's report, we did not receive the bank confirmation from Bank of China.	The Bank of China is unable to release the confirmation due to lack of signature of Nina Chiu, who has resigned.	At point of enquiry, a copy of the Company's Passbook Record has been provided to LTC for their inspection.	The bank balance is true and accurate, showing a balance of US$12,152.04.
– Deqing Darco Producing Water Co., Ltd (DDPW)				
Para 2(a)	This is due to a breach of loan covenant as at year ended 31 December 2010	N/A	This issue relates to the project financing of Qian Yuan 4-yr term loan, whereby repayment is by revenue generated from the sale of water. There was a breach due to delay in commissioning.	The Company has resolved this issue by engaging UOB Bank in discussions to re-schedule the loan repayment, as soon as revenue is generated. The plant was commissioned end June 2011 and revenue shall be received in due course.
– Darco Water Technologies Limited (DWT) and its subsidiaries				
Para 3	As these subsidiaries incurred net losses during the financial year, there is an indication that the property plant and equipment may be impaired. The subsidiaries were required to estimate the recoverable amount of the property, plant and equipment in accordance with FRS 36, Para 9. However, as at the date of our auditor's report, we did not receive the computation of the value in use of the recoverable amount from the management.	N/A	As requested by LTC, Group Accountant of DWT submitted the necessary Cash Flow Projections to Lawrence of LTC on 6th April 2011 via email.	The Group Audit Committee was not aware of the issue raised by LTC. Required responses and documentation were furnished in a timely manner.
Para 4	As at the date of our auditor's report, we did not receive the intercompany confirmation and intercompany movement schedule from the management.	N/A	Veron Cheung of DEPL (acting for DWS, DIW and DNP) and Alice Tan of DWT (acting for PV Vacuum, DNP, Shanghai Darco, DIW, and GLOBE) have submitted the intercompany audit confirmation to Bryan Lai of LTC on 19th Jan 2011 and 10th Feb 2011 respectively.	Required responses and documentation were furnished in a timely manner.
Para 5	As at the date of our auditor's report, we did not receive the latest management accounts for Darco Water Technologies Limited and its subsidiaries from the management.	N/A	N/A	N/A
Para 6	As at the date of our auditor's report, we did not receive a reply from Doli, Bambang Sudarmadji & Dadang for the queries following their review of audit working papers.	N/A	The component auditor, Doli, Bambang Sudarmadji & Dadang has since submitted the working papers.	The Audit Committee was not aware of the gravity of the issue.

Supplementary Notes

Item No.	Issues	Component Auditor's Response	Management's Response	Comments
Para 7	As at the date of our auditor's report, we were not provided with access to the working papers of KPMG Advisory Services Pte. Ltd.	Please refer to Attachment (V), (VI), and (VII).		Darco Taiwan has filed police reports and provided a more comprehensive account of amount of money misappropriated than KPMG.
Para 8	There was a breach of loan covenants for the financial years ended 31 December 2010 and 31 December 2009. There were no waivers from the banks as at the date of our audit report.	N/A	The Bankers will be informed of the covenant breach based on this audited report and shall be asked to consider the positive impact of impending rights issue to rectify the breach.	This issue relates to a possible breach of covenant on the debt-equity ratio of syndicated loan which was secured in FY2008.
Para 9	As at the date of our auditor's report, we did not receive the computation of the value in use to support the recoverable amount of the goodwill and CGU from the management.	For FY 2010 the dividend paid from PV Vac. to DWT is S$300,000.00, while its turnover is S$4,018,606.00.	The Group has been consistently receiving dividends from PV Vacuum.	There is no material financial impact to be considered
Para 10(a)	As at the date of our auditor's report, we did not receive Sun Rise CPAs & Company's assessment on the computation of the goodwill arising from the acquisition of WLF Industrial Co., Ltd	All information / documents as requested by LTC on 18th Feb 2011 have been duly submitted for their assessment during LTC's visit to Taiwan on 11th & 12th April 2011.	Required responses and documentation were submitted in a timely manner.	N/A
Para 10(b)	As at the date of our auditor's report, we also did not receive Sun Rise CPAs & Company's audit working papers on impairment assessment if any on the goodwill, and valuation report of the subsidiary to account for the fair value of the identifiable assets and liabilities of the subsidiary as at the acquisition date.	All information / documents as requested by LTC on 18th Feb 2011 have been duly submitted for their assessment during LTC's visit to Taiwan on 11th & 12th April 2011.	Required responses and documentation were submitted in a timely manner.	N/A
Para 11	As at the date of our auditor's report, we did not receive the reply from Sun Rise CPAs & Company on the information for discontinued operation of one of the subsidiary, Northern Union Assortment Recycling Co., Ltd	All information / documents as requested by LTC on 18th Feb 2011 have been duly submitted for their assessment during LTC's visit to Taiwan on 11th & 12th April 2011.	Required responses and documentation were submitted in a timely manner.	N/A
Para 12	As at the date of our auditor's report, we did not receive the solicitor's confirmation.	N/A	Straits Law has since confirmed that amount owing to their firm is S$2,000.00, while there are no monies outstanding to Tan Peng Chin. The amount owing is immaterial.	N/A
Para 13	We did not receive supporting documentation from the management as at the date of our auditor's report to assess recoverability of the receivables from Darco Engineering Pte. Ltd.	No response from LTC, as component auditor.	This issue relates to a loan from DWT to DEPL, amounting to S$14,899,429.86, as of December 2010.	There is no issue recoverability, as this is an intercompany loan, granted from DWT (parent company) to support its wholly-owned subsidiary, DEPL.
Para 14	As at the date of our auditor's report, we did not receive the bank confirmation from P.T. Bank Negara Indonesia (Persero) Tbk and P.T. Bank Mandiri (Persero) Tbk	N/A	Bank Mandiri has since confirmed that total term loan outstanding to them is US$2,431,500.00, while amount of loan outstanding to Bank Negara Indonesia is US$4,052,500.00 as of 31st December 2010.	This issue relates to audit confirmation for outstanding term loan from syndicated loan secured in FY2008. This is now settled.
Para 15	As at the date of our auditor's report, we did not receive the bank confirmation from P.T. Bank Negara Indonesia (Persero) Tbk and P.T. Bank Mandiri (Persero) Tbk	N/A	Bank Mandiri has since confirmed that total term loan outstanding to them is US$2,431,500.00, while amount of loan outstanding to Bank Negara Indonesia is US$4,052,500.00 as of 31st December 2010.	This issue relates to audit confirmation for outstanding term loan from syndicated loan secured in FY2008. This is now settled.
Para 16	As at the date of our auditor's report, we did not receive management's assessment of the going concern of the Group.	No response from LTC, as Group auditor.	This issue relates to the assessment of going concern for Darco Group as a whole.	The Audit Committee is not aware of any outstanding issue to be resolved by the Committee, other than that stated in Para 8 above.

ATTACHMENT (V)

This comparison chart shows the amount listed by KPMG in its special audit report and Darco (Taiwan) Financial report.
See notes where amount has not been listed by KPMG or DET.
Item 5-01 was listed by KPMG but not in DET's Book balance, the transaction was still under investigation (note 14)
All other items were listed by DET but not KPMG.
*** KPMG items refer to Darco Engineering (Taiwan)'s working papers.**

DARCO 99年度财报原始资料						KPMG special audit report		COMPARISON	
提告对象	关系人厂商	会计科目	案别	民国	金额	*Item	Amount		
陈块 邱士菁 范名俊	环中-范名俊	在建费用	客雅	94	11,500,000	2-05	11,500,000	0	—
	环中-范名俊	在建包作	竹北	96	31,802,400	4-06	31,802,400	0	—
陈块 邱士菁 邱淑琴	润记	在建包作	竹北	96	5,250,000	4-05	5,250,000	0	—
	润记	在建包作	客雅	96	6,500,000	2-03	6,500,000	0	—
	天价	在建包作	农林	98	5,250,000	6-01	5,250,000	0	—
	华源	在建包作	客雅	97	3,586,800	2-06	5,687,500	0	—
	华源	在建包作	客雅	97	2,100,700				
	肯登	在建包作	竹北	97	1,890,000	4-07	1,890,000	0	—
	骏川	在建包作	客雅	97	1,312,500	2-09	1,312,500	0	—
	丰縫	在建包作	客雅	95	3,436,830	2-07	7,436,830	0	—
	丰縫	在建包作	客雅	95	4,000,000				
	邓绍文	薪资			4,617,804			4,617,804	Note-01
陈块 邱士菁 邱淑琴	乔东	在建包作	竹北	97	100,000	4-03	100,000	0	—
		在建费用	乾元	96	315,000	1-01	1,245,000	0	—
		销-其他费用	乾元	97	315,000				
		销-其他费用	乾元	97	315,000				
		在建包作	乾元	98	300,000				
	联鑫	在建费用-劳务费	客雅	95	2,000,000			2,000,000	Note-02
陈块 邱士菁 邱淑琴	诸律钧	薪资			500,000			500,000	Note-03
	台湾极水	在建费用-劳务费	客雅	95	3,000,000	2-02	3,000,000	0	—
	邦洲	在建包作	客雅	95	30,000,000	2-08	28,571,430	1,428,570	Note-04
陈块	势丰	在建包作	客雅	96	3,150,000	2-01	3,000,000	150,000	Note-05
陈块	富渊	在建包作	竹北	96	3,850,000	4-04	3,850,000	0	—
陈块 邱士菁	展吉	在建包作	客雅	95	2,000,000			2,000,000	Note-06
	展吉	在建包作	竹北	95	2,000,000			2,000,000	Note-07
	翔园	在建包作	客雅		4,350,000			4,350,000	Note-08
邱士菁	万泓	在建包作	客雅	94	2,761,500			2,761,500	Note-09
		在建包作	客雅	94	1,659,000			1,659,000	Note-10
陈块 邱士菁	丰元(NINA)	在建包作	竹北	96	2,090,000	4-01	2,090,000	0	—
邱士菁	百景	在建包作	忠孝加压	95	2,500,000			2,500,000	Note-11
邱士菁	邱士菁	零用金			6,660,428			6,660,428	Note-12
陈块	炜盛	在建包作	客雅	94	36,735,732	2-04	36,735,732	0	—
	佳耘					4-02	200,000	-200,000	Note-13
						5-01	1,800,000	-1,800,000	Note-14
	盈鼎					6-02	3,000,000	-3,000,000	Note-15
			成大			3	1,545,700		Note-16
		GRAND TOTAL			**185,848,694**		**161,767,092**	**25,627,302**	

Notes:

01 KPMG 列入 Other findings
02 KPMG 未列入 客雅案假合约&假发票
03 KPMG 列入 Other findings
04 KPMG 金额未包含 5% VAT
05 KPMG 金额未包含 5% VAT
06 KPMG 未列入 客雅案假合约&假发票
07 KPMG 未列入 竹北案假合约&假发票
08 KPMG 未列入 客雅案假合约&假发票
09 KPMG 未列入 客雅案假和约&假发票
10 KPMG 未列入 客雅案假和约&假发票
11 KPMG 未列入 忠孝案
12 KPMG 列入 p.26, petty cash balance 3,516,167
13 佳耘确认已收到款
14 环中当时未回覆，未列入
15 已折让还盈鼎
16 成大案保险费

Supplementary Notes

ATTACHMENT (VI)

（十四） 本公司前总经理、前公司董事兼管理部经理及前财务副理等，于任职本公司期间共谋伪造文书及诈欺以诈领工程款金额为185,848,694元，目前诉讼中，明细如下：

主要提告对象	关系人厂商	会计科目	案别	民国	金额	说明	提告方向
陈块 邱士菁 范名俊	环中－范名俊	在建费用	客雅	94	11,500,000	假合约&假发票	向法院提出刑事诉讼
	环中－范名俊	在建包作	竹北	96	31,802,400	假合约&假发票	向法院提出刑事诉讼
陳塊 邱士菁 邱淑琴	润记	在建包作	竹北	96	5,250,000	假发票	向法院提出刑事诉讼
	润记	在建包作	客雅	96	6,500,000	假发票	向法院提出刑事诉讼
	天价	在建包作	农林	98	5,250,000	假发票	向法院提出刑事诉讼
	华源	在建包作	客雅	97	3,586,800	假合约&假发票	向法院提出刑事诉讼
	华源	在建包作	客雅	97	2,100,700	假合约&假发票	向法院提出刑事诉讼
	肯登	在建包作	竹北	97	1,890,000	假合约&假发票	向法院提出刑事诉讼
	骏川	在建包作	客雅	97	1,312,500	假合约	向法院提出刑事诉讼
	丰链	在建包作	客雅	95	3,436,830	假合约&假发票	向法院提出刑事诉讼
	丰链	在建包作	客雅	95	4,000,000	假合约&假发票	向法院提出刑事诉讼
	邓绍文	薪资			4,617,804	假公济私	向法院提出刑事诉讼
陈块 邱士菁 邱淑琴	乔东	在建包作	竹北	97	100,000	假合约&假发票	向法院提出刑事诉讼
		在建费用	乾元	96	315,000	发票 (2007/10/16)	向法院提出刑事诉讼
		销－其他费用	乾元	97	315,000	发票 (2008/01/04)	向法院提出刑事诉讼
		销－其他费用	乾元	97	315,000	发票 (2008/01/29)	向法院提出刑事诉讼
		在建包作	乾元	98	300,000	发票 (2009/08/25)	向法院提出刑事诉讼
	联鑫	在建费用－劳务费	客雅	95	2,000,000	假发票－950425025	向法院提出刑事诉讼
陈块 邱士菁 邱淑琴	诸律均	薪资			500,000	假公济私	向法院提出刑事诉讼
	台湾极水	在建费用－劳务费	客雅	95	3,000,000	假合约&假发票	向法院提出刑事诉讼
	邦洲	在建包作	客雅	95	30,000,000	假合约&假发票－951020013	向法院提出刑事诉讼
陈块	势丰	在建包作	客雅	96	3,150,000	假合约&假发票	已送调查局侦办
陈块	富渊	在建包作	竹北	96	3,850,000	假合约&假发票	已送调查局侦办
陈块、邱士菁	展吉	在建包作	客雅	95	2,000,000	假合约&假发票	已送调查局侦办
	展吉	在建包作	竹北	95	2,000,000	假合约&假发票	已送调查局侦办
	翔园	在建包作	客雅		4,350,000	假合约&假发票	已送调查局侦办
邱士菁	万泓	在建包作	客雅	94	2,761,500	假发票（JU32248708）	已送调查局侦办
		在建包作	客雅	94	1,659,000	假发票（JU32248704）	已送调查局侦办
陈块、邱士菁	丰元（NINA）	在建包作	竹北	96	2,090,000	无凭证无工作内容	已送调查局侦办
邱士菁	百景	在建包作	忠孝加压	95	2,500,000	现金支出	已送调查局侦办
邱士菁	邱士菁	零用金			6,660,428	无凭证	已送调查局侦办
陈块	炜盛	在建包作	客雅	94	36,735,732	假发票	已送调查局侦办
Amount Total					185,848,694		

Supplementary Notes

Attachment (VII)

KPMG

Darco Water Technologies Ltd.
Report on Special Audit
27 May 2011

EXECUTIVE SUMMARY (EXTRACT)

1.2 Darco Taiwan's project expenditure procedure

1.2.1 Darco Taiwan engages various vendors for each of its projects.

1.2.2 We understand from Ms Maggie Yen Xiao Ting ("Ms Yen"), Personal Assistant to Mr Thye, that a duly endorsed purchase order, prepared by the Purchasing department, would be issued and furnished to a vendor for the engagement of its services. A duly approved purchase order is one which is endorsed with the Company's corporate seal and the signature of a Purchasing staff.

1.2.3 Typically, the appointed vendor will render its fees to Darco Taiwan based on the percentage of work completed by the vendor. The percentage of work completed by the vendor is determined by the Project Manager before the vendor renders its invoice to the engineers at the work site.

1.2.4 A work-in-progress ("WIP") report which is an up to date record of all the expenses incurred for a project is maintained for each project by the Project Manager. The WIP report attaches supporting documents which include *inter alia* invoices received from vendors and receipts of other expenditures incurred for the project.

1.2.5 The WIP report attaching the supporting documents will be delivered to the corporate office regularly for outstanding invoices to be processed and project expenditures to be recorded in Darco Taiwan's books.

1.2.6 Darco Taiwan's Finance department will pay the outstanding invoices based on the WIP report and its supporting documents after:

- The Purchasing department has verified the invoices submitted by vendors against the Company's purchase orders, if any;
- Ms Lydia Qiu has checked that the payments are valid and properly supported; and
- Ms Nina Qiu has provided her final approval for the work-in-progress report.

1.2.7 After the payments are processed, the Finance department will record the project expenditures in the Company's general ledger and a copy of the duly approved WIP report will be returned to the work site.

1.3 The Questionable Transactions

1.3.1 We note that substantial disbursements amounting to NT 161,767,092 were applied towards the settlement of 55 invoices ("Questionable Invoices") for work which was purportedly performed by certain vendors ("Connected Vendors").

1.3.2 These Questionable Invoices relate to six out of the 24 Darco Taiwan projects that were ongoing between 2007 and 2009. They are as follows:

- 乾元("Qian Yuan project")
- 客雅("Ke Ya project")
- 成大二案("Cheng Da 2 project")
- 竹北("Zhu Bei project")
- 蛋消("Dan Xiao project")
- 农林("Nong Lin project")

(collectively the "Affected Projects")

1.3.3 We noted from Darco Taiwan's books that there were 22 purchase orders (the "Questionable Purchase Orders") created for 42 of the Questionable Invoices. Notably, while the Questionable Purchase Orders were embossed with Darco Taiwan's corporate seal, they did not bear a signature of a staff from the Purchasing department.

1.3.4 According to Darco Taiwan's books, the Questionable Invoices were paid or settled in the following manner:

- 36 Questionable Invoices amounting to NT 40,117,000 were paid from the petty cash accounts (in July 2009, the petty cash account was reclassified to "Temporary Advance – Nina" account[3], an account newly created in the Company's books);
- 18 Questionable Invoices amounting to NT 84,914,360 were paid from the cash at bank accounts; and
- One Questionable Invoice amounting to NT 36,735,732 was netted against the Company's receivables account.

1.3.5 Further, we noted a discrepancy amounting to NT 3,190,840 between the balance in the petty cash accounts (NT 3,568,788) and the remaining petty cash recovered from the petty cash safe (NT 377,948). Hence, the amount of NT 3,190,840 was unaccounted for.

1.3.6 A summary of the funds disbursed by Darco Taiwan requiring our investigation is set out in the table below:

	NT
The reduction in Darco Taiwan's funds resulting from the Questionable Invoices	123,485,660[4]
The reduction in Darco Taiwan's receivables resulting from the Questionable Invoice	36,735,732
The discrepancies between the balances in petty cash accounts and the actual petty cash recovered[5]	3,190,840
The amount of possibly misappropriated monies	**163,412,232**

[3] From July 2009, "Temporary Advance – Nina" account was used instead of the petty cash account. The nature and substance of the "Temporary Advance – Nina" account is the same as the petty cash account. The two accounts will be collectively referred to as "petty cash accounts".

[4] This amount does not include the NT 1,545,700 arising from the Cheng Da 2 project, as we are unable to ascertain the extent to which the invoice was inflated.

[5] We noted no discrepancies (i.e. no differences which cannot be reconciled) between the balances in the cash at bank financial accounts maintained by Darco Taiwan and the actual cash balances in Darco Taiwan's bank accounts.

DARCO WATER TECHNOLOGIES LIMITED
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