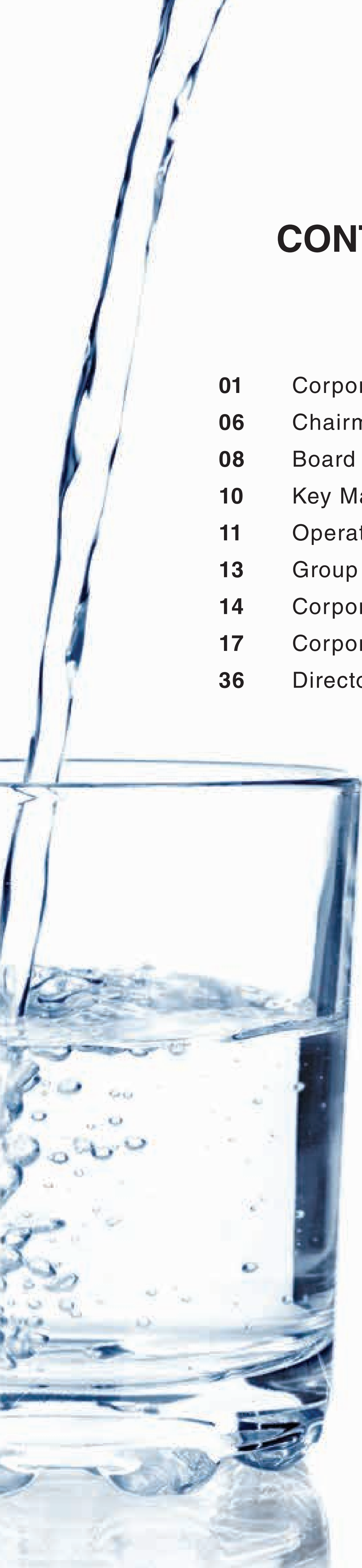
ANNUAL REPORT 2013

DARCO

SOLUTIONS TO WATER & WASTE

DARCO WATER TECHNOLOGIES LIMITED

...meeting your daily needs



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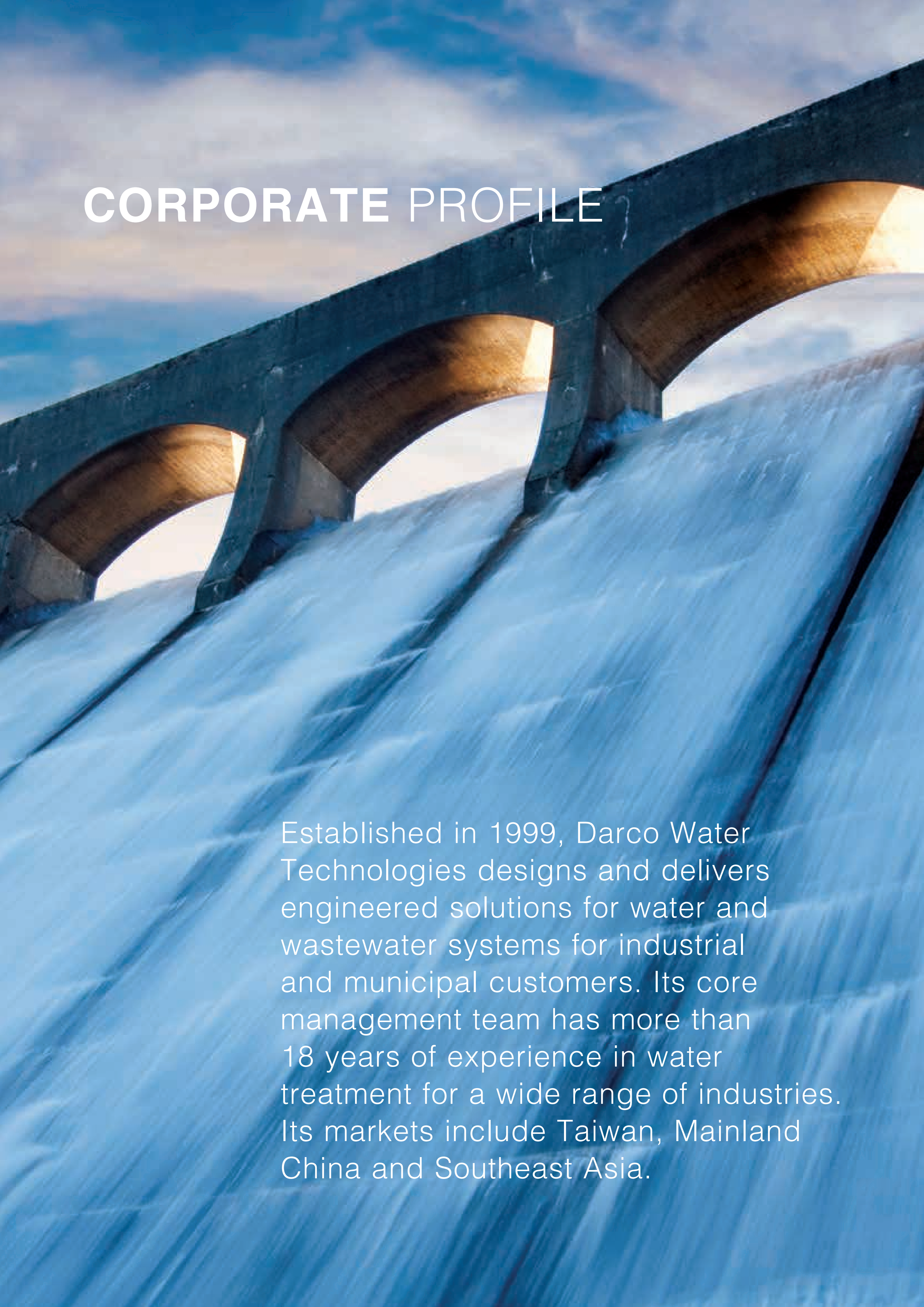


CORPORATE PROFILE

Established in 1999, Darco Water Technologies designs and delivers engineered solutions for 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.

CORPORATE PROFILE

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 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 believes 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. These service centres are supported by its trading division, which supplies essential chemicals and other products. The focus on providing exceptional service has helped Darco Water Technologies maintain an excellent record of customer retention – 90 per cent of its customers are repeat customers.

The company aims to provide complete solutions to customers' water problems 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 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, 21/2 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 from 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 21/2 years later and saw its sales 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.

The company's long-term business plan also includes attracting investors by building up Build-Own-Operate (BOO) assets, in the form of Real Estate Investment Trusts (REITs).

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

CORPORATE PROFILE

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 projects. 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.

CHAIRMAN'S STATEMENT

Dear Shareholders,

We achieved revenues of S$30.5 million in FY2013, with the Engineered Water Systems segment being the main revenue contributor, contributing S$14.6 million. In terms of geographical break-down, Malaysia and Taiwan remained as the key revenue drivers, contributing 52.5% and 29.8% of FY2013 revenue respectively.

Our loss was mainly attributed to, amongst others, the significant slowdown in the semiconductor industries in Malaysia, PRC and Taiwan leading to lower sales and margins from Engineered Environmental System and Water Management Services.

Last year, I reported on the status of our application to the Singapore Exchange Securities Trading Limited ("SGX-ST") and the initiatives we have taken with regards to resumption of trade of the Group's securities in my message. This year, I am pleased to announce that our Group's securities have resumed trading on the SGX-ST on 10 April 2014, following our voluntary suspension in 2012. Recent times have been testing, but we are glad to put this behind us. Going forward, we strive to continuously review and improve our operations.

PEOPLE'S REPUBLIC OF CHINA

Our disposal of the remaining 40.0% interest in Salcon Darco Environmental Pte. Ltd. ("Salcon Darco") has been completed on 29 July 2013. This follows our sale of the 60% stake in Salcon Darco in July 2012. Sales proceeds that we received have been used to settle certain syndicated term loan facilities. The remaining balance of the proceeds shall be used to fund general working capital requirements of the Group. Salcon Darco holds the direct interests of the 2 Build-Operate-Transfer ("BOT") drinking water projects in Deqing, PRC.

TAIWAN

In this financial year, our Taiwan subsidiary, Darco Engineering Taiwan, recorded a loss of S$4.4 million, which represents approximately 82% of the total Group loss of S$5.4 million. This loss mainly due to impairment of capital equipment that was used for soil remediation project, as well as having to fulfill contractual obligations from loss-making projects entered into in the previous years.

Following our 26th December 2012 announcement that our subsidiary Darco Puding Wastewater Management Co., Ltd. (the "SPV") would be filing a court order to terminate its BOT project in Taoyuan County Taiwan, and to seek compensation for failure on the County's part in honouring its contractual obligations, we made a further announcement on 17th Dec 2013 that the Taoyuan County Government had since resisted the SPV's action to rescind the contract. It had also ordered the Taoyuan Land Office to cancel the SPV's land use rights attached with the BOT contract. The SPV then applied for judicial review on the ground that the Land Office had acted illegally to cancel the Land Use Rights attached to the BOT contract. In relations to the Land Use Rights, the SPV has recently received a judgment in its favour. The trial for contract termination, however, is still on-going.

We have refrained from tendering for municipal projects in Taiwan and it is foreseeable that this demeanor shall remain so for some time. The Group is looking forward to bid for more soil remediation projects in the near future.

We are also pleased to inform that on 9th May 2013, Darco Engineering (Taiwan) Co., Ltd.'s ("DET") Former General Manager, Chen Kuai and Former Administrative, Nina Chiu have been formally charged by Taipei District Prosecutors Office for alleged fraud, breach of trust and misappropriating of company funds. Sixteen other suppliers have been charged for alleged complicity. We first reported to the Singapore Stock Exchange in March 2010 that the Group was concerned with the manner in which DET's accounts had been managed.

While it is not wrong for an employee to leave our Group after fulfilling all the employee's legal obligations, it is an offence to participate secretly in unlawful acts while still under the employment of our Company. To this end, the Group will take stern action against all those who have been found to have misappropriated and misused Darco's proprietary and confidential information or sabotage our business or those who have aided and abetted such persons.

MALAYSIA

On 13 August 2013, we announced that Darco Water Systems Sdn. Bhd. ("DWS") and Darco Industrial Water Sdn. Bhd. ("DIW"), have secured numerous environmental engineering project orders from the industrial sector amounting to approximately MYR$12.1 million worth from around Malaysia for delivery in FY2013 and first half of FY2014.

The most significant order comes from the semi-conductor manufacturing facility of Texas Instrument Malaysia in Ulu Klang and Melaka, which involves the upgrading of a 38m3/hr wastewater treatment plant. This contract has contributed an approximate MYR$6.0 million to the Order Book.

The six other orders of different contract values are placed by renowned food and agriculture, electronic, semi-conductor and automotive manufacturing facilities, operating across Malaysia. Amongst these orders, notable ones come from the food industry, i.e. Barry Callabaut Malaysia Sdn. Bhd. (approximately MYR$1.76 million), and Cargill (Malaysia) Sdn. Bhd. (approximately MYR$1.3 million).

Our continued success in the industrial services sector, which is the inner core of our business model, continues to be a strong testimony of Darco's resilience. We are pleased to see that our Malaysian Subsidiaries continue to be the front runner and the brand of choice with the major multinational companies.

On the other hand, we also lost significant business to a rival setup in its Penang operations of DIW, with a loss of approximately S$1 million from that subsidiary.

On 8 April 2014, we announced that we have entered into a final and amicable Settlement Agreement (the "Settlement") with our former employees, Grober Industrial Services Sdn Bhd and KIJ Ultra Supreme Filtration Sdn Bhd (the "Defendants"), wherein inter alia, the legal ownership and all current business of Grober Industrial Services Sdn Bhd, shall be transferred from the Defendants to the Group. The Settlement was in relation to our current legal action against the Defendants in Penang High Court, Malaysia against for breach of duties and conspiracy to divert Darco's business contracts during and after their employment. The total value of the Settlement is estimated to be approximately MYR$3 million.

We are pleased to be able to recover assets that are part of our business and this settlement is good news for all our customers, shareholders and other stakeholders who have placed their trust with us. Since the resignation of Yeoh Choo Seng (the former General Manager of DIW) in May 2012, we have promoted Mr Dhanalaraj A/L Sundaram from within the subsidiary to ensure continuity and we are pleased to report that DIW has been able to meet its customers' expectations without any concerns. Looking ahead, we will continue to work hard to make sure that our Malaysian subsidiaries remain the front runner and the brand of choice with our customers.

OUTLOOK

We operate significantly in the business of providing Water and Waste Water Services for the industrial sector. This sector has remained slow, and therefore, there has been no significant change in the demand for our services, consistent with previous years, and we have adopted a policy to reduce our activity in the municipal sector.

Prior to the resumption of trading, the Group refrained from tendering for new projects or committing ourselves for new investments such as BOT projects that would demand high working capital. We were also affected by the lack of funding in the current financial year as a result of having to repay bank borrowings significantly and were also limited in our capacity to raise funds.

Going forward, following the resumption of share trading, the Group will continue to engage in discussions to raise bank borrowings and funds. Darco has already identified a number of promising projects with prospects of improving our revenues.

IN APPRECIATION

I would like to welcome Mr Ang Kheng Hui, who joined us as an Independent Director in July 2013. He has years of experience in accounting, audit, as well as business and financial advisory and will be able to provide relevant expertise to the Group. Mr Ang was further appointed as Chairman of the Remuneration Committee and member of the Audit Committee and Nominating Committee, with effect from 17 July 2013. I would like to thank all members of our Audit Committee who have had to work over time to deal with financial reporting matters. Nonetheless, certain audit matters have had to be dealt with by the Board, as a consequence our Annual Report is late yet again. I have expressed that the Board will require a further revamp.

I would also like to congratulate Mr Yeoh Kim Kooi and Mr Tan Sze Leng, Steve, who have been appointed as the Group Financial Controller and the Group Chief Financial Officer in June 2013 and September 2013 respectively. Prior to the appointment, Mr Yeoh was the Company's financial controller for Malaysia's operations since October 2012. With his prior experience as an auditor and Finance Manager, Mr Yeoh will able to contribute his relevant expertise to the Group, in terms of overseeing the financial and accounting matters of the Group. Mr Tan possesses work experiences in reputable public accounting firms as an audit manager as well as relevant commercial experience as a group finance manager. The Nomination Committee was satisfied with the candidacy of Mr Tan based on his experience and credentials, and we are confident that he will be up to the task required. I would like to acknowledge too, the invaluable contributions of Joan Yeoh Ah Luan, formerly Group Financial Controller, who has resigned to pursue other career opportunities.

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 Group.

THYE KIM MENG
Chairman, Managing Director and Chief Executive Officer

BOARD OF DIRECTORS

MR THYE KIM MENG Malaysian, Aged 61
Chairman, 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. Mr Thye has more than 27 years of experience in design engineering applications in the field of water purification and wastewater treatment facilities, having served as Managing Director of Wheelabrator Engineered Systems (S) Pte Ltd, Vice-President (ASEAN, Business Development) of Wheelabrator Water Technologies (S) Pte Ltd and Senior Director/Technical Consultant with U.S. Filter (Asia) Pte Ltd and Darchet Engineering & Water Treatment Pte Ltd. Mr Thye graduated from the Polytechnic of Wolverhampton, England with a Bachelor of Science in Mechanical Engineering. He does not hold any directorships or chairmanships in other listed companies in Singapore.

MS HEATHER TAN CHERN LING Malaysian, Aged 33
Executive Director

Ms Heather Tan was appointed as an Executive Director (Finance) of our Company on 25 May 2006 and is currently a member of the Audit Committee.

Apart from coordinating legal matters for the Company, Ms Tan undertakes a new portfolio as the Director of Finance and Corporate Affairs. She is responsible for fundraising related matters including strategic planning for the Company. She provides support for the development and implementation of the Company's governance practices, as well as audit related matters.

Ms Tan graduated from the University of Melbourne in Chemical Engineering. She has a Western Mining Corporation award for excellence in Process Engineering. Obtaining a place on the Dean's Honours role, she has a publication in her name in the Journal of Applied Polymer Science for her research efforts on polymerization kinetics. Prior to joining Darco she held a short-term position as a researcher with Orica Adhesives and Resins in Australia.

MS TEO SIN YNG Malaysian, Aged 32
Executive Director

Ms Teo Sin Yng was appointed as an Executive Director (Engineering and Design) of the Company on 4 May 2011.

Ms Teo leads Darco's application engineers. She is responsible for standardizing the Group's water treatment and engineering process of Engineered Environmental System (EE System) business segment. She coordinates technical and commercial matters between the process, engineering and project management departments.

Ms Teo graduated from University Technology Malaysia, with a Bachelor of Chemical Engineering. She joined the Group in 2006. Prior to joining the Company, she was a testing engineer in Bureau Veritas, Singapore.

MR THYE ZE PIN, ZACH Malaysian, Aged 33
Executive Director

Zach was appointed as an Executive Director of the Company on 31 August 2012 and is currently a member of the Nominating Committee and member of Remuneration Committee.

Zach is the head of engineering operations in the Group for project management and water systems manufacturing. He has been with the Company for six 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. He 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, United Kingdom.

MR JOSHUA SIOW CHEE KEONG Canadian, Aged 59
Non-Executive Lead Independent Director

Mr Joshua Siow Chee Keong was appointed as a Non-Executive Lead 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 Certified Internal Auditor and a Certified Accountant. He is currently the managing director at JF Virtus Pte Ltd, responsible for directing all internal audit and risk management consultancy services to listed companies. Prior to this, he was the head of internal audit for the Singapore Exchange Limited. He has more than 30 years of internal and external auditing experience. He graduated with an 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.

MR NGIAM ZEE MOEY Singapore Citizen, Aged 58
Non-Executive Independent Director

Mr Ngiam Zee Moey was appointed as a Non-Executive Independent Director of our Company on 20 September 2012. He is the Chairman of the Nominating Committee and a member of the Audit Committee and Remuneration Committee. He is a director of various companies including Hosen Group Ltd, Zhongxin Fruit and Juice Limited and a number of private limited companies.

MR ANG KHENG HUI Singapore Citizen, Aged 43
Non-Executive Independent Director

Mr Ang Kheng Hui was appointed as a Non-Executive Independent Director of our Company on 17 July 2013. He is the Chairman of the Remuneration Committee and a member of the Audit Committee and Nominating Committee. He has more than 18 years of experience in accounting, audit, as well as business and financial advisory and the founder of Greater China Investment Holdings Pte Ltd. Mr Ang has founded several business and financial consulting firms and has been involved in a variety of cross border transactions, including Singapore, China and Hong Kong. Mr Ang graduated from the Nanyang Technological University with an honours degree in Accountancy in 1995 and is currently a Chartered Accountant with the ISCA and a Chartered Financial Analyst with the CFA Institute.

MR ROSS Y. LIMJOCO Singapore Permanent Resident, Aged 43, *Non-Executive Independent Director*

Mr Ross Y. Limjoco was appointed as a Non-Executive Independent Director of our Company on 5 May 2014.

He was the Chief Financial Officer and Joint Company Secretary of PSL Holdings Limited from November 2012 to April 2014.

Prior to PSL, he was the head of business advisory with BDO Advisory Pte Ltd (member firm of BDO LLP) spear heading the transaction advisory and corporate finance services.

He holds a Bachelor of Science in Business Administration from Philippine School of Business Administration Major in Accounting. He is a member of Institute of Singapore Chartered Accountants, Philippine Institute of Certified Public Accountants, Certified Fraud Examiner and International Association of Consultants, Valuators and Analysts.

MR TANG KAI MENG Singapore Citizen, Aged 43
Non-Executive Independent Director

Mr Tang Kai Meng was appointed as a Non-Executive Independent Director of our Company on 5 May 2014.

Prior to this, he was a fund manager with two local asset management houses, managing unit trust as well as corporate accounts. He later moved into the private banking industry as an Investment Advisor, firstly with SG Private Bank, followed by Citigroup Private Bank and finally DB Private Wealth Management (DB PWM).

He graduated from Nanyang Technological University (NTU) with a 2nd Upper Honours degree in B Bus, majoring in Financial Analysis. He is currently a Chartered Financial Analyst with CFA Institute.

KEY MANAGEMENT

MR TAN SZE LENG, STEVE Aged 40
Group Chief Financial Officer

Steve joined Darco as the Group Chief Financial Officer on September 2013. He is responsible for the Group overall financial related matters, including financial reporting, compliance and internal control implementation and taxation.

Prior to joining Darco, he has more than 10 years of external auditing and commercial experience with various professional firms and across a span of industries. He is a member of the Association of Certified Chartered Accountants (UK) and a Chartered Accountant (ICSA). He graduated with an MBA from the University of Warwick, England and serve as a member of Audit Committee with a Singapore Non-Profit Organisation.

MR YEOH KIM KOOI Aged 30
Group Financial Controller

Yeoh Kim Kooi, aged 30 year old, is the Group's Financial Controller and is responsible for the Group's financial and operation functions. Prior to the promotion as the Group Financial Controller, he was financial controller for our Group's Malaysia operation and the promotion was effective from 12 June 2013. He was admitted as member of the Association of Chartered Certified Accountants in year 2008 and is also a member of member of the Malaysian Institute of Accountants. Meanwhile, Mr Yeoh also holds Bachelor of Science with First Class Honours in Applied Accounting from Oxford Brookes University.

MR THYE KIM FAH Aged 63
General Manager

Thye Kim Fah, aged 62 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 20 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.

OPERATIONS REVIEW

INCOME STATEMENT REVIEW

Group revenue for 2013 was S$30.5 million, a 26.2% decline from $41.4 million in FY2012. This is due to lesser projects secured during the year.

SEGMENTAL CONTRIBUTION

Revenue from Engineered Environmental Systems ("EE Systems") declined 43.6% to S$14.5 million in FY2013 due mainly to lesser projects secured during the year, especially in Taiwan.

Revenue from Water Management Services ("WM Services") declined 14.5% to S$8.1 million in FY2013, as a result of termination of certain non-profitable service contracts in Penang, Malaysia.

Sales from the trading segment increased 29.0% to S$7.9 million in FY2013 because of higher chemical sales and spare parts.

FY2013
(S$'000)

14,553 Engineered Water System

8,105 Water Management Services

7,880 Trading Sales

30,538 Consolidated

FY2012
(S$'000)

25,784 Engineered Water System

9,485 Water Management Services

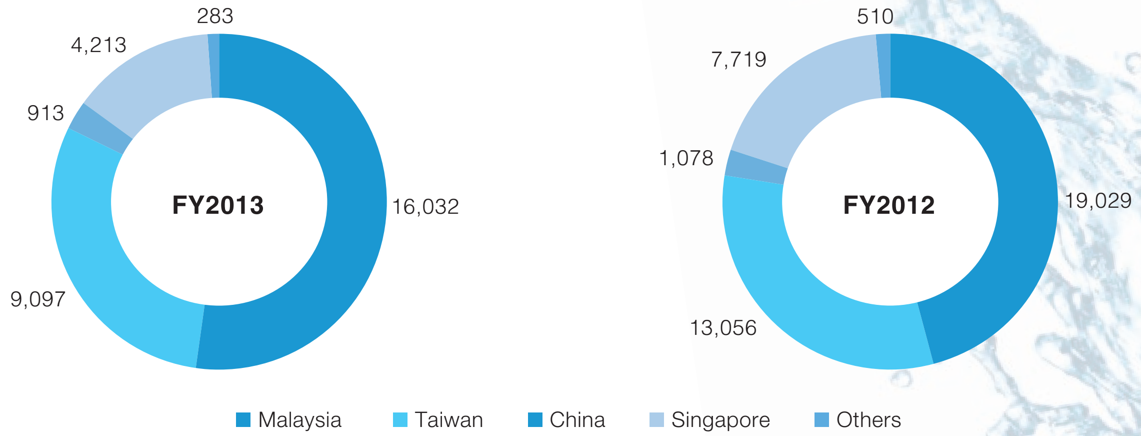
6,123 Trading Sales

41,392 Consolidated

OPERATIONS REVIEW

GEOGRAPHICAL CONTRIBUTION

(S$'000)



Revenue for the group is mainly derived from the Malaysia and Taiwan operation. Revenue from Malaysia contributed 52.5% of total FY2013 revenue as compared to 46.0% in FY2012.

Our Taiwan operation contributed 29.8% of total revenue in FY2013, as compared to 31.5% in FY2012.

The Group's overall gross profit margin recorded was S$5.5 million, or 18.0% in FY2013, as compared to 12.0% in FY2012. The improvement in margin is due to better costs control in operation overall.

The Group's administrative expenses increased by 22.2% year-on-year to S$11.7 million for FY2013, as the Group provided impairment for certain assets and a one-off non-recurring loss on disposal of a subsidiary.

Finance costs decreased significantly to S$0.6 million as a results of lesser loans took up by the Group during FY2013.

As a results, the Group's net loss for the year was reduced to S$5.4 million compared to S$6.2 million in FY2012.

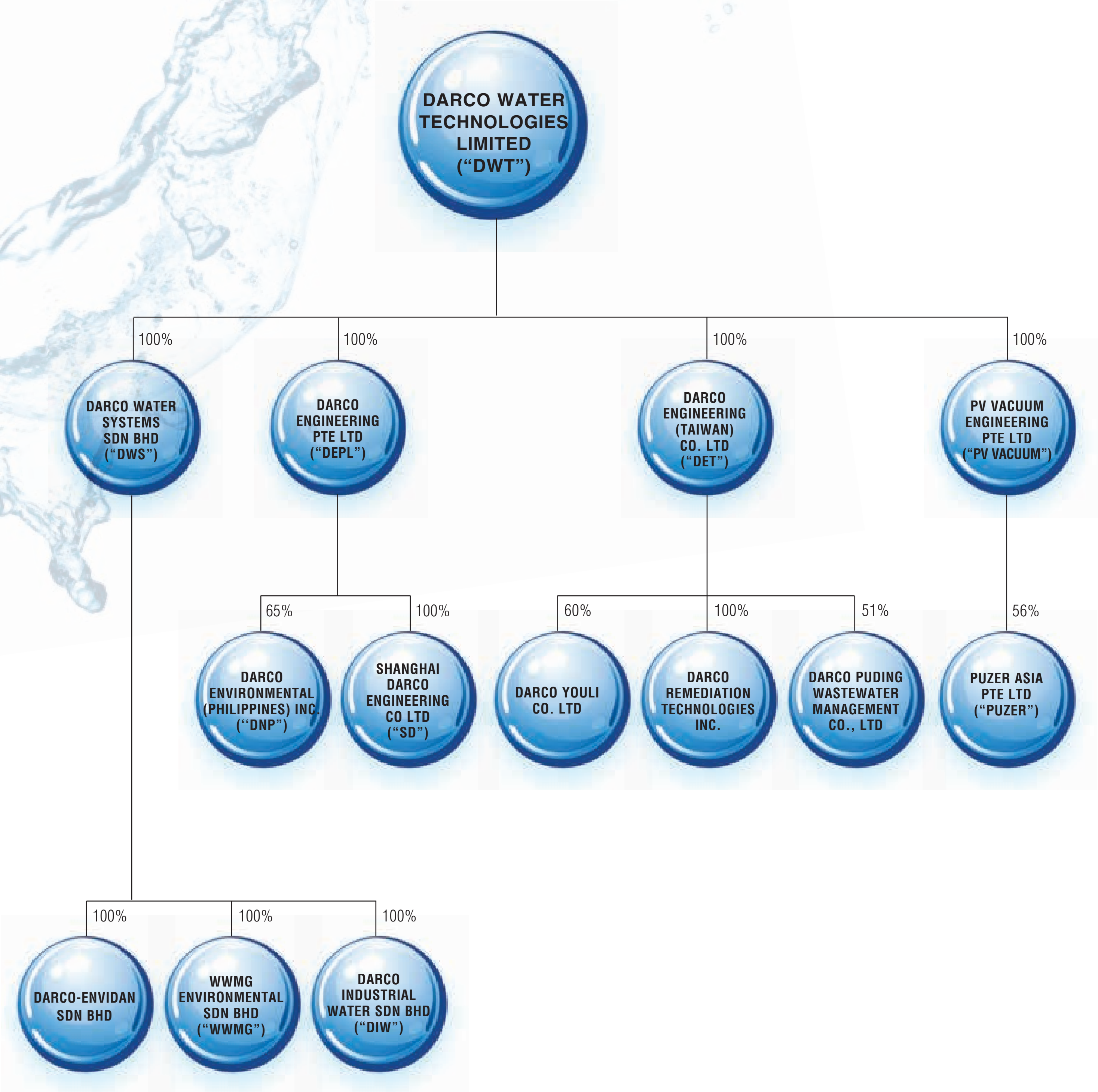
Current assets stood at S$23.9 million as at 31 December 2013. Current assets largely comprised of trade and other receivables of S$13 million and cash and cash equivalents of S$9.7 million. Non-current assets of S$5.6 million as at 31 December 2013 largely comprised of property, plant and equipment of S$4.6 million.

Included in the Current liabilities are mainly Borrowings of S$3.0 million and Trade and other payables of $12.8 million. Non-current liabilities comprised of borrowings of S$1.2 million.

Shareholders' equity decreased from S$16.1 million in FY2012 to S$10.2 million in FY2013 as a results of net loss for the year.

Net cash used in operating activities was S$0.3 million in FY2013, compared to cash outflow of S$6.3 million in FY2012. While cash flow generated from investing activities decreased from S$21.1 million in FY2012 to S$11.6 million in FY2013. Cash flow used in financing activities decreased from S$18.2 million in FY2012 to S$10.1 million in FY2013. Overall, the Group's cash and cash equivalents remained healthy at S$6.8 million as at 31 December 2013, as compared to S$5.7 million a year ago.

GROUP STRUCTURE



CORPORATE INFORMATION

BOARD OF DIRECTORS

Thye Kim Meng
(Chairman, Managing Director and Chief Executive Officer)

Heather Tan Chern Ling
(Executive Director)

Teo Sin Yng
(Executive Director)

Thye Ze Pin
(Executive Director)

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

Ngiam Zee Moey
(Non-Executive Independent Director)

Ang Kheng Hui
(Non-Executive Independent Director)

Ross Y. Limjoco (Appointed on 5 May 2014)
(Non-Executive Independent Director)

Tang Kai Meng (Appointed on 5 May 2014)
(Non-Executive Independent Director)

AUDIT COMMITTEE

Joshua Siow Chee Keong (Chairman)
Ngiam Zee Moey
Heather Tan Chern Ling
Ang Kheng Hui

NOMINATING COMMITTEE

Ngiam Zee Moey (Chairman)
Joshua Siow Chee Keong
Thye Ze Pin
Ang Kheng Hui

REMUNERATION COMMITTEE

Ang Kheng Hui (Chairman)
Ngiam Zee Moey
Joshua Siow Chee Keong
Thye Ze Pin

COMPANY SECRETARY

Shirley Tan Sey Liy (ACIS)

REGISTERED OFFICE

123 Woodlands Industrial Park E5
Woodlands E-Terrace
Singapore 757498
Tel: (65) 6363 3886
Fax: (65) 6362 2355

REGISTRAR AND SHARE TRANSFER OFFICE

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

AUDITORS

Baker Tilly TFW LLP
Public Accountants and Chartered Accountants,
Singapore
15 Beach Road
#03-10 Beach Centre
Singapore 189677

Partner-in-charge: Joshua Ong Kian Guan
(appointment effective from financial year
ended 31 December 2011)

OUR REGIONAL PRESENCE

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 **GOVERNANCE**

For the financial year ended 31 December 2013

Darco Water Technologies Limited (the "Company") and its Subsidiaries (collectively known as the "Group") are committed to maintaining a high standard of measures, practices and transparency in the disclosure of material information in line with those set out in the Code of Corporate Governance 2012 (the "Code").

The Company has established various self-regulating and monitoring mechanisms for effective corporate governance in discharging its responsibilities to protect and enhance shareholder value and financial performance of the Group.

This report describes the Company's corporate governance processes and structures that were in place throughout the financial year 31 December 2013, with specific reference made to the principles and guidelines of the Code which forms part of the Continuing Obligations of the Singapore Exchange Securities Trading Limited's (the "SGX-ST") Listing Manual.

Steps have been taken, as far as practicable, towards continued compliance to the principles and guidelines with the recommendations in the Code, taking into account the size of the Group's business and organization structure, and the Board of Directors (the "Board") is pleased to report on the Company's efforts to adhere to the principles and guidelines as set out in the Code for the financial year ended 31 December 2013. Where there are areas of non-compliance, the reasons have been set out in the following section of the Annual Report.

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 long-term success of the Company. The Board works with Management to achieve this objective and the Management remains accountable to the Board.

The Board's key responsibilities include providing entrepreneurial leadership and supervision to the Management of the Company and the Group with a view to protect shareholders' interests, enhance long-term shareholders' value and safeguard the Company's assets.

The Board's principal responsibilities are to:

(a) guide the formulation of the Group's overall long-term strategic objectives and directions through entrepreneurial leadership, including 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; and

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

All Directors objectively discharge their duties and responsibilities at all times as fiduciaries and take decisions in the interests of the Company.

CORPORATE **GOVERNANCE**

For the financial year ended 31 December 2013

To assist the Board in the execution of its responsibilities, the Board is supported by three key Board Committees namely Audit Committee ("AC"), Remuneration Committee ("RC") and Nominating Committee ("NC") (collectively, "Board Committees"), which are delegated with specific responsibilities. The Board Committees operate within clearly defined terms of reference or scope and they play an important role in ensuring good corporate governance in the Company and within the Group. The terms of reference of the Board Committees are reviewed on a regular basis to ensure their continued relevance.

The Board meets regularly to approve matters relating to announcements of financial results, annual report, 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 the 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 attendances of the Directors at these meetings during the financial year are as follows:

		Board Committees		
Board/Board Committees	**Board**	**AC**	**RC**	**NC**
No. of meetings held	2	5	1	1
Directors				
Joshua Siow Chee Keong	2	4	1	1
Ngiam Zee Moey	2	5	1	1
Thye Kim Meng	2	1*	1*	1*
Heather Tan Chern Ling	2	5	1*	1*
Teo Sin Yng	2	1*	1	1*
Thye Ze Pin	2	1*	1*	1
Ang Kheng Hui(1)	1	3	–	–
Ross Y. Limjoco(2)	n.a.	n.a.	n.a.	n.a.
Tang Kai Meng(2)	n.a.	n.a.	n.a.	n.a.

(1) Mr Ang Kheng Hui was appointed as Independent Director with effect from 17 July 2013
(2) Mr Ross Y. Limjoco and Mr Tang Kai Meng were appointed as the Independent Directors on 5 May 2014
* By invitation

The Board has first adopted the Group Charter in FY2003 and is undergoing continuous updates and review by the Board. The Group Charter sets out the Group's internal guidelines for material contracts and investments exceeding a specified amount. This Group Charter also forms part of our Group's risk management process, which ensures

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that all contracts entered into, and investments made by the Group, of a material contract sum are approved by the appropriate level of management, up to the Board level.

The Board has adopted a set of internal guidelines setting forth matters that require Board approval. 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 Chief Executive Officer ("CEO") has been advising our Directors of the changing commercial and business risks facing by our Company. Annually, the external auditors update the AC and the Board on the new and revised financial reporting standards that are applicable to the Company or the Group.

The Directors are also updated regularly with changes to the SGX-ST Listing Rules, risk management, corporate governance, insider trading and the key changes in the relevant regulatory requirements and financial reporting standards and the relevant laws and regulations to facilitate effective discharge of their fiduciary duties as Board or Board Committees members.

Appropriate briefing and orientation will be arranged for newly appointed Directors to familiarise them with the Group's business operations, strategic directions, Directors' duties and responsibilities and the corporate governance practices. They will also be given opportunities to visit the Group's operational facilities and meet the Management so as to gain a better understanding of the Group's business. Newly appointed Directors receive appropriate training, if required.

The Directors are encouraged to attend seminars and receive training to improve themselves in the discharge of Directors' duties and responsibilities. Changes to regulations and accounting standards are monitored closely by the Management. To keep pace with such regulatory changes, the Company provides opportunities for ongoing education and training on Board processes and best practices as well as updates on changes in legislation and financial reporting standards, regulations and guidelines from the SGX-ST Listing Rules that affect the Company and/or the Directors in discharging their duties.

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. The Company will provide a formal letter to newly appointed Directors upon their appointment explaining their statutory duties and responsibilities as Directors.

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 and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board comprises four Executive Directors and five Non-Executive Independent Directors. Therefore, at least half of the Board members are independent. Together, the Directors bring a wide range of business and financial experience relevant to the Group.

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Name of Directors	Board	AC	NC	RC
Thye Kim Meng	Chairman, Managing Director and CEO	–	–	–
Heather Tan Chern Ling	Executive Director	Member	–	–
Teo Sin Yng	Executive Director	–	–	–
Thye Ze Pin	Executive Director	–	Member	Member
Joshua Siow Chee Keong(1)	Non-Executive Lead Independent Director	Chairman	Member	Member
Ngiam Zee Moey	Non-Executive Independent Director	Member	Chairman	Member
Ang Kheng Hui(2)	Non-Executive Independent Director	Member	Member	Chairman
Ross Y. Limjoco(3)	Non-Executive Independent Director	–	–	–
Tang Kai Meng(3)	Non-Executive Independent Director	–	–	–

(1) Mr Joshua Siow Chee Keong was appointed as the Lead Independent Director on 21 March 2014.
(2) Mr Ang Kheng Hui was appointed as the Independent Director, Chairman of the RC and member of the AC and NC on 17 July 2013.
(3) Mr Ross Y. Limjoco and Mr Tang Kai Meng were appointed as the Independent Directors on 5 May 2014.

The Board's composition meets the requirements of the Code. While the Chairman, Mr Thye Kim Meng is part of the Management team and is not considered independent, there is presently a strong and independent element on the Board as half of the Board comprises of Independent Directors.

The NC considers an "independent" Director as one who has no relationship with the Company, its related corporations or its officers that could interfere or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment with a view to the best interests of the Company.

The NC has reviewed and determined that the Independent Directors, namely Mr Ang Kheng Hui, Mr Joshua Siow Chee Keong, Mr Ngiam Zee Moey, Mr Ross Y. Limjoco and Mr Tang Kai Meng are independent and are able to exercise independent judgement.

The Independent Directors have confirmed that they do not have any relationship with the Company, its related companies, its 10% shareholders 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 Non-Executive Directors and Independent Directors participate actively during Board meetings. The Company has benefited from the Management's access to its Directors for guidance and exchange of views both within and outside of the meetings of the Board and Board Committees. The Non-Executive Directors and Independent Directors communicate amongst themselves and with the Company's auditors and Senior Management.

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There is no Independent Director who has served on the Board beyond nine years from the date of his first appointment up till 31 December 2013.

The NC has reviewed the size and composition of the Board. The NC and 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, business management experience and industry knowledge that provide effective governance and stewardship for the Group.

Non-Executive Directors and Independent Directors exercise no Management functions in the Group. The role of the Non-Executive Directors and Independent Directors is particularly important in ensuring that the strategies proposed by the Management are fully discussed and rigorously examined and reviewing the performance of the Management in meeting agreed goals and objectives and monitoring the reporting of performance.

When necessary, the Company co-ordinates informal meetings for Non-Executive Directors and Independent Directors to meet without the presence of the Executive Directors and/or the Management.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the Company's business. No one individual represents a considerable concentration of power.

Although the Code states that the roles of the Chairman and the CEO 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 CEO are assumed by one of the Executive Directors, Mr Thye Kim Meng, who also holds the position of Managing Director.

The Board 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 responsibilities of the Chairman include:

(1) Scheduling of meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Group's operations;

(2) Ensuring that Directors receive accurate, timely and clear information, and ensuring effective communication with shareholders;

(3) Ensuring the Group's compliance with the Code; and

(4) Acting in the best interest of the Group and of the shareholders.

CORPORATE **GOVERNANCE**

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The Chairman is guided by recommendations provided by the Company Secretary, the Chairman of the AC, NC, RC and the Company's Chief Financial Officer.

The Company is in compliance with the Guideline 3.3 of the Code where the Board had appointed Mr Joshua Siow Chee Keong as the Lead Independent Director on 21 March 2014 to co-ordinate and to lead the Independent Directors to provide a non-executive perspective and contribute to a balance of viewpoints on the Board. He is the main liaison on Board issues between the Independent Directors and Chairman. He is available to shareholders where they have concerns which contact through the normal channels of the Chairman and CEO or Chief Financial Officer has failed to resolve or is inappropriate.

The Independent Directors, led by the Lead Independent Director, meet amongst themselves without the presence of the other Directors where necessary, and the Lead Independent Director will provide feedback to the Chairman after such meetings.

Board Membership

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

The NC comprises three Non-Executive Independent Directors and one Executive Director, majority of whom, including the Chairman are Independent Directors.

Nominating Committee

Mr Ngiam Zee Moey (Chairman)
Mr Ang Kheng Hui
Mr Joshua Siow Chee Keong
Mr Thye Ze Pin

Mr Ang Kheng Hui has been appointed as the member of the NC on 17 July 2013 so as to strengthen the composition of the NC.

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

Based on the NC's written terms of reference approved by the Board, the principal functions of the NC are to:

- Review on an annual basis the terms of reference of the NC, composition of the NC and the size of the Board with a view to determining the impact of the number upon effectiveness;
- Review on an annual basis the required expertise of the Directors to ensure that the Directors have the adequate relevant competencies to discharge their respective functions, and to ensure that there is balance in competencies;
- Assess the effectiveness of the Board as a whole;

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For the financial year ended 31 December 2013

- Review and make recommendations on all nominations for appointments and all re-nomination/re-election of Directors; and
- Determine the Directors' independence on an annual basis.

In selecting and appointing Directors (including new Directors), the NC will, at least once every year, review and thereafter, make recommendations to the Board regarding the Board structure, size, composition and core competencies. The NC will review and make recommendations to the Board on all candidates nominated for appointment to the Board, after taking into account the candidate's track record, age, experience, capabilities and other relevant factors.

The NC, in considering the re-appointment of any Director, had considered but not limited to attendance record at meetings of the Board and Board committees, intensity of participation at meetings, and the quality of contributions to the development of strategy, the degree of preparedness, industry and business knowledge and experience each Director possesses which are crucial to the Group's business.

In accordance with the Articles of Association of the Company, each Director shall retire by rotation and all Directors appointed by the Board will have to retire at the next Annual General Meeting ("AGM") following their appointments (such Director shall then be eligible for re-election at that AGM).

The NC has recommended the re-appointment of Mr Ang Kheng Hui, Mr Thye Ze Pin, Ms Teo Sin Yng, Mr Ross Y. Limjoco and Mr Tang Kai Meng, the Directors retiring under the Company's Articles of Association. The Board accepted the NC's recommendation.

Mr Thye Ze Pin and Ms Teo Sin Yng have expressed to the Board that they will not be seeking re-election at this AGM due to their personal commitment and the Board noted their retirement and thank them for their past contributions to the Company.

In reviewing the nomination of the retiring Directors, the NC considered the performance and contribution of each of the retiring Directors, having regard not only to their attendance and participation at Board and Board Committees meetings but also the time and efforts devoted to the Group's business and affairs.

The NC conducted an annual review of Directors' independence and based on the definition of independence as set out in the Code, the NC is of the view that Mr Ang Kheng Hui, Mr Ngiam Zee Moey, Mr Joshua Siow Chee Keong, Mr Ross Y. Limjoco and Mr Tang Kai Meng are considered independent.

Despite some of the Directors having other Board representations, the NC is satisfied that these Directors are able to and have adequately carried out their duties as Directors of the Company. Currently, the Board has not determined the maximum number of listed Board representations which any Director may hold. The NC and the Board will review the requirement from time to time to determine the maximum number of listed Board representations to ensure that Directors are able to meet the demands of the Group and are able to discharge their duties adequately.

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There is no alternate director being appointed to the Board.

The key information regarding Directors such as academic and professional qualifications, Board Committees served, Directorships or Chairmanships both present and past held over the preceding three years in other listed companies and their major appointments, whether the appointment is executive or non-executive are set out in page 35 of the Annual Report.

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and its board committees 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 and its Board Committees for assessing the contribution by the Chairman and each individual Director. Each Director was required to complete a Board evaluation form adopted by the NC, which will be collated by the Chairman for review or discussion. The NC 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 in assessing the Board's performance as a whole.

The NC reviews and determines the independence of each Director and assesses the effectiveness of the Board as a whole. 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 2013 due to the active participation of each Board member during each meeting.

Although the Directors are not evaluated individually, the factors taken into consideration with regards to the re-nomination of Directors for the financial year ended 31 December 2013 are based on their attendance and contributions made at the Board and Board Committees meetings.

Access to Information

Principle 6: In order to fulfil their responsibilities, Directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

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 meetings, financial results announcements, and reports from the Board Committees, internal auditors and external auditors, including related materials, background or explanatory information relating to matters to be brought before the Board.

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The members of the Board have independent access to the Management and the Company Secretary, and are provided with adequate background information prior to Board meetings. The 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.

The Company Secretary or her representative administers, attends and prepares minutes of the Board meetings and Board Committees meetings and assists the Chairman of the Board and/or the AC, NC and RC in ensuring proper procedures at such meetings are followed and reviewed so that the Board and the Board Committees function effectively. The appointment and removal of the Company Secretary is subject to the approval of the Board.

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 developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his own remuneration.

The RC comprises three Non-Executive Independent Directors and one Executive Director, majority of whom, including the Chairman are Independent Directors.

Remuneration Committee

Mr Ang Kheng Hui	(Chairman)
Mr Ngiam Zee Moey	
Mr Joshua Siow Chee Keong	
Mr Thye Ze Pin	

Mr Ang Kheng Hui has been appointed as the Chairman of the RC on 17 July 2013.

The RC does not comprise wholly of Non-Executive Directors as recommended by the Code, as the Board opines that the presence of an Executive Director in the RC will facilitate the flow of information between the RC and the Company.

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.

CORPORATE **GOVERNANCE**

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The RC is regulated by its terms of reference and its key functions include:

- Reviewing and recommending to the Board a framework of remuneration and specific remuneration packages for all Directors of the company;
- Reviewing and recommending to the Board the terms of renewal for those Executive Directors whose current employment contracts will expire or had expired;
- Considering the various disclosure requirements for Directors' remuneration, particularly those required by regulatory bodies such as SGX-ST and to ensure that there is adequate disclosure in the financial statements to ensure and enhance transparency between the Company and relevant interested parties;
- Overseeing the award of share options and the payment of fees to Non-Executive Directors and to ensure, as far as is possible, that the quantum commensurate with the Non-Executive Directors' contribution to the Board and the Company; and
- Retaining such professional consultancy firm as the RC may deem necessary to enable it to discharge its duties hereunder satisfactory.

Non-Executive Directors are paid at fixed fees as Directors' fees. The fee is subject to shareholders' approval at the AGM.

Each Director shall abstain from voting on any resolution in respect of their own remuneration package.

The RC has full authority to engage any external professional advice on matters relating to remuneration as and when the need arises. The expense of such services shall be borne by the Company.

In reviewing the service agreements of the Executive Directors and key management personnel of the Company, the RC will review the Company's obligations arising in the event of termination of these service agreements, to ensure that such service agreements contain fair and reasonable termination clauses which are not overly generous. The RC aims to be fair and avoid rewarding poor performance.

Level and Mix of Remuneration

Principle 8: The level of remuneration should be aligned with the long-term interest and risk policies of the Company, and should be appropriate to attract, retain and motivate (a) the Directors to provide good stewardship of the Company, and (b) key management personnel to successfully manage the Company. However, companies should avoid paying more than is necessary for this purpose.

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 Company does not have any employee share option scheme or any long-term incentive scheme in place.

The Non-Executive Independent Directors are paid Directors' fees of an agreed amount 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 AGM.

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The Company does not use contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. The Executive Directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties.

Disclosure of Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policies, 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 for the financial year ended 31 December 2013 is set out below:

Remuneration Bands & Name of Directors	Salaries, including CPF	Variable Bonus	Director's Fees	Total
Below $250,000				
Thye Kim Meng	53%	–	47%	100%
Teo Sin Yng	71%	–	29%	100%
Heather Tan Chern Ling	65%	–	35%	100%
Thye Ze Pin	72%	–	28%	100%
Joshua Siow Chee Keong	–	–	100%	100%
Ngiam Zee Moey	–	–	100%	100%
Ang Kheng Hui(1)	–	–	100%	100%

(1) Mr Ang Kheng Hui was appointed as the Independent Director on 17 July 2013.

The remuneration of the top five key management personnel (who are not Directors of the Company) whose remuneration fell within the following ranges for the financial year ended 31 December 2013 are as follows:

Remuneration Bands & Name of Key Management Personnel	Salaries, including CPF	Variable Bonus	Total
Below $250,000			
Thye Kim Fah	100%	–	100%
David Heng	100%	–	100%
Ang Kar Yen	100%	–	100%
Tan Sze Leng(1)	100%	–	100%
Yeoh Kim Kooi(2)	100%	–	100%

(1) Mr Tan Sze Leng was appointed as Group Chief Financial Officer on 23 September 2013.
(2) Mr Yeoh Kim Kooi was appointed as Group Financial Controller on 12 June 2013.

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Mr Thye Kim Fah is the brother of Mr Thye Kim Meng, who is the Managing Director and CEO of the Company. Save as aforementioned, no employee, who is related to a Director or the CEO earned more than S$50,000 during the year under review. The Group does not have a share option scheme.

In view that remuneration matters are confidential and commercially sensitive, the Board is of the opinion that it is in the best interests of the Group not to disclose the exact remuneration of each individual Director, CEO, and the aggregate remuneration of the top five key management personnel (who are not directors nor CEO) in the Annual Report. The Board is of the opinion that the information disclosed in the Annual Report strikes an appropriate balance between detailed disclosure and confidentiality.

Accountability and Audit

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

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 shareholders when necessary, and where required by the regulators.

The Board will take adequate steps to ensure compliance with legislative and regulatory requirements, including requirements under the listing rules of the securities exchange, for instance, by establishing written policies where appropriate.

The Management is accountable to the Board, and provides members of the Board with a balanced and understandable account of the Company and its subsidiaries performance, financial position and prospects on a monthly basis and as the Board may require from time to time to enable the Board to make a balanced and informed assessment of the Company's performance, position and prospects.

Risk Management and Internal Controls

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Board recognises that the internal control system provides reasonable, but not absolute, assurance to the integrity and reliability of the financial information and to safeguard the accountability of the assets of the Group. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives.

CORPORATE **GOVERNANCE**

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The Board, having considered various factors, including the aforementioned system of internal controls currently in place, the number of offices and factories the Group has, the nature and complexity of its operations as well as cost-effectiveness, the Group currently has not set up a separate internal audit function. The AC will consider the assessment and monitoring of the adequacy and effectiveness of the Group's internal controls via Control Self-Assessment ("CSA") performed by the Management annually. Also, the AC shall continue to outsource the internal audit function, and have the internal auditor review the CSA, as and when the need arises, to enhance the system of internal controls.

In addition, the AC will review the Group's internal controls and risk management practices annually, taking into consideration the risks to which the business is exposed to, the likelihood of the occurrence of such risks and the cost of implementing mitigating controls. Based on the internal controls established and maintained by the Group, statutory audit work performed by the external auditors, the audits conducted by the internal auditors as well as risk self-assessment performed by the Management, the Board with the concurrence of the AC are of the opinion that the Group's internal controls, addressing financial, operational, compliance and information technology risks as well as risk management system, are adequate and effective as at 31 December 2013.

The Board recognises its responsibilities over the governance of risks and has set in place management procedures for ensuring a sound system of risk management and internal controls. These procedures include introducing a structured Enterprise Risk Management ("ERM") programme to the Group, the Management reviews of key transactions, and the assistance of independent consultants such as the Group's external and internal auditors to review financial statements and internal controls covering key risk areas.

During the year, the Board together with the Management has been actively engaged in strategic transactions and corporate right-sizing exercises. The internal re-organisation will include an internal control review to ensure proper delegation of authorities and accountability in order to exercise management controls over the operations.

Currently, the Group has in place a system of internal controls that address financial, operational, compliance and information technology risks to safeguard shareholders' investment and the Group's assets. The internal controls maintained by the Management are in place throughout the financial year to provide reasonable assurance against material financial misstatements or loss, and include the safeguarding of assets, the maintenance of proper accounting records, compliance with appropriate legislation, regulations and best practices, and the identification and containment of operational and business risks. The internal controls shall be subjected to an annual internal audit to ensure adequacy and effectiveness.

The CEO and the Chief Financial Officer have assured the Board that:

(a) The financial records have been properly maintained and the financial statements for the financial year ended 31 December 2013 give a true and fair view of the Company's operations and finances; and

(b) The Group's risk management and internal control systems are effective.

CORPORATE **GOVERNANCE**
For the financial year ended 31 December 2013

Audit Committee

Principle 12: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The AC comprises three Non-Executive Independent Directors and one Executive Director, majority of whom, including the Chairman are Independent Directors.

Audit Committee

Mr Joshua Siow Chee Keong (Chairman)
Mr Ngiam Zee Moey
Mr Ang Kheng Hui
Ms Heather Tan Chern Ling

Mr Ang Kheng Hui has been appointed as the member of the AC on 17 July 2013.

The AC does not comprise wholly of Non-Executive Directors as recommended by the Code, as the Board opines that the presence of an Executive Director in the AC will facilitate the flow of information between the AC and the Company.

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 written terms of reference, setting out their duties and responsibilities, which include the following:

1. Review with the external auditors their audit plan, audit report, management letter and the management's response;
2. Review the half-year and annual financial statements before submission to the Board for approval;
3. Discuss problems and concerns, if any, arising from the external and internal audits, if any, and any matters which the auditors may wish to discuss (in the absence of Management where necessary);
4. Review the assistance given by the Management to the auditors;
5. Review the internal audit programme and ensure co-ordination between the internal and external auditors and management, where applicable;
6. Review and discuss with the external auditors, any suspected fraud or irregularity, or suspected infringement of any Singapore law, rules or regulations, which has or is likely to have a material impact on the Company's operation results or financial position, and Management's response;
7. Report to the Board its findings from time to time on matters arising and required the attention of the AC;
8. Review interested person transactions falling within the scope of Chapter 9 of the SGX Listing Manual;
9. Undertake such other reviews and projects as may be requested by the Board;

CORPORATE **GOVERNANCE**
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10. Undertake such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time; and
11. Consider and recommend to the Board, the appointment/re-appointment of the external auditors, the audit fee and matters relating to the resignation or dismissal of the auditors.

The AC has the powers to investigate any matter within its terms of reference, have full access and cooperation from the 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.

Changes to accounting standards and issues which have a direct impact on financial statements will be highlighted to the AC from time to time by the external auditors. The external auditors will work with the Management to ensure that the Group complies with the new accounting standards, if applicable. No former partner or Director of the Company's existing auditing firm has acted as a member of the AC.

Annually, the AC meets with the external auditors and internal auditors without the presence of the Management and conducts a review of all non-audit services provided by the auditors. The AC has reviewed all non-audit services provided by the external auditors to the Company and is satisfied that the extent of such services provided will not prejudice the independence and objectivity of the external auditors. The amount paid and payable to external auditors for audit and non-audit services fees were S$277,000 and S$6,000 respectively, for the financial period under review. In appointing the audit firms for the Group, the Company has complied with the requirements of Rules 712 and 716 of the Listing Manual of the SGX-ST.

Whistle-blowing Policy

The Company has in place a Whistle-Blowing Policy and Procedures for reporting impropriety in matters of financial reporting and other matters, by which the staff may raise concerns about possible corporate improprieties in matters of financial reporting or other matters in confidence.

To ensure independent investigation of such matters and for appropriate follow up action, all whistle-blowing reports are to be sent to the Chairman of AC. For independent follow-up or investigation, whistle-blowing report(s) will be communicated and directed to the Chairman of the AC. New staffs are briefed on these during the orientation programme.

As of to-date, there were no reports received through the whistle-blowing mechanism.

CORPORATE **GOVERNANCE**

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Internal Audit

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

The internal audit function is outsourced to BDO LLP who report primarily to the AC. BDO LLP is an international auditing firm and they perform their work based on the BDO Global Internal Audit Methodology which is consistent with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

The AC reviews and approves the internal audit plan submitted by the internal audit function. On an ongoing basis, the internal audit function reports any significant weaknesses and risks identified in the course of internal audits conducted to the AC. Recommendations to address control weaknesses are further reviewed by the internal audit function based on implementation dates agreed with the Management.

The AC also review, at least annually, the adequacy and effectiveness of the internal audit function including the qualifications and experience of the internal audit staff assigned to perform the reviews.

The AC is satisfied that the internal audit function has adequate resources to perform its function effectively and is staffed by suitably qualified and experienced professionals with relevant experience. The AC approves the hiring, removal, evaluation and compensation of the internal auditor, who has unfettered access to all the Company's documents, records, properties and personnel, including access to the AC.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

SHAREHOLDER RIGHTS

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights and continually review and update such governance arrangements.

The Company does not practise selective disclosure. In line with the continuous obligations of the Company under the SGX-ST Listing Manual and the Companies Act, Chapter 50, the Board's policy is that all shareholders should equally and on a timely basis be informed of all major developments that impact the Group via SGXNet.

All shareholders of the Company receive the Annual Report and notice of AGM. At general meetings of shareholders, shareholders are given the opportunity to voice their views and ask Directors or Management questions regarding the Company's affairs. If any shareholder is unable to attend, he/she is allowed to appoint up to two proxies to vote on his/her behalf at the meeting through proxy forms sent in advance. The Company's current Articles of Association does not include the nominee and custodial services to appoint more than two proxies.

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For the financial year ended 31 December 2013

COMMUNICATION WITH SHAREHOLDERS

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company believes in high standards of transparent corporate disclosure and is committed to disclose to its shareholder, the information in a timely and fair manner via SGXNet. Where there is inadvertent disclosure made to a selected Group, the Company will make the same disclosure publicly to all others as soon as practicable. Communication is made through:

- annual reports that are prepared and sent to all shareholders. The Board ensures that the annual report includes all relevant information about the Company and the Group, including future developments and other disclosures required by the Companies Act, Chapter 50 and Singapore Financial Reporting Standards;
- quarterly announcements containing a summary of the financial information and affairs of the Group for that period; and
- notices of explanatory memoranda for AGMs and Extraordinary General Meetings ("EGMs"). The notice of AGMs and EGMs are also advertised in a national newspaper.

Although the Company does not has a team of investor relations personnel, the Company's website at http://www.darcowater.com/ at which our shareholders can access financial information, corporate announcements, press releases, annual reports and profile of the Group.

Price-sensitive information is first publicly released through SGXNet, either before the Company meets with any investors or analysts. All shareholders of the Company will receive the annual report with an accompanying notice of AGM by post. The notice of AGM is also published in the newspaper within the mandatory period.

The Company does not have a formal dividend policy. The form, frequency and amount of dividends will depend on the Company's earnings, general financial condition, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the Directors may deem appropriate.

Dividends were not paid for in FY2013 as the Company was loss-making for the year.

CONDUCT OF SHAREHOLDER MEETINGS

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the Company.

The shareholders are encouraged to attend the Company's general meetings to ensure a high level of accountability and to stay informed of the Group's strategies and growth plans. Notice of the general meeting is dispatched to shareholders, together with explanatory notes or a circular on items of special businesses (if necessary), at least 14 clear calendar days before the meeting. The Board welcomes questions from shareholders who wish to raise issues, either informally or formally before or during the general meetings.

CORPORATE **GOVERNANCE**

For the financial year ended 31 December 2013

Each item of special business included in the notice of the general meetings will be accompanied by explanation of the effects of a proposed resolution. Separate resolutions are proposed for each substantially separate issue at general meetings.

The Chairman of the AC, NC and RC are normally present and available to address questions relating to the work of their respective Board Committees at general meetings. Furthermore, the external auditors are present to assist our Board in addressing any relevant queries by our shareholders.

DEALING IN COMPANY'S SECURITIES

In compliance with Rule 1207(19) of the Listing Manual of the SGX-ST, the Company has adopted its own internal compliance code to provide guidance for all its Officers in relation to their dealings in the Company's securities.

The Company and its Officers 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 and Officers 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. In addition, Directors and officers are also expected to observe insider-trading laws at all times even when dealing in securities within the permitted trading period and they are not to deal in the Company's securities on short-term considerations.

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, either still subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

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 to ensure that all transactions with interested persons are reported on a timely manner to the AC, if any, and that transactions are carried out on a normal commercial terms and will not be prejudicial to the interest of the Company and its minority Shareholders.

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

CORPORATE **GOVERNANCE**

For the financial year ended 31 December 2013

PARTICULARS OF DIRECTORS PURSUANT TO THE CODE OF CORPORATE GOVERNANCE

Name of Director	Academic/Professional Qualifications	Board Appointment Executive/Non-executive	Board Committees as Chairman or Member	Directorship Date First Appointed	Date of Last re-election	Directorships in other listed companies and other major appointments	Past directorships in other listed companies and other major appointments over the preceding 3 years
Thye Kim Meng	Bachelor of Science in Mechanical Engineering from Polytechnic of Wolverhampton, England	Chairman, Managing Director and CEO	Board Chairman	13 October 2001	31 August 2012	Nil	Nil
Thye Ze Pin	B.Eng (1st Class Honours) in Mechanical Engineering from University of New South Wales, Australia and M.Sc in Water and Wastewater Engineering from Loughborough University, UK	Executive Director	Board Member and Member of NC and RC	31 August 2012	31 August 2012	Nil	Nil
Heather Tan Chern Ling	Bachelor of Engineering, Chemical (1st Class Honours) from The University of Melbourne, Australia	Executive Director	Board Member and Member of AC	25 May 2006	31 August 2012	Nil	Nil
Teo Sin Yng	Bachelor of Chemical Engineering from University Technology Malaysia	Executive Director	Board Member	4 May 2011	29 July 2011	Nil	Nil
Joshua Siow Chee Keong	MBA from the University of Warwick, England	Lead Independent Director	Board Member, Chairman of AC and Member of NC and RC	30 April 2005	31 May 2013	• Sunvic Chemical Holdings Limited • Epicentre Holdings Limited	• Shanghai Asia Holdings Limited • CMZ Holdings Limited
Ngiam Zee Moey	• Bachelor of Commerce in Accountancy from Nanyang University Singapore • Fellow of Association of Chartered Certified Accountants of the United Kingdom and Institute of Singapore Chartered Accountants	Independent Director	Board Member, Chairman of NC and Member of AC and RC	20 September 2012	31 May 2013	• Hosen Group Ltd • Zhongxin Fruit and Juice Ltd	• Amaru Inc • Sunmart Holdings Limited
Ang Kheng Hui	• Bachelor of Accountancy (2nd Lower Honours) from Nanyang Technological University • Chartered Accountant with the ISCA • Chartered Financial Analyst with CFA Institute	Independent Director	Board Member, Chairman of RC and Member of AC and NC	17 July 2013	–	• Greater China Precision Component Limited	Nil
Ross Y. Limjoco	• Bachelor of Science in Business Administration, Major in Accountancy • Certified Public Accountant from the Philippine Institute of Certified Public Accountants • ISCA,CFE	Independent Director	Board Member	5 May 2014	–	Nil	Nil
Tang Kai Meng	• Degree of Bachelor of Business (2nd Upper Honours) from Nanyang Technological University • CFA Charterholder	Independent Director	Board Member	5 May 2014	–	Nil	Nil

DIRECTORS' REPORT

For the financial year ended 31 December 2013

The Directors present their report to the members together with the audited consolidated financial statements of the Group for the financial year ended 31 December 2013 and the statement of financial position of the Company as at 31 December 2013.

1. DIRECTORS

The Directors of the Company in office at the date of this report are as follows:

Thye Kim Meng
Heather Tan Chern Ling
Teo Sin Yng
Thye Ze Pin
Joshua Siow Chee Keong
Ngiam Zee Moey
Ang Kheng Hui (appointed on 17 July 2013)
Ross Y. Limjoco (appointed on 5 May 2014)
Tang Kai Meng (appointed on 5 May 2014)

2. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects 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 OR DEBENTURES

The Directors of the Company holding office at the end of the financial year had no interests in the shares 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 (the "Act"), except as follows:

	Number of ordinary shares					
	Shareholdings registered in their own names			Shareholdings in which Director is deemed to have an interest		
Name of Directors and companies in which interests are held	**At 1.1.2013**	**At 31.12.2013**	**At 21.1.2014**	**At 1.1.2013**	**At 31.12.2013**	**At 21.1.2014**
The Company						
Darco Water Technologies Limited						
Thye Kim Meng	63,795,711	63,795,711	63,795,711	–	–	–
Heather Tan Chern Ling	68,000	68,000	68,000	–	–	–
Teo Sin Yng	26,000	26,000	26,000	–	–	–

DIRECTORS' **REPORT**

For the financial year ended 31 December 2013

3. DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (CONTINUED)

Name of Directors and companies in which interests are held	Number of ordinary shares: Shareholdings registered in their own names – At 1.1.2013	At 31.12.2013	At 21.1.2014	Shareholdings in which Director is deemed to have an interest – At 1.1.2013	At 31.12.2013	At 21.1.2014
Subsidiaries						
Darco Environmental (Philippines) Inc.						
Thye Kim Meng	–	–	–	65,000	65,000	65,000
Darco Puding Wastewater Management Co., Ltd.						
Thye Kim Meng	–	–	–	9,180,000	9,180,000	9,180,000
Darco Youli Co., Ltd.						
Thye Kim Meng	–	–	–	5,659,243	5,659,243	5,659,243
Puzer Asia Pte Ltd						
Thye Kim Meng	–	–	–	140,000	140,000	140,000

By virtue of Section 7 of the Act, Thye Kim Meng is deemed to have an interest in the shares held by the Company in its wholly-owned subsidiaries.

4. DIRECTORS' CONTRACTUAL BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit (other than disclosed in the financial statements and this report) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest, and that certain Directors have received remuneration from related corporations in their capacity as Directors and / or executives of these related corporations.

5. SHARE OPTIONS

No option to take up unissued shares of the Company or its subsidiaries was granted during the financial year.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiaries whether granted before or during the financial year.

There were no unissued shares of the Company or its subsidiaries under option at the end of the financial year.

DIRECTORS' **REPORT**

For the financial year ended 31 December 2013

6. AUDIT COMMITTEE

The members of the Audit Committee during and at the end of the financial year are as follows:

Joshua Siow Chee Keong	–	Chairman of the Audit Committee and Lead Independent Director
Ngiam Zee Moey	–	Independent Director
Ang Kheng Hui	–	Independent Director
Heather Tan Chern Ling	–	Executive Director

The Audit Committee performs the functions specified by Section 201B (5) of the Act. Among others, it performed the following functions:

- Reviewed with the independent auditor the audit plan;
- Reviewed with the independent auditor their evaluation of the Company's material internal accounting control, and their report on the financial statements and the assistance given by the Company's management to the independent auditor;
- Reviewed the consolidated financial statements of the Group and the statement of financial position of the Company prior to their submission to the Board of Directors of the Company for adoption; and
- Reviewed the interested person transactions (as defined in Chapter 9 of the Listing Manual of SGX).

7. INDEPENDENT AUDITOR'S REMUNERATION

The Directors have reviewed the quantum and nature of fees, expenses and emoluments paid to the independent auditor for non-audit services under Section 206 (1A) of the Act and are satisfied that the provision of such services does not affect their independence.

ON BEHALF OF THE BOARD OF DIRECTORS

....

Heather Tan Chern Ling
Director

....

Teo Sin Yng
Director

5 May 2014

STATEMENT BY **DIRECTORS**

For the financial year ended 31 December 2013

In the opinion of the Directors:

(i) subject to the matters highlighted in the Independent Auditor's report, the consolidated financial statements of the Group and the statement of financial position of the Company as set out on pages 43 to 123 are properly drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2013, and the results, changes in equity and cash flows of the Group for the financial year then ended in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards; and

(ii) at the date of this statement, after considering the matters described in Note 2.1 to the financial statements with respect to the Group's and the Company's ability to continue as a going concern, 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 BOARD OF DIRECTORS

Heather Tan Chern Ling
Director

Teo Sin Yng
Director

5 May 2014

INDEPENDENT AUDITOR'S REPORT **TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED**

For the financial year ended 31 December 2013

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Darco Water Technologies Limited (the "Company") and its subsidiaries (the "Group") set out on pages 43 to 123 which comprise the statements of financial position of the Group and the Company as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year 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 (the "Act") and Singapore Financial Reporting Standards ("FRS"), 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; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT **TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED**

For the financial year ended 31 December 2013

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Basis for Qualified Opinion

Our independent auditor's report dated 26 April 2013 expressed a modified opinion on the financial statements for the financial year ended 31 December 2012. The basis for qualified opinion on the financial statements for the financial year ended 31 December 2012 are disclosed in Note 33 to the financial statements.

Our opinion on the current financial year's financial statements is modified because of the possible effect of those matters raised in prior year, on the comparability with the current year's figures.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2013, and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Emphasis of Matter

We draw attention to Note 2.1 to the financial statements with respect to the Group's and the Company's ability to continue as a going concern. The Group incurred loss from continuing operations of $5.41 million (2012: $6.17 million) and had net cash used in operating activities of $255,000 (2012: $6.35 million) for the financial year.

As disclosed in Note 25, the Group have several on-going litigations as at 31 December 2013.

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 going concern basis as the directors are of the view that:

(i) the Group and the Company will able to secure new profitable contracts and generate positive cash flows to the Group and the Company; and

(ii) the Group will be able to raise funds for its working capital requirements for the next twelve months as and when required.

INDEPENDENT AUDITOR'S REPORT **TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED**

For the financial year ended 31 December 2013

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Emphasis of Matter (Continued)

If the Group and the Company are unable to continue in operational existence for the foreseeable future, and the Group and the Company are unable to discharge their liabilities in the normal course of business, 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 statements of financial position. In addition, the Group and the Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No such adjustments have been made to the financial statements. Our opinion is not modified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by the subsidiary incorporated in Singapore of which we are the independent auditors, have been properly kept in accordance with the provisions of the Act.

Baker Tilly TFW LLP
Public Accountants and
Chartered Accountants
Singapore

5 May 2014

CONSOLIDATED STATEMENT OF **PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

For the financial year ended 31 December 2013

	Note	Group 2013 $'000	Group 2012 $'000
Continuing operations			
Revenue	4	**30,538**	41,392
Cost of sales		**(25,073)**	(36,238)
Gross profit		**5,465**	5,154
Other income	5	**2,288**	4,015
Distribution expenses		**(734)**	(711)
Administrative expenses		**(11,737)**	(9,608)
Finance expenses	6	**(581)**	(1,381)
Loss before income tax	7	**(5,299)**	(2,531)
Income tax expense	9	**(108)**	(176)
Loss from continuing operations, net of tax		**(5,407)**	(2,707)
Discontinued operations			
Loss from discontinued operations, net of tax	10	**–**	(3,459)
Loss for the year		**(5,407)**	(6,166)
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation		**(630)**	(2,039)
Currency translation differences on disposal of subsidiaries reclassified to profit or loss		**287**	(1,659)
Other comprehensive loss for the year, net of tax		**(343)**	(3,698)
Total comprehensive loss for the year		**(5,750)**	(9,864)
Loss attributable to:			
Equity holders of the Company		**(5,415)**	(6,916)
Non-controlling interests		**8**	750
Loss for the year		**(5,407)**	(6,166)
Total comprehensive loss attributable to:			
Equity holders of the Company		**(5,777)**	(10,540)
Non-controlling interests		**27**	676
Total comprehensive loss for the year		**(5,750)**	(9,864)
Loss per share for loss from continuing and discontinued operations attributable to the equity holders of the Company (expressed in cents per share)			
Basic and diluted loss per share			
From continuing operations	11	**(1.96)**	(0.92)
From discontinued operations	11	**–**	(1.58)

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

STATEMENTS OF **FINANCIAL POSITION**

As at 31 December 2013

	Note	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
ASSETS					
Current assets					
Cash and cash equivalents	12	**9,761**	10,781	**406**	116
Trade and other receivables	13	**13,040**	17,333	**186**	1,213
Inventories	14	**1,139**	1,616	**–**	–
		23,940	29,730	**592**	1,329
Disposal group classified as held-for-sale	10	**–**	15,879	**–**	12,424
Total current assets		**23,940**	45,609	**592**	13,753
Non-current assets					
Investments in subsidiaries	16	**–**	–	**4,418**	4,397
Property, plant and equipment	17	**4,600**	8,080	**–**	–
Intangible assets	18	**905**	905	**–**	–
Land use rights	19	**–**	264	**–**	–
Deferred income tax assets	20	**110**	98	**–**	–
Total non-current assets		**5,615**	9,347	**4,418**	4,397
Total assets		**29,555**	54,956	**5,010**	18,150
LIABILITIES					
Current liabilities					
Borrowings	21	**2,945**	18,791	**–**	11,814
Trade and other payables	22	**12,782**	16,239	**5,901**	6,547
Current income tax liabilities		**43**	79	**–**	–
Total current liabilities		**15,770**	35,109	**5,901**	18,361
Non-current liabilities					
Deferred income tax liabilities	20	**53**	68	**–**	–
Borrowings	21	**1,195**	503	**–**	–
Other payables	22	**–**	–	**–**	1,000
Total non-current liabilities		**1,248**	571	**–**	1,000
Total liabilities		**17,018**	35,680	**5,901**	19,361
Net assets/(liabilities)		**12,537**	19,276	**(891)**	(1,211)
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	23	**36,985**	36,985	**36,985**	36,985
Other reserves	24	**(4,490)**	(3,988)	**–**	–
Accumulated losses		**(22,260)**	(16,845)	**(37,876)**	(38,196)
		10,235	16,152	**(891)**	(1,211)
Non-controlling interests		**2,302**	3,124	**–**	–
Total equity		**12,537**	19,276	**(891)**	(1,211)

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

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

For the financial year ended 31 December 2013

	Attributable to equity holders of the Company					
	Share capital $'000	**Other reserves $'000**	**Accumulated losses $'000**	**Total $'000**	**Non-controlling interests $'000**	**Total equity $'000**
2013						
Balance at 1 January 2013	36,985	(3,988)	(16,845)	16,152	3,124	19,276
Loss for the year	–	–	(5,415)	(5,415)	8	(5,407)
Other comprehensive loss for the year, net of tax						
– Currency translation differences [Note 24(b)(i)]	–	(362)	–	(362)	19	(343)
Total comprehensive loss for the year	–	(362)	(5,415)	(5,777)	27	(5,750)
Transaction with equity holders of the Company						
Changes in ownership interest in a subsidiary that do not result in loss of control [Note 16(b) and Note 24(b)(ii)]	–	(140)	–	(140)	119	(21)
Disposal of a subsidiary [Note 16(c)(i)]	–	–	–	–	(968)	(968)
Balance at 31 December 2013	**36,985**	**(4,490)**	**(22,260)**	**10,235**	**2,302**	**12,537**
2012						
Balance at 1 January 2012	36,985	1,130	(11,420)	26,695	4,844	31,539
(Loss)/profit for the year	–	–	(6,916)	(6,916)	750	(6,166)
Other comprehensive loss for the year, net of tax						
– Currency translation differences [Note 24(b)(i)]	–	(3,624)	–	(3,624)	(74)	(3,698)
Total comprehensive (loss)/income for the year	–	(3,624)	(6,916)	(10,540)	676	(9,864)
Transfer of legal reserve [Note 24(b)(iii)]	–	(1,494)	1,491	(3)	3	–
Transaction with equity holders of the Company						
Dividend paid to non-controlling interests	–	–	–	–	(41)	(41)
Disposal of subsidiaries [Note 16(c)(iv)]	–	–	–	–	(2,358)	(2,358)
Balance at 31 December 2012	36,985	(3,988)	(16,845)	16,152	3,124	19,276

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

CONSOLIDATED STATEMENT OF **CASH FLOWS**

For the financial year ended 31 December 2013

	Group	
	2013	**2012**
	$'000	**$'000**
Cash flows from operating activities		
Loss before income tax from continuing operations	**(5,299)**	(2,531)
Loss before income tax from discontinued operations	**–**	(2,396)
Loss before income tax, total	**(5,299)**	(4,927)
Adjustments for:		
Amortisation of intangible assets – franchise	**–**	7
Amortisation of land use rights	**5**	41
Amortisation of deferred expenditure	**–**	1
Depreciation of property, plant and equipment	**1,287**	1,311
Finance income from service concession arrangements	**–**	(3,219)
Gain on disposal of disposal group classified as held-for-sale	**(503)**	(2,312)
Gain on disposal of land use rights	**(316)**	–
Gain on disposal of property, plant and equipment	**(1,013)**	(14)
Gain on liquidation of subsidiaries	**–**	(1,271)
Loss on disposal of subsidiaries	**699**	6,441
Property, plant and equipment written off	**18**	111
Write back of impairment loss of property, plant and equipment	**–**	(887)
Impairment loss of goodwill	**–**	4
Impairment loss of property, plant and equipment	**1,591**	47
Interest expense	**581**	1,905
Interest income	**(88)**	(65)
Operating cash flow before working capital changes	**(3,038)**	(2,827)
Changes in working capital, net of effects from disposal of subsidiaries		
Inventories	**477**	(185)
Construction work-in-progress	**2,531**	5,645
Trade and other receivables	**1,383**	(6,974)
Trade and other payables	**(1,506)**	(717)
Cash used in operations	**(153)**	(5,058)
Income tax paid	**(102)**	(1,287)
Net cash used in operating activities	**(255)**	(6,345)

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

CONSOLIDATED STATEMENT OF **CASH FLOWS**

For the financial year ended 31 December 2013

	Group	
	2013	**2012**
	$'000	**$'000**
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired [Note 16(e)]	**–**	(166)
Additional acquisition of non-controlling interests	**(21)**	–
Additions to property, plant and equipment (Note A)	**(2,260)**	(494)
Disposal of subsidiaries, net of cash disposed of [Note 16(c)(i) & (iv)]	**(1,723)**	18,253
Interest received	**88**	65
Liquidation of subsidiaries, net cash flow [Note 16(d)(ii)]	**–**	(2)
Proceed from disposal of disposal group classified as held-for-sale	**12,927**	3,400
Proceed from disposal of land use rights	**588**	–
Proceed from disposal of property, plant and equipment	**2,076**	92
Net cash generated from investing activities	**11,675**	21,148
Cash flows from financing activities		
Proceeds from borrowings	**1,469**	1,050
Decrease in pledged short-term deposits	**1,339**	1,554
Redemption of convertible notes, net	**–**	(189)
Repayment of borrowings	**(12,061)**	(18,637)
Repayment of finance lease liabilities	**(283)**	(114)
Interest paid	**(581)**	(1,905)
Dividend paid to non-controlling interests	**–**	(41)
Net cash used in financing activities	**(10,117)**	(18,282)
Net increase/(decrease) in cash and cash equivalents	**1,303**	(3,479)
Cash and cash equivalents		
Beginning of financial year	**5,729**	8,991
Effect of currency translations on cash and cash equivalents	**(155)**	217
End of financial year	**6,877**	5,729

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at the end of the reporting period:

	$'000	**$'000**
Continuing operations		
Cash at bank and on hand, and short-term deposits	**9,761**	10,781
Bank overdrafts (Note 21)	**(1,661)**	(2,489)
Pledged short-term deposits (Note 12)	**(1,223)**	(2,563)
	6,877	5,729

Note A

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of $2,548,000 (2012: $636,000) of which $288,000 (2012: $142,000) was financed by means of finance lease. Cash payment of $2,260,000 (2012: $494,000) was made to purchase property, plant and equipment.

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

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

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 Stock Exchange and incorporated and domiciled in Singapore. The registered office and principal place of business of the Company is located at 123 Woodlands Industrial Park E5, E-Terrace, Singapore 757498.

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 16.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Going concern

The Group incurred loss from continuing operations of $5.41 million (2012: $6.17 million) and had net cash used in operating activities of $255,000 (2012: $6.35 million) for the financial year.

As disclosed in Note 25, the Group have several on-going litigations as at 31 December 2013.

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 going concern basis as the directors are of the view that:

(i) the Group and the Company will able to secure new profitable contracts and generate positive cash flows to the Group and the Company; and

(ii) the Group will be able to raise funds for its working capital requirements for the next twelve months as and when required.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, and the Group and the Company are unable to discharge their liabilities in the normal course of business, 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 statements of financial position. In addition, the Group and the Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No such adjustments have been made to the financial statements.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation

The financial statements have been prepared in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("FRS") 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 judgment 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 judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

In the current financial year, the Group has adopted all the new and revised FRS and Interpretations of FRS ("INT FRS") that are relevant to its operations and effective for the current financial year. The adoption of these new/revised FRS and INT FRS did not have any material effect on the financial results or position of the Group and the Company.

New standards, amendments to standards and interpretations that have been issued at the end of the reporting period but are not yet effective for the financial year ended 31 December 2013 have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group and the Company except as disclosed below.

FRS 110 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014)

FRS 110 introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure, or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, FRS 110 requires the Group to consolidate investees that it controls on the basis of *de facto* circumstances.

The Group will apply FRS 110 from 1 January 2014, but this is not expected to have any significant impact on the financial statements of the Group.

FRS 112 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014)

FRS 112 requires disclosures of information that helps users of financial statements evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The entities will apply FRS 112 prospectively from 1 January 2014. FRS 112 will not result in any changes to the Group's accounting policies but will require more disclosures in the financial statements.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Group accounting

(i) Subsidiaries

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 statement of comprehensive income, consolidated statement 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.

Acquisitions

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

The consideration transferred for the acquisition of a subsidiary or business 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.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Acquisition-related costs are expensed as incurred.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Group accounting (Continued)

(i) Subsidiaries (Continued)

Acquisitions (Continued)

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 (i) 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 (ii) the fair value of the net identifiable assets acquired is recorded as goodwill. Please refer to Note 2.6(i) for the subsequent accounting policy on goodwill.

Disposals

When a change in the Group'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 previously 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 equity 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 Note 2.4 for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

(ii) Transactions with non-controlling interests

Changes in the Group'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 Company. 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.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Investments in subsidiaries

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

2.5 Property, plant and equipment

(i) Measurement

Land and buildings

Land and buildings 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.

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.

Components of costs

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 is 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
Renovation	5 years
Motor vehicles	5 years
Plant and equipment	3 to 10 years

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (Continued)

(ii) Depreciation (Continued)

Assets under construction are not depreciated as these assets are not yet available for use.

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 are retained in the financial statements until they are no longer in use.

(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.

(iv) Disposal

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

2.6 Intangible assets

(i) Goodwill on acquisitions

Goodwill on acquisitions of subsidiaries or businesses represents the excess of (i) the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously-held equity interest in the acquiree over (ii) the fair value of the net identifiable assets acquired net of the fair values of the liabilities and any contingent liabilities assumed.

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

Gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the entity sold.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Intangible assets (Continued)

(ii) Franchise

Franchise is initially recognised at cost and subsequently carried 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.

2.7 Land use rights

Land use rights are initially recognised at cost and subsequently carried at cost less accumulated amortisation and accumulated 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 the end of each reporting period.

2.8 Impairment of non-financial assets

(i) Goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired.

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.

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 an expense and is not reversed in a subsequent period.

NOTES TO THE **FINANCIAL STATEMENTS**
For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of non-financial assets (Continued)

(ii) Intangible assets
Property, plant and equipment
Investments in subsidiaries
Land use rights

Intangible assets, property, plant and equipment, investments in subsidiaries 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 inflows 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.

2.9 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 end of the reporting period ("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.

NOTES TO THE **FINANCIAL STATEMENTS**
For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Construction contracts (Continued)

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 proportion of contract costs incurred for work performed to date to the estimated total costs for the contract. Costs incurred during the financial year in connection with future activity on a contract are excluded from the costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract work-in-progress under trade and other receivables 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 end of the reporting period, the cumulative costs incurred plus recognised profits (less recognised losses) on each contract is compared against the progress billings. Where the cumulative costs incurred plus the recognised profits (less recognised losses) exceed the progress billings, the balance is presented as due from customers on construction contracts within "trade and other receivables". Where progress billings exceed the cumulative 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 by customers are included within "trade and other receivables". Advances received are included within "trade and other payables".

2.10 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 all costs of purchase and other costs incurred in bringing the inventories 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.

2.11 Financial assets

(i) Classification

The Group classifies its financial assets according to the nature of the assets and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group's only financial assets are loans and receivables.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(i) Classification (Continued)

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 which expected to be realised within 12 months after the end of the reporting period. Loans and receivables are presented as "trade and other receivables (excluding prepayments, advance payments to suppliers and tax recoverable)" and "cash and cash equivalents" on the statements 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.

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.

Interest income on financial assets are recognised separately in profit or loss.

(v) Impairment

The Group assesses at the end of each reporting period 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.

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.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(v) Impairment (Continued)

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 impairment allowance 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.

2.12 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.13 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, in which case they are presented as non-current liabilities.

(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.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Borrowings (Continued)

(ii) Convertible bonds

The total proceeds from convertible bonds issued are allocated to the liability component and the equity component, which are separately presented on the statements 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 is transferred to the share capital account. When the conversion option lapses, its carrying amount is transferred to retained earnings.

2.14 Fair value estimation of financial assets and liabilities

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts due to the short-term maturity of these instruments.

2.15 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.

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 profit or loss as finance expense.

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

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 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.

2.17 Share capital

Proceed from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2.18 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, goods and services 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, 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) Revenue from sales of goods

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

NOTES TO THE **FINANCIAL STATEMENTS**
For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Revenue recognition (Continued)

(ii) Revenue from service concession arrangements

Revenue from service concession arrangements for water treatment service is recognised in accordance with Note 2.30.

(iii) Revenue from rendering of service

Revenue from rendering of service 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.

(iv) Revenue from construction contracts

Revenue from construction contracts is recognised in accordance with Note 2.9.

(v) Interest income

Interest income is recognised using the effective interest method.

(vi) 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.

2.19 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

When the grant relates to an expense item, it is recognised in profit or loss over the period necessary to match them on a systematic basis to the costs that it is intended to compensate.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Leases

(i) When the Group is the lessee

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

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 property, 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.

Lessee – Operating leases

Leases 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.

Lessor – Operating leases

Leases of investment 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 profit or loss over the lease term on the same basis as the lease income.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits

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. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

2.22 Borrowing costs

Borrowing costs, which comprise interest and other costs incurred in connection with the borrowing of funds, are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are recognised in profit or loss using the effective interest method.

2.23 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 at the end of the reporting period.

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, 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.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Income taxes (Continued)

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 end of the reporting period; and

(ii) based on the tax consequence that will follow from the manner in which the Group expects, at the end of the reporting period, 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.

2.24 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 resulting 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 end of the reporting period are recognised in profit or loss. However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Currency translation (Continued)

(ii) Transactions and balances (Continued)

When a foreign operation is disposed of or any borrowings forming part of the net investment of the foreign operation are repaid, a proportionate share of the accumulated translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

(iii) Translation of Group entities' financial statements

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:

(a) Assets and liabilities are translated at the closing exchange rates at the end of the reporting period;

(b) 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

(c) All resulting currency translation differences are recognised in other comprehensive income and accumulated in the currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the end of the reporting period.

2.25 Dividends to the Company's shareholders

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Cash and cash equivalents

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

2.27 Non-current assets (or disposal groups) held-for-sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held-for-sale and carried at the lower of carrying amount and fair value less costs to sell if their carrying amounts are recovered principally through a sale transaction rather than through continuing use. The assets are not depreciated or amortised while they are classified as held-for-sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held-for-sale and:

(a) represents a separate major line of business or geographical area of operations; or

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

(c) is a subsidiary acquired exclusively with a view to resale.

2.28 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.

2.29 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 Contingencies (Continued)

(b) a present obligation that arises from past events but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

2.30 Service concession arrangements

(i) Financial receivables

The Group recognises financial receivable arising from service concession arrangement when it has an unconditional right to receive cash or another financial assets during the concession period. The financial receivable is measured at fair value upon initial recognition. Subsequent to initial recognition, the financial receivable is measured at amortised cost using the effective interest method.

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 profit or loss, and (iii) revenue from operation and maintaining the plants to be recognised in profit or loss.

(ii) Construction services

Revenue relating to construction services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts as stated in Note 2.9.

Where the Group performs more than one service in a service concession arrangement, consideration received or receivable are allocated to the components by reference to their relative fair values of the services delivered, when the amounts are separately identifiable.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Service concession arrangements (Continued)

(iii) Operation and maintenance services

Revenue derived from the provision of operating and maintenance services under a service concession arrangement is recognised in the period in which the services are performed by the Group.

(iv) Finance income

Interest income on the financial receivables is recognised in profit or loss using the effective interest method.

2.31 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. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustments to the carrying amount of the asset or liability affected in the future.

(a) Judgments made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

Revenue recognition of the Group involves the application of judgment to the following:

(i) the identification and determination of percentage of completion of construction contracts; and

(ii) the identification and determination of service concession arrangements.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

(a) Judgments made in applying accounting policies (Continued)

Revenue recognition (Continued)

The Group has recognised revenue from construction contracts amounting to $14,553,000 (2012: $25,784,000) and $Nil (2012: $80,000) from continuing operations and discontinued operations, respectively.

The Group has also recognised revenue from service concession arrangements amounting to $Nil (2012: $2,581,000) from discontinued operations.

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.

The carrying amounts of the Group's deferred income tax assets at the end of the reporting period are disclosed in Note 20.

(b) Key source of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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, investments in subsidiaries and land use rights 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.

The carrying amounts of the Group's property, plant and equipment, intangible assets and land use rights at the end of the reporting period are disclosed in Notes 17, 18 and 19 respectively.

The carrying amounts of the Company's investments in subsidiaries are disclosed in Note 16.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

(b) Key source of estimation uncertainty (Continued)

Uncertain tax positions

Uncertainties exist with respect to the interpretation of complex tax regulations, the amount and timing of future taxable income and deductibility of certain expenditure. Accordingly, 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 tax outcome of these matters is concluded and 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.

The carrying amounts of the Group's and the Company's tax recoverable at the end of the reporting period were $554,000 (2012: $383,000) and $133,000 (2012: $133,000) respectively.

The carrying amounts of the Group's current income tax liabilities were $43,000 (2012: $79,000).

The carrying amounts of the Group's deferred income tax assets and deferred income tax liabilities are disclosed in Note 20.

Construction contract

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 at the end of each reporting period. 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.

The carrying amounts of assets and liabilities arising from construction contracts at the end of the reporting period are disclosed in Note 15.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

(b) Key source of estimation uncertainty (Continued)

Impairment of receivables

Management reviews its receivables, at least quarterly, for any objective evidences of impairment. Significant financial difficulties of the debtor, the probability that the debtor will enter into bankruptcy, and default or significant delay in payments are considered objective evidences that a receivable is impaired. In determining this, management makes judgment 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 judgments 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.

The carrying amounts of the Group's and the Company's receivables at the end of the reporting period are $11,304,000 and $53,000 (2012: $13,868,000 and $1,080,000) respectively.

4. REVENUE

	Group	
	2013	**2012**
	$'000	**$'000**
Revenue from construction contracts	**14,553**	25,784
Rendering of services	**8,105**	9,485
Sales of goods	**7,880**	6,123
	30,538	41,392

NOTES TO THE **FINANCIAL STATEMENTS**
For the financial year ended 31 December 2013

5. OTHER INCOME

	Group	
	2013	**2012**
	$'000	**$'000**
Insurance claim	**29**	–
Interest income	**88**	63
Rental income	**12**	20
Government grant	**21**	5
Gain on disposal of disposal group classified as held-for-sale	**503**	2,312
Gain on disposal of land use rights	**316**	–
Gain on disposal of property, plant and equipment	**1,013**	14
Gain on foreign exchange	**187**	510
Reversal of inventories written down (Note 14)	**–**	88
Write back of long outstanding trade payables	**40**	918
Miscellaneous income	**79**	85
	2,288	4,015

6. FINANCE EXPENSES

	Group	
	2013	**2012**
	$'000	**$'000**
Interest expense on:		
– bank borrowings	**575**	1,363
– convertible notes [Note 21(n)]	**–**	11
– finance lease liabilities	**6**	7
	581	1,381

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

7. LOSS BEFORE INCOME TAX FROM CONTINUING OPERATIONS

	Group	
	2013	**2012**
	$'000	**$'000**
Loss before income tax from continuing operations is arrived at after charging/(crediting):		
Allowance for impairment of receivables (Note 13)	**287**	1,594
Amortisation of intangible assets – franchise [Note 18(b)]	**–**	7
Amortisation of deferred expenditure	**–**	1
Amortisation of land use rights (Note 19)	**5**	7
Auditors' remuneration paid/payable to:		
– auditor of the Company	**200**	230
– other auditors	**77**	148
Depreciation of property, plant and equipment (Note 17)	**1,287**	1,293
Employee compensation (Note 8)	**11,750**	11,322
Fee for non-audit services paid/payable to:		
– auditor of the Company	**4**	–
– other auditors	**2**	5
Impairment loss of goodwill [Note 18(a)]	**–**	4
Impairment loss of property, plant and equipment (Note 17)	**1,591**	47
Inventories written down (Note 14)	**271**	–
Loss on disposal of a subsidiary [Note 16(c)(i)]	**699**	–
Rental expense for operating leases	**405**	225
Property, plant and equipment written off (Note 17)	**18**	111
Write back of allowance for impairment of receivables (Note 13)	**(98)**	(69)
Write back of impairment loss of property, plant and equipment (Note 17)	**–**	(887)

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

8. EMPLOYEE COMPENSATION

	Group	
	2013	**2012**
	$'000	**$'000**
Directors of the Company:		
– Directors' fees	**165**	232
– Directors' remuneration and related costs	**312**	227
– Defined contribution benefits	**15**	11
Directors of the subsidiary companies:		
– Directors' fees	**168**	99
– Directors' remuneration and related costs	**678**	758
– Defined contribution benefits	**58**	72
Key management personnel (non-directors):		
– Salaries and related costs	**169**	162
– Defined contribution benefits	**14**	13
Other personnel:		
– Salaries and related costs	**9,312**	9,085
– Defined contribution benefits	**859**	855
	11,750	11,514
Less: Amounts attributable to discontinued operations [Note 10(iv)(d)]	**–**	(192)
Amounts attributable to continuing operations (Note 7)	**11,750**	11,322

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

9. INCOME TAX EXPENSE

	Group	
	2013	**2012**
	$'000	**$'000**
Income tax expense attributable to loss is made up of:		
Loss from current financial year:		
From continuing operations		
Current income tax		
– Singapore	**46**	78
– Foreign	**105**	366
Deferred income tax	**(54)**	(80)
From discontinued operations		
Current income tax		
– Foreign	**–**	229
Deferred income tax	**–**	792
	97	1,385
Under/(over) provision of taxation in prior financial years:		
From continuing operations		
Current income tax	**3**	(172)
Deferred income tax	**8**	(16)
From discontinued operations		
Current income tax	**–**	42
	11	(146)
	108	1,239
Income tax expense is attributable to:		
– continuing operations	**108**	176
– discontinued operations [Note 10(iv)]	**–**	1,063
	108	1,239

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

9. INCOME TAX EXPENSE (CONTINUED)

The income tax expense on the results of the financial year differs from the amount of income tax determined by applying the domestic rates applicable to loss in the countries where the Group operates due to the following factors:

	Group	
	2013	2012
	$'000	$'000
Loss before tax from:		
– continuing operations	**(5,299)**	(2,531)
– discontinued operations	**–**	(2,396)
Loss before tax	**(5,299)**	(4,927)
Tax at the domestic rates applicable to loss in the countries where the Group operates	**(842)**	(600)
Expenses not deductible for tax purposes	**474**	1,843
Over provision of taxation in prior financial years	**10**	(146)
Income not subject to tax	**(349)**	(1,058)
Deferred tax benefits not recognised	**1,084**	1,647
Income tax exemption	**(60)**	(53)
Utilisation of previously unrecognised tax losses	**(224)**	(387)
Others	**15**	(7)
	108	1,239

10. DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE

Details of assets directly associated with disposal group classified as held-for-sale are as follows:

	2012	
	Group	Company
	$'000	$'000
Investment in unquoted shares	**3,455**	–
Investment in associated company	**12,424**	12,424
	15,879	12,424

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

10. DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

(i) On 21 May 2012, the Company entered into a conditional sale and purchase agreement with Salcon Berhad for the disposal of 60% effective equity interest in Salcon Darco Environmental Pte. Ltd. ("DNV") and its subsidiaries (collectively "DNV Group") for a total cash consideration of approximately $18,920,000 (RMB95,831,000). The disposal of 60% effective equity interest in DNV was completed in July 2012.

On 26 April 2013, the Group has received and accepted the letter of offer from Salcon Berhad to acquire the remaining 40% effective equity interest in DNV. Accordingly, the Group's and the Company's investment in DNV, associated company amounting to approximately $12.42 million (RMB63.00 million) were classified as a disposal group held-for-sale in the statements of financial position, and the entire results from DNV Group were presented separately on the consolidated statement of comprehensive income of the Group as "Discontinued Operations" in 2012.

The disposal of the remaining 40% effective equity interest in DNV was completed in current financial year.

(ii) In November 2012, P.T. Darco Indonesia ("PT Darco") increased its paid up share capital by issuing 343,090 new ordinary shares to an existing non-controlling party. As a result, the Group's effective equity interest was diluted to 38.75% from 51.00% upon issuance of new ordinary shares. Subsequently, the Group disposed an additional 18.85% of its effective equity interest in PT Darco to a non-controlling party for a total cash consideration of $97,000 (equivalent to US$83,000), resulting in the decrease of the Group's effective equity interest in PT Darco to 19.90%.

On 21 December 2012, the Group disposed of its remaining 19.90% effective equity interest in PT Darco to a non-controlling party for a total cash consideration of $106,000 (equivalent to US$87,000).

Following the disposal, the results of PT Darco were presented separately on the consolidated statement of comprehensive income of the Group as "Discontinued Operations" in 2012.

(iii) On 16 November 2009, Taoyuan County Government asked Northern Union Assortment Recycling Co., Ltd. ("Northern Union") to stop its operation and also stop sending recyclable items from six townships in northern Taoyuan to Northern Union's plant. 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 totalling to approximately $5.62 million (NTD$128 million).

On 20 December 2011, Northern Union's immediate holding company, Darco Wan Yuan Develop Co., Ltd. ("Darco Wan Yuan") discontinued its operations. The entire assets and liabilities related to Northern Union and Darco Wan Yuan were classified as a disposal group classified as held-for-sale in the statement of financial position, and the entire results from Northern Union and Darco Wan Yuan were presented separately in the consolidated statement of comprehensive income as "Discontinued operations" in 2012.

On 30 November 2012, Darco Wan Yuan and Northern Union filed for members' voluntary winding up and the effects of the members' voluntary winding up was disclosed in Note 16(d)(ii).

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

10. DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

(iv) The effects of the (loss)/profit from discontinued operations are as follows:

	Group 2012 $'000
Revenue	2,661
Cost of sales	(1,666)
Gross profit	995
Other income	3,221
Administrative expenses	(918)
Finance expenses	(524)
Profit before income tax from discontinued operations	2,774
Income tax expense (Note 9)	(1,063)
Profit after discontinued operations	1,711
Loss on disposal of subsidiaries [Note 16(c)(iv)]	(6,441)
Gain on liquidation of subsidiaries [Note 16(d)(ii)]	1,271
Total loss from discontinued operations, net of tax	(3,459)

(a) Revenue

	Group 2012 $'000
Revenue from construction contracts	80
Revenue from service concession arrangements	2,581
	2,661

(b) Other income

	Group 2012 $'000
Finance income from service concession arrangements	3,219
Interest income	2
	3,221

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

10. DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

(iv) The effects of the (loss)/profit from discontinued operations are as follows (Continued):

(c) Finance expenses

	Group 2012 $'000
Interest expense on bank borrowings	524

(d) Profit before income tax from discontinued operations

	Group 2012 $'000
Profit before income tax from discontinued operations is arrived after charging:	
Amortisation of land use rights	34
Auditors' remuneration paid/payable to:	
– auditor of the Company	–
– other auditors	–
Fee for non-audit services paid/payable to auditor of the Company	–
Depreciation of property, plant and equipment	18
Employee compensation (Note 8)	192
Loss on foreign exchange	195

(v) The impact of the discontinued operations on the cash flows of the Group are as follows:

	Group 2012 $'000
Operating cash flows	1,919
Investing cash flows	2
Financing cash flows	(1,767)
Total cash flows	154

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

11. LOSS PER SHARE

(a) Basic loss per share

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

Group	Continuing operations 2013	Continuing operations 2012	Discontinued operations 2013	Discontinued operations 2012	Total 2013	Total 2012
Net loss attributable to equity holders of the Company ($'000)	**(5,415)**	(2,535)	**–**	(4,381)	**(5,415)**	(6,916)
Weighted average number of ordinary shares outstanding for basic loss per share ('000)	**276,685**	276,685	**–**	276,685	**276,585**	276,685
Basic loss per share (cents per share)	**(1.96)**	(0.92)	**–**	(1.58)	**(1.96)**	(2.50)

(b) Diluted loss per share

Diluted loss per share is same as basic loss per share as there were no potential dilutive ordinary shares for the financial year.

12. CASH AND CASH EQUIVALENTS

	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
Cash at bank and on hand	**4,766**	7,385	**406**	116
Short-term bank deposits	**4,995**	3,396	**–**	–
	9,761	10,781	**406**	116

Short-term bank deposits of the Group have maturity periods ranging from 1 to 6 months (2012: 1 to 12 months) from the end of financial year and bear interests ranging from 0.17% to 5.7% (2012: 0.35% to 3.10%) per annum.

Short-term bank deposits include an amount of $1,223,000 (2012: $2,563,000) which have been pledged to banks as collateral for banking facilities granted to the subsidiaries (Note 21).

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Trade receivables – Non-related parties	**10,660**	10,195	**–**	–
Less: Allowance for impairment	**(4,030)**	(3,848)	**–**	–
Trade receivables – net	**6,630**	6,347	**–**	–
Construction contracts:				
– Due from customers (Note 15)	**1,105**	2,974	**–**	–
Other receivables:				
– Subsidiaries (a)	**–**	–	**8,384**	14,454
– Associated companies (a)	**–**	2,341	**–**	968
– Non-related parties	**4,274**	4,477	**5**	13
	4,274	6,818	**8,389**	15,435
Less: Allowance for impairment				
– subsidiaries	**–**	–	**(8,336)**	(14,355)
– non-related parties	**(1,542)**	(1,528)	**–**	–
	2,732	5,290	**53**	1,080
Deposits	**1,925**	2,200	**–**	–
Staff loans (b)	**17**	31	**–**	–
Prepayments	**77**	108	**–**	–
Tax recoverable	**554**	383	**133**	133
	13,040	17,333	**186**	1,213

Movement in allowance for impairment of trade and other receivables during the financial year are as follows:

	$'000	$'000	$'000	$'000
Beginning of financial year	**5,376**	6,230	**14,355**	34,720
Allowance made (Note 7)	**287**	1,594	**–**	103
Allowance written off	**(49)**	(2,229)	**(5,655)**	–
Write back of allowance (Note 7)	**(98)**	(69)	**(364)**	(20,468)
Currency translation differences	**56**	(150)	**–**	–
End of financial year	**5,572**	5,376	**8,336**	14,355

(a) Amounts owing by subsidiaries and associated companies are non-trade in nature, unsecured, interest-free and repayable on demand.

(b) Included in staff loans was an amount of $15,000 made to a member of key management personnel of the Group. The loan was fully settled during the financial year.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

14. INVENTORIES

	Group	
	2013	**2012**
	$'000	**$'000**
Raw materials	**1,047**	1,373
Trading goods	**92**	243
	1,139	1,616
Consolidated Statement of Comprehensive Income		
Inventories recognised as an expense in cost of sales	**7,078**	7,700
Inclusive of inventories written down (Note 7)	**271**	–

In 2012, the Group had recognised a reversal of $88,000 being part of inventory write down made in prior years, as the inventories were sold above the carrying amounts. The reversal was included in other income (Note 5).

15. CONSTRUCTION CONTRACTS

	Group	
	2013	**2012**
	$'000	**$'000**
Aggregate costs incurred and profits recognised (less losses recognised) to date on uncompleted construction contracts	**28,735**	49,420
Less: Progress billings	**(31,738)**	(50,916)
	(3,003)	(1,496)
Presented as:		
Due from customers on construction contracts (Note 13)	**1,105**	2,974
Due to customers on construction contracts (Note 22)	**(4,108)**	(4,470)
	(3,003)	(1,496)

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013	**2012**
	$'000	**$'000**
Equity investments at cost		
Beginning of financial year	**27,291**	7,276
Acquisition	**21**	20,215
Disposal	**–**	(200)
End of financial year	**27,312**	27,291
Less: Accumulated impairment losses	**(22,894)**	(22,894)
	4,418	4,397

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2013

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Movements in impairment losses on investment during the financial year are as follows:

	Company	
	2013	2012
	$'000	$'000
Beginning of financial year	**22,894**	2,679
Impairment made and recognised in profit or loss	**–**	20,215
End of financial year	**22,894**	22,894

(a) Listing of subsidiaries in the Group are as follows:

Name of companies/Country of business/incorporation	Principal activities	Effective equity holding 2013 %	2012 %
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	**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 and trading in related industrial products	**100**	100
PV Vacuum Engineering Pte. Ltd.[@@] Singapore	Design and supply of environmental related equipment, centralised vacuum systems, refuse conveying system and any other engineering systems making use of vacuum technologies	**100**	100
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**	97.95

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) Listing of subsidiaries in the Group are as follows (Continued):

Name of companies/Country of business/incorporation	Principal activities	Effective equity holding 2013 %	2012 %
Held by subsidiaries			
Darco Environmental (Philippines) Inc.@@@ The Philippines	Designing, installation and commissioning of treatment systems for water purification, treatment of waste water and other waste discharge for industrial use, providing services and supplying chemicals and components used in manufacturing and maintenance water treatment systems	**65**	65
Shanghai Darco Engineering Co., Ltd.### The People's Republic of China	Design and fabrication of water treatment systems and provision of consultancy services in relation to such business	**100**	100
Darco Systems (M) Sdn. Bhd.## Malaysia	Under members' voluntary winding up	**–**	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
WWMG Environmental Sdn. Bhd.## Malaysia	Dormant	**100**	100
Darco Environmental (Taiwan) Inc.# Taiwan	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	**–**	59.58
Darco Puding Wastewater Management Co., Ltd.# Taiwan	Supply of potable water	**51**	51

NOTES TO THE **FINANCIAL STATEMENTS**
For the financial year ended 31 December 2013

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) Listing of subsidiaries in the Group are as follows (Continued):

Name of companies/Country of business/incorporation	Principal activities	Effective equity holding 2013 %	Effective equity holding 2012 %
Held by subsidiaries (Continued)			
Darco Remediation Technologies Inc.# Taiwan	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	**100**	100
WLF Industrial Co., Ltd.# Taiwan	Under members' voluntary winding up	**–**	100
Darco Youli Co., Ltd.# Taiwan	Recycling of medical waste	**60**	60
Puzer Asia Pte Ltd@@ Singapore	Trading in vacuum cleaning systems and provision of related services	**56**	56
Darco-Envidan Sdn. Bhd.## Malaysia	Designing, fabricating and construction pure and waste water treatment plants and trading in related industrial products	**100**	100

@ Audited by Baker Tilly TFW LLP, Singapore.
@@ Audited by Tan, Teo & Partners Pac, Singapore.
@@@ Audited by Fernandez, Santos & Lopez, The Philippines.
# Audited by Sun Rise CPAs & Company, Taiwan.
Audited by Baker Tilly Monteiro Heng, Malaysia.
Audited by Lixin International, Singapore for the purpose of preparation of the consolidated financial statements of the Group.

In accordance to Rules 712 and 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 Group.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(b) Changes in ownership interests in a subsidiary

During the financial year, the Company acquired additional equity interest in a subsidiary, Darco Engineering (Taiwan) Co., Ltd ("DET") from non-controlling shareholders at a consideration of $21,000. Following the acquisition, DET became a wholly-owned subsidiary of the Company. The effect of the addition is as follows:

	Group 2013 $'000
Carrying amount of non-controlling interests acquired	119
Consideration paid to a non-controlling interests, net of transaction costs	21
Difference recognised in other reserves within equity [Note 24(b)(ii)]	140

(c) Disposal of subsidiaries

(i) On 31 October 2013, DET disposed its shareholding interest of 59.58% in Darco Environmental (Taiwan) Inc., ("DNT") to third parties for a total cash consideration of approximately $1,016,000 (NT$24,102,000).

Subsequent to the disposal, DNT is no longer part of the Group as at 31 December 2013.

The effects of the disposal of DNT on the cash flows of the Group were:

	Group 2013 $'000
Carrying amounts of assets and liabilities disposed of:	
Cash and cash equivalents	2,739
Trade and other receivables	991
Property, plant and equipment	2,068
Deferred tax asset	16
Total assets	5,814
Trade and other payables	(3,207)
Borrowings	(211)
Total liabilities	(3,418)
Net assets derecognised	2,396
Less: Non-controlling interests	(968)
Net assets disposed of	1,428
Reclassification from currency translation reserve [Note 24(b)(i)]	287
Loss on disposal of a subsidiary (Note 7)	(699)
Total cash consideration	1,016
Less: Cash and cash equivalents in subsidiary disposed of	(2,739)
Net cash inflow on disposal of a subsidiary	(1,723)

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For the financial year ended 31 December 2013

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(c) Disposal of subsidiaries (Continued)

(ii) As referred to in Note 10(i), the Company completed the disposal of 60% effective equity interest in DNV to Salcon Berhad for a total cash consideration of approximately $18,920,000 (RMB95,831,000) in July 2012.

(iii) As referred to in Note 10(ii), the Group had diluted its effective equity interest in PT Darco in November 2012 and subsequently disposed of its remaining effective equity interest in PT Darco on 21 December 2012.

(iv) The effects of the disposal of PT Darco and DNV Group on the cash flows of the Group were:

	Group 2012 $'000
Carrying amounts of assets and liabilities disposed of:	
Cash and cash equivalents	870
Trade and other receivables	10,818
Financial receivables from service concession arrangements	56,559
Goodwill [Note 18(a)]	311
Land use rights	1,232
Other non-current assets	19
Other current assets	64
Total assets	69,873
Trade and other payables	(13,086)
Deferred tax liabilities	(4,330)
Borrowings	(10,412)
Other current liabilities	(40)
Total liabilities	(27,868)
Net assets derecognised	42,005
Less: Non-controlling interests	(2,358)
Net assets disposed of	39,647
Loss on disposal of subsidiaries [Note 10(iv)]	(6,441)
Reclassification from currency translation reserve [Note 24(b)(i)]	(1,659)
Fair value of remaining 40% effective equity interest	(12,424)
Total cash consideration	19,123
Less: Cash and cash equivalents in subsidiaries disposed of	(870)
Net cash inflow on disposal of subsidiaries	18,253

The loss on disposal of subsidiaries form part of loss from discontinued operations, net of tax in the consolidated statement of comprehensive income of the Group for the financial year ended 31 December 2012.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(d) Liquidation of subsidiaries

(i) During the financial year, WLF Industrial Co., Ltd. ("WLF") and Darco Systems (M) Sdn. Bhd. ("DSM") filed for members voluntary winding up on 6 February 2013 and 27 December 2013, respectively.

The management has assessed the impact on profit or loss and the effect of the members' voluntary winding up of WLF and DSM are not significant to the Group's results for the current financial year.

(ii) As referred to in Note 10(iii), Darco Wan Yuan and Northern Union filed for members' voluntary winding up on 30 November 2012.

The effects of the members' voluntary winding up on the cash flows of the Group are as follows:

	Group 2012 $'000
Cash and cash equivalents	2
Other current assets	6
Total assets	8
Trade and other payables	(1,264)
Other current liabilities	(15)
Total liabilities	(1,279)
Net identifiable liabilities derecognised of	(1,271)
Gain on liquidation of subsidiaries [Note 10(iv)]	1,271
Total cash consideration	–
Less: Cash and cash equivalents of subsidiaries	(2)
Net cash outflow from liquidation of subsidiaries	(2)

(e) Acquisition of additional equity interest in Darco-Envidan Sdn. Bhd. ("Darco-Envidan")

In 2012, the Group acquired remaining 49% effective equity interest in a joint venture, Darco-Envidan, a company incorporated in Malaysia for a total cash consideration of approximately $60,000 (RM146,000). Following the acquisition, Darco-Envidan became a wholly-owned subsidiary.

The Group intends to expand and develop its business in Malaysia, and the acquisition of Darco-Envidan would facilitate this expansion. In addition, Darco-Envidan would complement and strengthen the Company's existing capability in providing a more complete range of services.

NOTES TO THE **FINANCIAL STATEMENTS**
For the financial year ended 31 December 2013

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(e) Acquisition of additional equity interest in Darco-Envidan Sdn. Bhd. ("Darco-Envidan") (Continued)

The acquisition of Darco-Envidan has contributed revenue of $2,246,000 and net loss of $17,000 to the Group since the date of acquisition to 31 December 2012.

Fair values of identifiable assets and liabilities of Darco-Envidan at the acquisition date are as follows:

	Group 2012 $'000
Property, plant and equipment	23
Trade and other receivables	500
Borrowings and bank overdraft, unsecured	(126)
Trade and other payables	(282)
Net identifiable assets acquired	115
Goodwill [Note 18(a)]	4
Less: Fair value of previously held interest	(59)
Total cash paid	60
Bank overdraft assumed	106
Net cash outflow on acquisition of subsidiary	166

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For the financial year ended 31 December 2013

17. PROPERTY, PLANT AND EQUIPMENT

	Freehold land $'000	Freehold buildings $'000	Leasehold properties $'000	Renovation $'000	Assets under construction $'000	Motor vehicles $'000	Plant and equipment $'000	Total $'000
Group								
2013								
Cost								
Beginning of financial year	2,134	1,424	1,724	123	91	1,022	10,321	16,839
Additions	2,128	133	–	–	17	66	204	2,548
Disposals	–	–	(1,120)	–	–	(125)	(380)	(1,625)
Write-off	–	–	–	–	(18)	–	(20)	(38)
Disposal of subsidiaries	(2,039)	–	–	–	–	(65)	(37)	(2,141)
Currency translation differences	4	(33)	34	–	(2)	(10)	(53)	(60)
End of financial year	2,227	1,524	638	123	88	888	10,035	15,523
Accumulated depreciation								
Beginning of financial year	–	268	275	123	–	685	5,971	7,322
Depreciation charge for the year	–	78	41	–	–	105	1,063	1,287
Disposals	–	–	(297)	–	–	(123)	(140)	(560)
Write-off	–	–	–	–	–	–	(20)	(20)
Disposal of subsidiaries	–	–	–	–	–	(40)	(33)	(73)
Currency translation differences	–	(6)	13	–	–	(3)	(85)	(81)
End of financial year	–	340	32	123	–	624	6,756	7,875
Accumulated impairment losses								
Beginning of financial year	1,041	–	–	–	–	34	362	1,437
Additions	22	–	–	–	–	–	1,569	1,591
Disposals	–	–	–	–	–	(2)	–	(2)
Currency translation differences	8	–	–	–	–	–	14	22
End of financial year	1,071	–	–	–	–	32	1,945	3,048
Net carrying value								
End of financial year	1,156	1,184	606	–	88	232	1,334	4,600

NOTES TO THE **FINANCIAL STATEMENTS**
For the financial year ended 31 December 2013

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land $'000	Freehold buildings $'000	Leasehold properties $'000	Renovation $'000	Assets under construction $'000	Motor vehicles $'000	Plant and equipment $'000	Total $'000
Group								
2012								
Cost								
Beginning of financial year	2,185	1,396	1,799	123	39	1,164	10,925	17,631
Additions	–	63	–	–	148	197	228	636
Disposals	–	–	–	–	–	(141)	(381)	(522)
Write-off	–	–	–	–	(94)	(3)	(129)	(226)
Acquisition of a subsidiary	–	–	–	–	–	49	2	51
Liquidation of subsidiaries	–	–	–	–	–	(21)	–	(21)
Disposal of subsidiaries	–	–	–	–	–	(195)	(100)	(295)
Currency translation differences	(51)	(35)	(75)	–	(2)	(28)	(224)	(415)
End of financial year	2,134	1,424	1,724	123	91	1,022	10,321	16,839
Accumulated depreciation								
Beginning of financial year	–	200	242	123	–	856	5,304	6,725
Depreciation charge for the year	–	75	46	–	–	116	1,074	1,311
Disposals	–	–	–	–	–	(107)	(120)	(227)
Write-off	–	–	–	–	–	(3)	(112)	(115)
Acquisition of a subsidiary	–	–	–	–	–	27	1	28
Liquidation of subsidiaries	–	–	–	–	–	(13)	–	(13)
Disposal of subsidiaries	–	–	–	–	–	(172)	(85)	(257)
Currency translation differences	–	(7)	(13)	–	–	(19)	(91)	(130)
End of financial year	–	268	275	123	–	685	5,971	7,322
Accumulated impairment losses								
Beginning of financial year	1,461	–	–	–	–	43	1,052	2,556
Additions	–	–	–	–	–	–	47	47
Disposals	–	–	–	–	–	–	(217)	(217)
Liquidation of subsidiaries	–	–	–	–	–	(8)	–	(8)
Write back	(388)	–	–	–	–	–	(499)	(887)
Currency translation differences	(32)	–	–	–	–	(1)	(21)	(54)
End of financial year	1,041	–	–	–	–	34	362	1,437
Net carrying value								
End of financial year	1,093	1,156	1,449	–	91	303	3,988	8,080

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) During the financial year, a subsidiary carried out a review of recoverable amounts of its plant and equipment because of the changes in the expected economic benefits to be generated in respect of that particular plant and equipment. As a result of the review, an impairment loss of $1,591,000 (2012: $117,000) was recognised in profit or loss (Note 7).

(b) At the end of the reporting period, the carrying amounts of motor vehicles held under finance leases (Note 21) are $166,000 (2012: $195,000).

(c) Freehold land and building with carrying amount of $Nil (2012: $1,247,000) are mortgaged to a related party who granted credit facilities to a subsidiary's supplier.

(d) At the end of the reporting period, leasehold properties with carrying amount of $2,946,000 (2012: $640,000) are mortgaged to bank to secure banking facilities of the Group [Note 21(g) & (h)].

(e) At the end of the reporting period, the Group owns the following properties:

Location	Description and tenure	Gross land area (sqm)	Gross built-in area (sqm)	Use of property
Lot 10645, Jalan Permata 1/6, Arab Malaysian Industrial Park, 71800 Nilai, Negeri Sembilan Darul Khusus, Malaysia	Freehold land	4,572	1,512	Office, factory and warehouse
No. 5, Wurih Township, Town Urban, Qing Guan Road, 65-1 Tong An Segment, 341-2, Taiwan	Freehold land and building	76,445	1,248	Office, factory and warehouse
Wurih Township, Town Urban, Tong An Segment 253-1, Taiwan	Freehold land	17,199	–	Office, factory and warehouse
Lot No. 6546, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang Malaysia	Leasehold land and building	1,009	984	Office, factory and warehouse
Lot No. 6547, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang Malaysia	Leasehold land and building	1,009	984	Office, factory and warehouse

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

18. INTANGIBLE ASSETS

	Group 2013 $'000	Group 2012 $'000
Goodwill arising on consolidation [Note (a)]	**905**	905
Franchise [Note (b)]	**–**	–
	905	905

(a) Goodwill arising on consolidation

	Group 2013 $'000	Group 2012 $'000
Cost		
Beginning of financial year	**959**	1,266
Acquisition of a subsidiary [Note 16(e)]	**–**	4
Disposal of subsidiaries [Note 16(c)(iv)]	**–**	(311)
End of financial year	**959**	959
Accumulated impairment losses		
Beginning of financial year	**54**	50
Impairment charge (Note 7)	**–**	4
End of financial year	**54**	54
Net carrying amount		
End of financial year	**905**	905

Impairment test for goodwill arising on consolidation

Goodwill acquired in a business combination is allocated to the Group's cash generating units ("CGUs") that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated to a segment-level as follows:

	Engineered Environmental Systems Group 2013 $'000	Engineered Environmental Systems Group 2012 $'000
Singapore	**905**	905
Malaysia	**4**	4
Taiwan	**35**	35
The People's Republic of China	**15**	15
	959	959

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

18. INTANGIBLE ASSETS (CONTINUED)

(a) Goodwill arising on consolidation (Continued)

Impairment test for goodwill arising on consolidation (Continued)

The recoverable amounts of the CGUs are determined based on value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs. The discount rates used are pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates used are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts based on the most recent financial budgets approved by the management for the next five financial years and extrapolates cash flows for the following five financial years based on the following key assumptions:

	Group	
	2013	**2012**
	%	**%**
Gross margin(1)	**66**	49
Growth rate(2)	**6**	6
Discount rate(3)	**4**	4

(1) Budgeted gross margin
(2) Weighted average growth rate used to extrapolate cash flows for the next five financial years
(3) Pre-tax discount rate applied to the pre-tax cash flow projections

(b) Franchise

	Group	
	2013	**2012**
	$'000	**$'000**
Cost		
Beginning of financial year	**337**	345
Disposal of a subsidiary	**(337)**	–
Currency translation differences	**–**	(8)
End of financial year	**–**	337
Accumulated amortisation		
Beginning of financial year	**106**	101
Amortisation charge (Note 7)	**–**	7
Disposal of a subsidiary	**(106)**	–
Currency translation differences	**–**	(2)
End of financial year	**–**	106
Accumulated impairment losses		
Beginning of financial year	**231**	237
Disposal of a subsidiary	**(231)**	–
Currency translation differences	**–**	(6)
End of financial year	**–**	231
Net carrying amount		
End of financial year	**–**	–

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

19. LAND USE RIGHTS

	Group	
	2013	**2012**
	$'000	**$'000**
Cost		
Beginning of financial year	**320**	1,863
Disposal	**(336)**	–
Disposal of subsidiaries	**–**	(1,496)
Currency translation differences	**16**	(47)
End of financial year	**–**	320
Accumulated amortisation		
Beginning of financial year	**56**	286
Amortisation charge	**5**	41
Disposal	**(64)**	–
Disposal of subsidiaries	**–**	(264)
Currency translation differences	**3**	(7)
End of financial year	**–**	56
Net carrying amount		
End of financial year	**–**	264
Amount to be amortised:		
– Not later than one financial year	**–**	6
– Between two and five financial years	**–**	26
– Later than five financial years	**–**	232
	–	264

20. DEFERRED INCOME TAXES

The movements in the deferred income taxes are as follows:

	Group	
	2013	**2012**
	$'000	**$'000**
Beginning of financial year	**30**	(3,720)
Tax charged to profit or loss	**46**	(696)
Disposal of subsidiaries	**(16)**	4,326
Currency translation differences	**(3)**	120
End of financial year	**57**	30
Presented on statements of financial position as:		
Deferred income tax assets	**110**	98
Deferred income tax liabilities	**(53)**	(68)
	57	30

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

20. DEFERRED INCOME TAXES (CONTINUED)

The deferred income tax assets on temporary differences recognised in the financial statements are in respect of tax effects arising from:

	Group	
	2013	**2012**
	$'000	**$'000**
Allowance for doubtful debts	**69**	79
Unrealised foreign exchange	**(2)**	13
Others	**43**	6
	110	98

At the end of the reporting period, the Group and the Company have potential tax benefits arising from unabsorbed tax losses of approximately $29,428,000 (2012: $25,336,000) and $1,836,000 (2012: $1,459,000) respectively, and unabsorbed capital allowances of approximately $170,000 (2012: $85,000) and $Nil (2012: $Nil) respectively, that are available for carry-forward to offset against future taxable income of the companies in which the tax losses and capital allowances arose, subject to the agreement by the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

The Taiwan subsidiaries have unabsorbed tax losses approximately $26,012,000 (2012: $22,647,000), that are available for carry-forward for a maximum of 10 years to offset against future taxable income of the Taiwan subsidiaries in which the tax losses arose, subject to the agreement by the tax authorities and compliance with certain provisions of the tax legislation.

The potential deferred tax assets arising from the unabsorbed tax losses and unabsorbed capital allowances have not been recognised in the financial statements as it is not probable that the future taxable income in these companies will be sufficient to allow the unabsorbed tax losses and unabsorbed capital allowances to be realised in the foreseeable future.

The deferred income tax liabilities on temporary differences recognised in the financial statements are in respect of tax effects arising from:

	Group	
	2013	**2012**
	$'000	**$'000**
Excess of carrying amount over tax written down value of property, plant and equipment	**53**	68

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

21. BORROWINGS

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Current				
Revolving loan and term loan facilities (a)	**–**	10,514	**–**	10,514
Bank overdrafts (b)	**1,661**	2,489	**–**	280
Banker's acceptance (c)	**–**	256	**–**	–
Finance lease liabilities (d)	**31**	47	**–**	–
Term loan I (e)	**–**	1,020	**–**	1,020
Term loan II (f)	**–**	3,455	**–**	–
Term loan III (g)	**47**	42	**–**	–
Personal loan I (i)	**233**	–	**–**	–
Personal loan II (j)	**471**	465	**–**	–
Personal loan III (k)	**–**	232	**–**	–
Personal loan IV (l)	**502**	211	**–**	–
Trust receipt (m)	**–**	60	**–**	–
	2,945	18,791	**–**	11,814
Non-current				
Finance lease liabilities (d)	**102**	87	**–**	–
Term loan III (g)	**498**	416	**–**	–
Term loan IV (h)	**595**	–	**–**	–
	1,195	503	**–**	–
Total borrowings	**4,140**	19,294	**–**	11,814

(a) Revolving loan and term loan facilities bear interests at floating rates ranging from 2.55% to 3.99% per annum and are secured by corporate guarantees from certain subsidiaries, the Company's present and future shares in certain subsidiaries and subject to compliance with certain financial covenants. The revolving loan and term loan facilities were fully settled during the financial year.

(b) The bank overdrafts are secured by corporate guarantee from the Company and freehold land of a subsidiary and bear effective interest rates ranging from 7.85% to 8.10% (2012: 7.85% to 8.10%) per annum and fixed rate of Nil (2012: 5.50%) per annum.

(c) The banker's acceptance was secured by corporate guarantee from the Company and borne interest at 4.81% per annum and was fully settled during the financial year.

(d) Finance lease liabilities

The Group leases certain motor vehicles 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.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

21. BORROWINGS (CONTINUED)

(d) Finance lease liabilities (continued)

	Group	
	2013	**2012**
	$'000	**$'000**
Minimum lease payments due:		
– Not later than one financial year	**37**	51
– Between two and five financial years	**97**	96
– Later than five financial years	**14**	–
	148	147
Less: Future finance charges	**(15)**	(13)
Present value of finance lease liabilities	**133**	134

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

	Group	
	2013	**2012**
	$'000	**$'000**
Not later than one financial year	**31**	47
Between two and five financial years	**88**	87
Later than five financial years	**14**	–
Present value of finance lease liabilities	**133**	134

Finance lease liabilities of the Group are effectively secured over the leased motor vehicles (Note 17) as the legal titles are retained by the lessors and will be transferred to the Group upon full settlement of the finance lease liabilities.

The finance lease liabilities bear interests ranging from 2.44% to 6.16% (2012: 4.65% to 9.08%) per annum.

(e) The term loan I bears interests at floating rate ranging from 5.18% to 5.83% per annum and is secured by corporate guarantees from certain subsidiaries. The term loan was fully settled during the financial year.

(f) The term loan II represented a loan obtained from a third party for the 20% investment in Forest Environmental Engineering Co., Ltd. ("Forest Environmental"). This loan will be settled by transferring the 20% investment in Forest Environmental to the third party. The loan is interest-free and secured by the 20% investment in Forest Environmental. The term loan was fully settled during the financial year.

(g) The term loan III is secured by the subsidiary's leasehold and freehold properties with carrying amount of $1,768,000 (2012: $640,000) [Note 17(d)] and corporate guarantee from the Company. The term loan bears interest ranging from 4.50% to 4.60% (2012: 4.60%).

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

21. BORROWINGS (CONTINUED)

(h) The term loan IV was secured by personal guarantee from a director of a subsidiary and a subsidiary's staff, freehold land and building of a subsidiary with carrying amount of $1,178,000 (2012: $Nil). The term loan bears interest at 3.14% per annum and is repayable over 15 years commencing from 4 March 2015.

(i) The personal loan I represents a loan from a third party. The personal loan is unsecured, bears interest at 2.27% per month and payable on demand.

(j) The personal loan II represents a loan from a non-controlling interest of a subsidiary. The personal loan is unsecured, interest-free and payable on demand.

(k) The personal loan III represents a loan from a third party. The personal loan was unsecured, borne interest at 2.20% per month and was fully settled during the financial year.

(l) The personal loan IV represents a loan from a subsidiary's staff. The personal loan is interest-free and payable by 30 June 2014.

(m) The trust receipt was secured by the corporate guarantee from the Company and borne interest at 8.10% per annum. The trust receipt was fully settled during the financial year.

(n) Convertible notes

In 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.

The fair value of the liability component included in 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.

The remaining convertible notes were paid to PCIM in 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. Therefore, the carrying amount of equity conversion component has been transferred to retained earnings.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

21. BORROWINGS (CONTINUED)

(n) Convertible notes (continued)

The details of the convertible notes are as follows:

	Group and Company 2012 $'000
Beginning of financial year	189
Interest expense charged to profit or loss (Note 6)	11
Redemption of convertible notes	(200)
End of financial year	–

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

	$'000
Face value of convertible notes	200
Equity conversion component	(42)
Liability component on initial recognition	158
Accumulated interest expense	42
Redemption of convertible notes	(200)
Liability component at the end of the reporting period	–

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

	$'000
Beginning of financial year	31
Interest expense charged to profit or loss (Note 6)	11
End of financial year	42

Fair value of the non-current borrowings

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

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Current				
Trade payables to:				
– Non-related parties	**4,264**	6,657	**–**	–
Construction contracts:				
– Due to customers (Note 15)	**4,108**	4,470	**–**	–
Other payables and accruals for operating expenses to:				
– Subsidiaries	**–**	–	**5,353**	5,996
– Related parties	**1,940**	2,113	**–**	–
– Non-related parties	**2,470**	2,999	**548**	551
	4,410	5,112	**5,901**	6,547
	12,782	16,239	**5,901**	6,547
Non-current				
Amount due to a subsidiary	**–**	–	**–**	1,000

Amounts due to subsidiaries are non-trade in nature, unsecured, interest free and repayable on demand except for an amount of $2,500,000 as at 31 December 2012 which borne interest at 3.00% per annum and repayable over 5 equal quarterly instalments, commencing from May 2013. The remaining non-trade amount of $2,000,000 was restructured during the financial year and is repayable on demand. Pursuant to the supplementary agreements dated 25 April 2014, the non-trade amounts were restructured and will be repayable over 2 to 5 years from the date of supplementary loan agreements.

Amounts due to related parties are non-trade in nature, unsecured, interest free and repayable on demand except for an amount of $Nil (2012: $500,000) which bears interest at Nil (2012: 3.00%) per annum. The amount was fully settled during the financial year.

23. SHARE CAPITAL

	Number of ordinary shares	Issued share capital $'000
Group and Company		
2013 and 2012		
Beginning and end of the financial year	**276,684,812**	**36,985**

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. The holder of the ordinary shares is entitled to receive dividends as and when declared by the Company.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

24. OTHER RESERVES

(a) Composition

	Group	
	2013	**2012**
	$'000	**$'000**
Currency translation reserve (b)(i)	**(4,350)**	(3,988)
Premium paid on acquisition of non-controlling interests (b)(ii)	**(140)**	–
	(4,490)	(3,988)

(b) Movements:

(i) Currency translation reserve

	Group	
	2013	**2012**
	$'000	**$'000**
Beginning of financial year	**(3,988)**	(364)
Net currency translation differences of financial statements of foreign subsidiaries	**(630)**	(2,039)
Reclassification of currency translation reserve upon disposal of subsidiaries [Note 16(c)(i) & (iv)]	**287**	(1,659)
Less: Non-controlling interests	**(19)**	74
	(362)	(3,624)
End of financial year	**(4,350)**	(3,988)

Currency translation reserve arises from the translation of foreign subsidiaries' financial statements whose functional currencies are different from the presentation currency of the Group.

(ii) As referred to on Note 16(b), this represents premium paid on a acquisition of non-controlling interests.

(iii) 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.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

24. OTHER RESERVES (CONTINUED)

(b) Movements: (Continued)

(iii) Legal reserve (Continued)

	Group 2012 $'000
Beginning of financial year	1,494
Additions	200
Reclassification of legal reserve upon disposal of subsidiaries	(1,694)
	(1,494)
End of financial year	–

25. CONTINGENCIES

(a) Contingent liabilities

Contingent liabilities of which the probability of settlement is not remote at the end of the reporting period, are as follows:

Group

(i) Several sub-contractors are making claims against DET for additional compensations totalling approximately NTD$105.96 million (2012: NTD$105.96 million). These cases are as follows:

- Claim against DET by Zhan Ji on Kerya project of NTD$38.43 million. DET had won the first trial on 9 October 2012 and Zhan Ji had filed an appeal on 25 December 2012. The legal case is currently ongoing.

- Claim against DET by Zhan Ji on Chubei project of NTD$30.24 million. DET had lost the legal case on 24 January 2013 and DET had filed an appeal on 18 February 2013. The legal case is currently ongoing.

- Claim against DET on Ruyi contract of NTD$37.29 million. DET had won the first and second trial on 30 March 2012 and 30 January 2013 respectively. The sub-contractor, Ruyi had filed an appeal in March 2013. The legal case was closed in July 2013 after the court judge that Ruyi has no valid reason for appeal.

The legal advisers of DET advised that there are reasonable grounds of defence but subject to decision by the court.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

25. CONTINGENCIES (CONTINUED)

(a) Contingent liabilities (Continued)

Group (Continued)

(ii) DET set up a subsidiary, Darco Puding Wastewater Management Co., Ltd. ("Darco Puding") to enter into a build-operate-transfer ("BOT") contract with Taoyuan County Government ("TCG") on 16 March 2010. Under the BOT contract, Darco Puding was granted a 35 years concessionary period to construct and operate the water treatment plant. The construction of the water treatment plant was to be completed in 4 years period from 16 March 2010.

In 2010, the Group found hazardous material in the ground during the construction phase and has informed TCG of this finding. The construction of the water treatment plant has been put on hold since then.

In 2011, Darco Puding was penalised by TCG for non-compliance with the schedule and other obligations as stated in the BOT contract. Total penalty levied and accrued as at 31 December 2011 amounted to $0.43 million (NTD$9.87 million). The construction costs incurred for BOT contract for the financial year ended 31 December 2012 amounted to $0.09 million (NTD$2.20 million) were written off in view of uncertainty of its recoverability.

Due to unacceptable delays in the BOT project in Taiwan, the Group decided that it was in the best interest of Darco Puding and terminated the BOT contract with TCG on 26 December 2012. Darco Puding has requested for refund of the deposit guarantee of $2.5 million (NTD$60.00 million).

Darco Puding was penalised by TCG for non-compliance with the schedule and other obligations as stated in the BOT contract and the cumulated penalties levied demand by TCG as at 6 December 2012 amounted to $6.95 million (NTD$164.98 million). Total penalties levied and accrued for in the financial statements as at 31 December 2013 by Darco Puding amounted to $0.42 million (NTD$9.87 million). The remaining penalties levied of $6.59 million (NTD$155.11 million) has not been accrued for as at 31 December 2013.

TCG had since resisted Darco Puding's action to rescind the BOT contract, and in response TCG has also ordered the Taoyuan Land Office to cancel Darco Puding's land use rights ("Land Use Rights") attached with the BOT contract. Darco Puding then applied for judicial review on the ground that the Land Office had acted illegally to cancel the Land Use Rights attached to the BOT contract. In relation to the Land Use Rights, Darco Puding received a judgment in its favour in December 2013.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

25. CONTINGENCIES (CONTINUED)

(a) Contingent liabilities (Continued)

Group (Continued)

(ii) Management represented that the case is currently ongoing and the Group is still in the midst of discussion with TCG and also has ask for waiver of the penalty levied as of the date of this report. The legal adviser of Darco Puding advised that there are reasonable grounds of defence but subject to decision by the court.

(iii) During the financial year, a main contractor made a claim against DET for compensation amounted to approximately NTD$22,950,000. The legal case is currently ongoing. The legal adviser of DET advised that there are reasonable grounds of defence but subject to decision by the court.

(iv) As disclosed in Note 32(c), DET received an additional tax assessments and penalties (the "claims") from the Taiwanese tax authorities amounting to S$1,780,500 (NTD$42,822,114) and S$1,600,250 (NTD$38,486,995) respectively. The additional tax assessments arose from the fraudulent acts committed by the previous management of DET and is related to years of assessment 2006, 2007, 2008 and 2009 and the penalties as a consequent result of the additional tax assessment. DET has been advised that the claims are disputable and will vigorously appeal and contest such claims. The appeal on the claims and legal suit against the former management of DET is still ongoing.

The management is of the view that no provision is necessary for any of the legal cases described above having considered the status of the legal cases and the opinions obtained from the legal advisers of the respective subsidiaries.

(v) Guarantees

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Corporate guarantees provided to banks and financial institutions for credit facilities granted to subsidiaries	**–**	–	**2,206**	14,118
Mortgaged of freehold land to a related party who granted credit facilities to a subsidiary's supplier	**–**	404	**–**	–

The Company has also given undertakings to continue providing financial support to certain subsidiaries as and when required to allow them to meet their obligations.

The directors have assessed the fair values of these financial guarantees to have no material financial impact on the results for the financial years ended 31 December 2013 and 31 December 2012.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

25. CONTINGENCIES (CONTINUED)

(b) Contingent assets

Group

(i) In March 2010, the Company reported to the Singapore Stock Exchange that the Group was concerned with the manner in which DET accounts had been managed. On 20 May 2010, KPMG Singapore was appointed to conduct an investigation of the affairs of DET. Based on investigation report issued by KPMG Singapore on 27 May 2011, the total amount of possibly misappropriated monies amounted approximately to $7.18 million (NTD$163.41 million).

The Group filed police reports in Taiwan against its former employees and third parties facilitators or conspirators, claiming a total misappropriated amounts of $8.7 million (NTD$206.66 million) as of the date of this report.

The misappropriated amounts were recorded either as alleged administration expenses or project costs and recognised in the consolidated statement of comprehensive income for the financial years ended 31 December 2009 and before.

On 9 May 2013, DET's former general manager and former administrative have been formally charged by Taipei District Prosecutors Office for alleged fraud, breach of trust and misappropriating of company funds, sixteen other suppliers have been charged for alleged complicity.

As of the date of this report, the case is still under police investigation and a refundable deposits of $0.65 million (NTD$15.11 million) has been paid to Taiwan court as guarantee for withhold defendant's assets. The legal case is still ongoing.

(ii) In 2009, DET filed a claim of NTD$8.16 million against RPTI International Ltd for certain repair and maintenance expenses. The court has awarded DET for a lesser amount of NTD$6.48 million. Both parties have appealed against the amount. The case is outstanding as at the end of the reporting period.

(iii) On 24 July 2013, the Group has announced that Darco Industrial Water Sdn Bhd ("DIW") has filed a High Court legal action in Penang against its former employees with a S$5.79 million (RM15.0 million) legal action for breach of duties and conspiracy to divert DIW's business contracts during and after their employment.

DIW is also seeking an inquiry to assess damages for and an account of all profits made by the defendants and an order for payment from the defendants of all sums due to them after the inquiry. DIW is further making a court enquiry against the former employees for the recovery of purported monetary incentives paid to key employees, many of whom subsequently resigned en-mass.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

25. CONTINGENCIES (CONTINUED)

(b) Contingent assets (Continued)

Group (Continued)

(iii) As disclosed in Note 32(b), DIW has entered into a final and amicable settlement agreement with its former employees, Grober Industrial Services Sdn Bhd and KIJ Ultra Supreme Filtration Sdn Bhd, and the total value of settlement is estimated to be approximately S$1.15 million (RM3 million).

(c) The Group provided performance guarantee to customers for performance of the contracts during the contract and warranty periods which amounted to $7,329,000 (2012: $17,658,000) as at the end of the reporting period.

26. COMMITMENTS

(a) Capital commitments

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

	Group	
	2013	**2012**
	$'000	**$'000**
Approved and contracted for purchase of property,plant and equipment	**–**	226

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

The Group leases 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 end of the reporting period but not recognised as liabilities, are as follows:

	Group	
	2013	**2012**
	$'000	**$'000**
Not later than one financial year	**1,406**	337
Between two and five financial years	**353**	111
	1,759	448

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

27. RELATED PARTY TRANSACTIONS

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

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Loan to subsidiaries	**–**	–	**400**	3,577
Dividend income received from a subsidiary	**–**	–	**531**	–
Sales to former associated companies	**–**	80	**–**	–
Loan to former associated companies	**–**	1,066	**–**	872
Payment on behalf of former associated companies	**51**	97	**51**	97
Management fee received from subsidiaries	**–**	–	**204**	204
Professional fees paid to a director-related corporation	**–**	36	**–**	30
Interest paid to a director-related company	**18**	64	**2**	33
Loan from a director-related company	**250**	500	**150**	–
Loan from a non-controlling interest of a subsidiary	**–**	467	**–**	–
Bad debts written off – due from former associated companies	**–**	–	**75**	–
Service fee charged to former associated companies	**–**	55	**–**	–

Related parties refer to corporations in which certain shareholders and directors of the Group and Company have controlling interests over these companies in financial and operating decisions.

28. SEGMENT INFORMATION

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

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

(ii) 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.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

28. SEGMENT INFORMATION (CONTINUED)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on gross profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

The segment information provided to the management for the reportable segments of continuing operations for the financial year ended 31 December 2013 is as follows:

	EE Systems $'000	WM Services $'000	Trading $'000	Unallocated $'000	Eliminations $'000	Total $'000
Group						
Revenue						
Sales to external customers	14,553	8,105	7,880	–	–	30,538
Inter-segment sales	–	–	18	–	(18)	–
Total revenue	14,553	8,105	7,898	–	(18)	30,538
Segment profit/(loss)	3,101	1,077	1,287	(10,183)	–	(4,718)
Finance expenses						(581)
Loss before income tax						(5,299)
Income tax expense						(108)
Loss for the year						(5,407)
Depreciation of property, plant and equipment	(693)	(289)	(222)	(83)	–	(1,287)
Amortisation of land use rights	–	–	(5)	–	–	(5)
Impairment loss of property, plant and equipment	(1,569)	(22)	–	–	–	(1,591)
Gain on disposal group classified as held for sales	–	–	–	503	–	503
Interest income	3	3	–	82	–	88
Finance expenses	–	–	(33)	(548)	–	(581)
Loss on disposal of a subsidiary	–	–	–	(699)	–	(699)
Gain on disposal of property, plant and equipment	–	–	1,013	–	–	1,013
Gain on disposal of land use rights	–	–	316	–	–	316
Allowance for impairment of receivables	171	1	113	2	–	287
Assets						
Segment assets	13,375	4,829	5,628	26,572	(21,513)	28,891
Liabilities						
Segment liabilities	8,173	1,495	2,074	35,011	(29,788)	16,965
Other information:						
Additions to property, plant and equipment	13	50	2,447	38	–	2,548

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

28. SEGMENT INFORMATION (CONTINUED)

The segment information provided to the management for the reportable segments of continuing operations for the financial year ended 31 December 2012 is as follows:

	EE Systems $'000	WM Services $'000	Trading $'000	Unallocated $'000	Eliminations $'000	Total $'000
Group						
Revenue						
Sales to external customers	25,784	9,485	6,123	–	–	41,392
Inter-segment sales	–	–	497	–	(497)	–
Total revenue	25,784	9,485	6,620	–	(497)	41,392
Segment profit/(loss)	3,076	1,198	880	(6,304)	–	(1,150)
Finance expenses						(1,381)
Loss before income tax						(2,531)
Income tax expense						(176)
Loss for the year						(2,707)
Depreciation of property, plant and equipment	(695)	(247)	(233)	(118)	–	(1,293)
Amortisation of land use rights	–	–	(7)	–	–	(7)
Written back of impairment loss of property, plant and equipment	499	388	–	–	–	887
Interest income	17	1	–	45	–	63
Finance expenses	(19)	(5)	(3)	(1,354)	–	(1,381)
Allowance for impairment of receivables	(1,563)	(1)	(25)	(5)	–	(1,594)
Gain on disposal of disposal group classified as held-for-sales	–	–	2,312	–	–	2,312
Gain on disposal of property, plant and equipment	–	1	13	–	–	14
Impairment loss of property, plant and equipment	47	–	–	–	–	47
Assets						
Segment assets	20,117	4,810	6,157	46,929	(23,538)	54,475
Liabilities						
Segment liabilities	11,145	1,067	1,578	53,984	(32,162)	35,612
Other information:						
Additions to property, plant and equipment	43	68	420	105	–	636

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

28. SEGMENT INFORMATION (CONTINUED)

(i) Inter-segment sales are eliminated on consolidation.

(ii) The following items are added to segment assets to arrive at total assets in the statements of financial position:

	Group	
	2013	**2012**
	$'000	**$'000**
Tax recoverable	**554**	383
Deferred tax assets	**110**	98
	664	481

(iii) The following item is added to segment liabilities to arrive at total liabilities in the statements of financial position:

	Group	
	2013	**2012**
	$'000	**$'000**
Deferred tax liabilities	**53**	68

Geographical information

The Group's three business segments operated in five main geographical areas:

(i) Taiwan – the operations in this areas 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.

(ii) 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.

(iii) The 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.

(iv) 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.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

28. SEGMENT INFORMATION (CONTINUED)

Geographical information (Continued)

(v) 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.

Revenue and non-current assets information based on the geographical location of customers are as follows:

	Sales for continuing operations		Non-current assets	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Taiwan	**9,097**	13,056	**2,186**	4,678
Malaysia	**16,032**	19,029	**2,302**	2,192
The People's Republic of China	**913**	1,078	**48**	1,369
Singapore	**4,213**	7,719	**962**	999
Other countries	**283**	510	**7**	11
	30,538	41,392	**5,505**	9,249

Non-current assets information presented above are non-current assets as presented on the statement of financial position excluding deferred income tax assets.

29. CATEGORIES OF FINANCIAL INSTRUMENTS

Financial instruments at their carrying amounts at the end of the reporting period are as follows:

	Group		Company	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Financial assets				
Cash and cash equivalents	**9,761**	10,781	**406**	116
Trade and other receivables	**12,403**	16,837	**53**	1,080
Loans and receivables	**22,164**	27,618	**459**	1,196
Financial liabilities				
Borrowings	**4,140**	19,294	**–**	11,814
Trade and other payables	**8,563**	11,624	**5,901**	7,547
Financial liabilities at amortised costs	**12,703**	30,918	**5,901**	19,361

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

30. 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

Currency risk

The Group operates in Asia with dominant operations in Singapore, The People's Republic of China, Taiwan, Malaysia 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.

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

	SGD $'000	USD $'000	MYR $'000	NTD $'000	RMB $'000	Others $'000	Total $'000
Group							
2013							
Financial assets							
Cash and cash equivalents	1,853	590	1,345	1,845	4,033	95	9,761
Trade and other receivables	431	272	5,185	6,064	404	47	12,403
	2,284	862	6,530	7,909	4,437	142	22,164
Financial liabilities							
Borrowings	5	–	2,335	1,800	–	–	4,140
Trade and other payables	3,016	60	1,749	3,388	286	64	8,563
	3,021	60	4,084	5,188	286	64	12,703
Net financial (liabilities)/assets	(737)	802	2,446	2,721	4,151	78	9,461
Less: Net financial liabilities denominated in the respective entities' functional currencies	739	–	(2,444)	(2,722)	(4,149)	5	
Currency exposure	2	802	2	(1)	2	83	

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (Continued)

Currency risk (Continued)

	SGD $'000	USD $'000	MYR $'000	NTD $'000	RMB $'000	Others $'000	Total $'000
Group							
2012							
Financial assets							
Cash and cash equivalents	2,173	965	770	5,778	564	531	10,781
Trade and other receivables	769	182	4,909	8,553	2,349	75	16,837
	2,942	1,147	5,679	14,331	2,913	606	27,618
Financial liabilities							
Borrowings	2,964	8,863	3,104	4,363	–	–	19,294
Trade and other payables	3,190	136	1,525	6,303	343	125	11,622
	6,154	8,999	4,629	10,666	343	125	30,916
Net financial (liabilities)/ assets	(3,212)	(7,852)	1,050	3,665	2,570	481	(3,298)
Less: Net financial liabilities denominated in the respective entities' functional currencies	3,173	–	(1,050)	(3,665)	(1,695)	(48)	
Currency exposure	(39)	(7,852)	–	–	875	433	

	SGD $'000	USD $'000	RMB $'000	Total $'000
Company				
2013				
Financial assets				
Cash and cash equivalents	**307**	**97**	**2**	**406**
Trade and other receivables	**53**	**–**	**–**	**53**
	360	**97**	**2**	**459**
Financial liabilities				
Trade and other payables	**3,507**	**2,395**	**–**	**5,902**
Net financial (liabilities)/assets	**(3,147)**	**(2,298)**	**2**	**(5,443)**
Less: Net financial liabilities denominated in the Company's functional currency	**3,147**	**–**	**–**	
Currency exposure	**–**	**(2,298)**	**2**	

NOTES TO THE **FINANCIAL STATEMENTS**
For the financial year ended 31 December 2013

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (Continued)

Currency risk (Continued)

	SGD $'000	USD $'000	RMB $'000	Total $'000
Company				
2012				
Financial assets				
Cash and cash equivalents	–	113	3	116
Trade and other receivables	127	82	871	1,080
	127	195	874	1,196
Financial liabilities				
Borrowings	2,952	8,862	–	11,814
Trade and other payables	7,547	–	–	7,547
	10,499	8,862	–	19,361
Net financial (liabilities)/assets	(10,372)	(8,667)	874	(18,165)
Less: Net financial liabilities denominated in the Company's functional currency	10,372	–	–	
Currency exposure	–	(8,667)	874	

If the USD and RMB change against the SGD by 2% (2012: 2%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

	Loss after tax Increase/(decrease)			
	Group		Company	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
USD against SGD				
– Strengthened	**8**	(132)	**(38)**	(144)
– Weakened	**(8)**	132	**38**	144
RMB against SGD				
– Strengthened	**–***	15	**–***	15
– Weakened	**–***	(15)	**–***	(15)

* Amount less than $1,000

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (Continued)

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% to 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 risk arises mainly from non-current variable-rate borrowings and loans to subsidiaries at variable rates.

An increase in interest rates by 50 basis points for variable rate borrowings is not expected to have a significant impact on the Group's loss before tax.

(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 for guarantees as disclosed in Note 25(a)(v).

The Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The Company's receivables are mainly due from subsidiaries.

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.

The Group's trade receivables that are not past due amounted to $4,151,000 (2012: $3,135,000).

NOTES TO THE **FINANCIAL STATEMENTS**
For the financial year ended 31 December 2013

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

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	
	2013	**2012**
	$'000	**$'000**
Past due < 3 months	**1,225**	1,840
Past due over 3 months	**1,254**	1,372
	2,479	3,212

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

	Group	
	2013	**2012**
	$'000	**$'000**
Past due over 3 months	**5,284**	5,220
Less: Allowance for impairment	**(4,030)**	(3,848)
	1,254	1,372
Beginning of financial year	**3,848**	4,729
Allowance made	**283**	62
Allowance written off	**(47)**	(760)
Write back of allowance	**(98)**	(69)
Currency translation differences	**44**	(114)
End of financial year	**4,030**	3,848

The impaired trade receivables arise mainly from long outstanding debts.

(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 21) and the ability to close out market positions at a short notice. At the end of the reporting period, assets held by the Group and the Company for managing liquidity risk included cash and short-term deposits as disclosed in Note 12.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

Management monitors rolling forecasts of the Group's and the Company's liquidity reserve (comprises borrowings (Note 21) and cash and cash equivalents (Note 12) 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 the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the end of the reporting period 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.

	Less than 1 year $'000	Between 2 to 5 years $'000	Over 5 years $'000	Total $'000
Group				
2013				
Borrowings	3,188	599	842	4,629
Trade and other payables	8,563	–	–	8,563
	11,751	**599**	**842**	**13,192**
2012				
Borrowings	19,437	347	228	20,012
Trade and other payables	11,624	–	–	11,624
	31,061	347	228	31,636
Company				
2013				
Trade and other payables	5,901	–	–	5,901
Financial guarantee contracts	2,206	–	–	2,206
	8,107	**–**	**–**	**8,107**
2012				
Borrowings	12,137	–	–	12,137
Trade and other payables	7,547	–	–	7,547
Financial guarantee contracts	14,118	–	–	14,118
	33,802	–	–	33,802

NOTES TO THE **FINANCIAL STATEMENTS**
For the financial year ended 31 December 2013

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value measurements

The Group and the Company do not have any financial instruments at the end of the financial years ended 31 December 2013 and 31 December 2012 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 of 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.

31. CAPITAL RISK MANAGEMENT POLICIES AND OBJECTIVES

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, 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 1.7 times (2012: 1.7 times). The Group's and the Company's strategies, which were unchanged from 2012 are to maintain gearing ratios below 1.7 times.

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

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Total debts	**4,140**	19,294	**–**	11,814
Total tangible networth	**9,330**	15,247	**(891)**	(1,211)
Gearing ratio	**0.44 times**	1.27 times	***N.M.**	(9.76 times)

* N.M. – Not Meaningful.

The Group and the Company are in compliance with all externally imposed capital requirements for the financial year ended 31 December 2013.

Except for breaches of the covenants clauses from three banks as disclosed in the note to financial statements for the financial year ended 31 December 2012, the Group and the Company are in compliance with all externally imposed capital requirements for the financial year ended 31 December 2012.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

32. EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) On 12 February 2014, WWMG Environmental Sdn. Bhd. ("WWMG"), a wholly-owned subsidiary of Darco Water Systems Sdn Bhd acquired entire shareholdings or 1,000,000 ordinary shares of NTD$ 10.0 each in Darco Remediation Technologies Inc. ("DRT") for a total cash consideration of NTD$ 10,000,000 (equivalent to RM 1,210,000) from Darco Engineering Taiwan Co. Ltd, a wholly-owned subsidiary of the Company. Upon completion of the restructuring transaction, DRT became wholly-owned subsidiary of WWMG.

(b) On 8 April 2014, DIW has entered into a final and amicable settlement agreement with its former employees, Grober Industrial Services Sdn Bhd and KIJ Ultra Supreme Filtration Sdn Bhd (the "Defendants"), wherein *inter alia*, the legal ownership and all current business of Grober Industrial Services Sdn Bhd shall be transferred from the Defendants to the Company (the "Transfer"). The total value of settlement is estimated to be approximately S$1.15 million (RM3 million). A token sum of S$0.38 (RM1.00) will be paid for the Transfer, which will enable DIW to recover the assets that has been part of the Group's business under its ordinary course of business.

(c) On 9 April 2014, DET received an additional tax assessments and penalties from the Taiwanese tax authorities amounting to S$1,780,500 (NTD$42,822,114) and S$1,600,250 (NTD$38,486,995) respectively. The additional tax assessments arose from the fraudulent acts committed by the previous management of DET and is related to years of assessment 2006, 2007, 2008 and 2009 and the penalties as a consequent result the additional tax assessment. The legal suit against the former management of DET is still ongoing.

33. BASIS FOR QUALIFIED OF OPINION ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

The independent auditor's report dated 26 April 2013 expressed a qualified opinion on the financial statements for the financial year ended 31 December 2012. The extract of the basis for qualified opinion is as follows:

"1. Opening balances

Our independent auditor's report dated 14 August 2012 expressed a disclaimer of opinion on the financial statements for the financial year ended 31 December 2011. The basis for disclaimer of opinion on the financial statements for the financial year ended 31 December 2011 are disclosed in note to the financial statements.

In view of the matters described in the basis for disclaimer of opinion on the financial statements for the financial year ended 31 December 2011, we are unable to determine whether the opening balances as at 1 January 2012 are fairly stated. Since the opening balances as at 1 January 2012 enter into the determination of the financial results and cash flows for the financial year ended 31 December 2012, we are unable to determine whether any adjustments might have been found necessary in respect of the financial statements for the financial year ended 31 December 2012.

Our opinion on the current financial year's financial statements is also modified because of the possible effect of these matters on the comparability of the current year's figures and the corresponding figures.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

33. BASIS FOR QUALIFIED OF OPINION ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

2. P.T. Darco Indonesia ("PT Darco")

As disclosed in note to the financial statements, the Group diluted its effective equity interest in PT Darco in November 2012 and subsequently disposed of its remaining equity interest in PT Darco during the financial year.

The unaudited management accounts of PT Darco from 1 January 2012 to 30 November 2012 are used to prepare the Group's financial statements, as the audited financial statements of PT Darco are not available as of the date of this report.

We are unable to obtain sufficient information and explanations to enable us form an opinion as to whether the unaudited management accounts of PT Darco prepared, are in accordance with Singapore Financial Reporting Standards and in form and content appropriate and proper for the purpose of preparation of the Group's financial statements for the financial year ended 31 December 2012.

Consequently, we are unable to determine whether any adjustments might have been found necessary in respect of the following:

(i) the net loss of PT Darco from 1 January 2012 to 30 November 2012 and loss on disposal of the investment in PT Darco amounting to $0.37 million and $1.32 million respectively included in the loss from discontinued operations, and related information as disclosed in note to the financial statements;

(ii) the basic and diluted loss per share attributable to equity holders of the Company for loss from discontinued operations as disclosed in note to the financial statements; and

(iii) the effects of assets and liabilities disposed of and related classification of the line items of PT Darco on the consolidated statement of cash flows as disclosed in note to the financial statements.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2013

33. BASIS FOR QUALIFIED OF OPINION ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

3. Salcon Darco Environmental Pte. Ltd. (formerly known as Darco Environmental Pte. Ltd.) ("DNV") and its subsidiaries ("DNV Group")

The subsidiaries of DNV, Deqing Huanzhong Producing Water Co., Ltd. ("Deqing Huanzhong") and Deqing Darco Producing Water Co., Ltd. ("Deqing Darco") obtained service concession arrangements in The People's Republic of China to construct and operate water treatment plants. Under the service concession arrangements, Deqing Huanzhong and Deqing Darco constructed and operated the water treatment plants for the concession periods of 22 years and 25 years, respectively. Such arrangements fall within the scope of Interpretations of FRS 112 Service Concession Arrangements.

As disclosed in note to the financial statements, the Group completed the disposal of 60% effective equity interest in DNV in July 2012.

The unaudited management accounts of DNV Group from 1 January 2012 to 31 July 2012 are used to prepare the Group's financial statements, as the audited financial statements of DNV Group are not available as of the date of this report. The unaudited management accounts are prepared based on key assumptions as disclosed in note to the financial statements for computation of the fair values of considerations received and receivable of service concession arrangements.

We are unable to obtain sufficient information and explanations including the reasonableness of the key assumptions, construction costs and methods used in the determination of the revenue recognition, fair values of the financial assets on the initial recognition, and the amortised costs and corresponding finance income during the concession periods to enable us form an opinion as to whether the unaudited management accounts of DNV Group prepared, are in accordance with Singapore Financial Reporting Standards and in form and content appropriate and proper for the purpose of preparation of the Group's financial statements for the financial year ended 31 December 2012.

Consequently, we are unable to determine whether any adjustments might have been found necessary in respect of the following:

(i) the net profit of DNV Group from 1 January 2012 to 31 July 2012 and loss on disposal of the investment in DNV amounting to $2.08 million and $5.12 million respectively included in the loss from discontinued operations, and related information as disclosed in note to the financial statements;

(ii) the basic and diluted loss per share attributable to equity holders of the Company for loss from discontinued operations as disclosed in note to the financial statements; and

(iii) the effects of assets and liabilities disposed of and related classification of the line items of DNV Group on the consolidated statement of cash flows as disclosed in note to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2013

33. BASIS FOR QUALIFIED OF OPINION ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

4. Segment information

Segment information that enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the Group engages and the economic environments in which it operates as required by FRS 108 Operating Segments are disclosed in note to the financial statements. We are unable to perform necessary audit procedures to determine whether the segment information is fairly presented.

5. Financial instruments: Disclosures

Information that enable users of the financial statements to evaluate the significance of financial instruments for the Group's financial position and performance; and the nature and extent of risks arising from financial instruments to which the Group are exposed during the period and at the end of the reporting period, and how the Group manage those risks as required by FRS 107 Financial Instruments: Disclosures are disclosed in note to the financial statements, respectively. We are unable to perform necessary audit procedures to determine whether the information is fairly presented."

34. AUTHORISATION OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group and statement of financial position of the Company were authorised for issue in accordance with a resolution of the Board of Directors of Darco Water Technologies Limited on 5 May 2014.

STATISTICS OF **SHAREHOLDINGS**

As at 5 May 2014

Class of Shares	–	Ordinary shares
Number of Shares	–	276,684,812
Voting Rights	–	One Vote per share

The Company does not have any Treasury Share.

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 999	67	2.70	2,986	0.00
1,000 – 10,000	1,213	48.81	6,780,520	2.45
10,001 – 1,000,000	1,176	47.32	89,717,423	32.43
1,000,001 AND ABOVE	29	1.17	180,183,883	65.12
TOTAL	**2,485**	**100.00**	**276,684,812**	**100.00**

LIST OF 20 LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	THYE KIM MENG	63,795,711	23.06
2	STONE ROBERT ALEXANDER	38,725,000	14.00
3	DBS NOMINEES (PRIVATE) LIMITED	7,193,780	2.60
4	ESTATE OF TEH SWEE HENG, DECEASED	6,994,820	2.53
5	PHILLIP SECURITIES PTE LTD	6,992,000	2.53
6	OCBC SECURITIES PRIVATE LIMITED	6,636,008	2.40
7	UOB KAY HIAN PRIVATE LIMITED	5,336,000	1.93
8	LEE SUE LIN	4,678,800	1.69
9	THYE KIM FAH	4,493,140	1.62
10	TAN LEK LEK	4,212,000	1.52
11	TAN CHENG HWEE	3,695,000	1.34
12	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	3,059,000	1.11
13	KANG SWEE LIAT	2,604,000	0.94
14	WONG POH HWA @ KWAI SENG	2,000,000	0.72
15	LIOU LOO SEAH	1,690,000	0.61
16	DAVID REGINALD KIRKWOOD	1,684,000	0.61
17	THYE KIM LOY	1,564,840	0.57
18	HL BANK NOMINEES (SINGAPORE) PTE LTD	1,353,000	0.49
19	HENG TANG CHING	1,347,948	0.49
20	ALAN WEE KUANG (ALAN RUAN GUANG)	1,337,826	0.48
	TOTAL	**169,392,873**	**61.24**

SUBSTANTIAL SHAREHOLDERS AS AT 5 MAY 2014

(As recorded in the Register of Substantial Shareholders)

		DIRECT INTEREST		DEEMED INTERESTS	
NO.	NAME	NO. OF SHARES HELD	%	NO. OF SHARES HELD	%
1.	Thye Kim Meng	63,795,711	23.06	–	–
2.	Stone Robert Alexander	38,725,000	14.00	–	–

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

As at 5 May 2014, 61.29% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST which requires 10% of the equity securities (excluding preference shares and convertible equity securities) in a class that is listed to be in the hands of the public.

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 6 Battery Road #10-01 Singapore 049909 on Friday, 30 May 2014 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 2013 together with the Auditors' Report thereon.

   (Resolution 1)

2. To approve the Directors' fees of S$161,424.73 payable by the Company for the year ended 31 December 2013 (2012: S$146,279.37).

   (Resolution 2)

3. (i) To re-elect the following Directors of the Company retiring pursuant to Article 116 of the Articles of Association of the Company:

   Mr Ang Kheng Hui **(Resolution 3)**

   Mr Ross Y. Limjoco **(Resolution 4)**

   Mr Tang Kai Meng **(Resolution 5)**

   (ii) To note that Mr Thye Ze Pin and Ms Teo Sin Yng will be retiring pursuant to Article 106 of the Articles of Association of the Company and they will not be seeking re-election at this Annual General Meeting.

   [See Explanatory Note (i)]

4. To note that Messrs Baker Tilly TFW LLP will be retiring as Auditors of the Company and they will not be seeking re-appointment at this Annual General Meeting.

   [See Explanatory Note (ii)]

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

AS SPECIAL BUSINESS

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

6. **Authority to allot and issue shares in the capital of the Company pursuant to Section 161 of the Companies Act, Chapter 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited**

   That pursuant to Section 161 of the Companies Act, Chapter 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Directors of the Company be authorised and empowered to:

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

NOTICE OF **ANNUAL GENERAL MEETING**

(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) 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,

(the "Share Issue Mandate")

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 (excluding treasury shares) in the capital of the Company (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 SGX-ST) 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 (excluding treasury shares) in the capital of the Company, 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;

NOTICE OF **ANNUAL GENERAL MEETING**

(3) in exercising the Share Issue Mandate, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association of the Company; and

(4) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate shall continue in force (i) until the conclusion of the next Annual General Meeting ("AGM") of the Company or the date by which the next AGM 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 (iii)] **(Resolution 6)**

BY ORDER OF THE BOARD

Shirley Tan Sey Liy
Company Secretary

Singapore, 15 May 2014

Explanatory Notes:

(i) Mr Ang Kheng Hui will, upon re-election as a Director of the Company, remain as Chairman of the Remuneration Committee, a member of the Audit Committee and Nominating Committee, and will be considered independent.

Mr Ross Y. Limjoco will, upon re-election as a Director of the Company, remain as an Independent Director and will be considered independent.

Mr Tang Kai Meng will, upon re-election as a Director of the Company, remain as an Independent Director and will be considered independent.

(ii) Messrs Baker Tilly TFW LLP have expressed that they are not seeking re-appointment as Auditors of the Company at this Annual General Meeting. The Company is currently sourcing a suitable audit firm in place of the retiring auditors, Messrs Baker Tilly TFW LLP. The appointment of the new Auditors would be put forth to the shareholders for approval at an Extraordinary General Meeting of the Company at a date to be determined.

NOTICE OF ANNUAL GENERAL MEETING

(iii) Resolution 6, if passed, will empower the Directors of the Company from the date of this AGM until the date of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, fifty per centum (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to twenty per centum (20%) may be issued other than on a pro rata basis to existing shareholders of the Company.

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 total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Resolution is passed after adjusting for new shares arising from the conversion or exercise of 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 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 123 Woodlands Industrial Park E5 Woodlands E-Terrace Singapore 757498 (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
ANNUAL GENERAL MEETING

(Please see notes overleaf before completing this Form)

I/We, ____ (Name)

of ____ (Address)

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 the person, or either or both of the persons, referred to above, the Chairman of the Annual General Meeting (the "**Meeting**") as *my/our proxy/proxies to vote for *me/us on *my/our behalf at the Meeting of the Company to be held at 6 Battery Road #10-01 Singapore 049909 on Friday, 30 May 2014 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
	Ordinary Business		
1	Directors' Report and Audited Accounts for the financial year ended 31 December 2013		
2	Approval of Directors' fees amounting to S$161,424.73 for the financial year ended 31 December 2013		
3	Re-election of Mr Ang Kheng Hui as a Director		
4	Re-election of Mr Ross Y. Limjoco as a Director		
5	Re-election of Mr Tang Kai Meng as a Director		
	Special Business		
6	Authority to allot and issue new shares		

Dated this ________ day of ___________ 2014

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

*Delete where inapplicable

IMPORTANT: PLEASE READ NOTES OVERLEAF

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 not more than two proxies to attend and vote in his/her stead. 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. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 123 Woodlands Industrial Park E5 Woodlands E-Terrace Singapore 757498 not less than forty-eight (48) hours before the time appointed for the Meeting.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of 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 seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

7. 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 Section 179 of the Companies Act, Chapter 50 of Singapore.

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 forty-eight (48) hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

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Designed and produced by
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TOPPAN VITE PTE. LTD.
(65) 6578 6522

DARCO
SOLUTIONS TO WATER & WASTE

DARCO WATER TECHNOLOGIES LIMITED
123 Woodlands Industrial Park E5
Woodlands E-Terrace, Singapore 757498