DARCO

SOLUTIONS TO WATER & WASTE

SOLUTIONS FOR A BETTER WORLD

Annual Report 2014

CONTENTS

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

CORPORATE PROFILE

operationally ready so that there would be minimal disruption to operations. The company's maintenance service guarantees consistent revenues, retains key staff and ensures the continuous development of product knowledge. It also provides a pool of talent that the company can call upon when time is short. The result of this is a business model that is well-placed to manage the business cycle.

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

The company plans to consolidate its operations in the markets it is already established in and develop new markets and new BOT agreements. Darco Water Technologies is exploring markets such as Vietnam and India, especially where its established customers are setting up new operations. The company is well-positioned to undertake BOO projects and is looking to take on much larger 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$31.9 million for the full year ended 31 December 2014 ("FY2014"), with the Engineered Environmental Systems ("EE System") segment being the main revenue contributor, delivering S$13.4 million. In terms of geographical break-down, Malaysia remained as the key revenue driver, contributing 71.1% of FY2014 revenue. The Group registered a net profit of S$290,000 in FY2014, compared with a loss of S$8.8 million in FY2013.

PEOPLE'S REPUBLIC OF CHINA

On 19 September 2014, Darco announced that its wholly owned subsidiary PV Vacuum Engineering Pte Ltd ("PV Vacuum") has entered into a Strategic Alliance with China Construction First Building Group Interior Fitout Engineering Co, Ltd ("China Construction First Group"), to jointly develop, promote and install indoor air purification and solids waste conveyance system ("Vacuum System") for the Mainland China industrial and commercial market.

China Construction First Group envisages that there are numerous building and commercial projects that will require PV's Vacuum System. China Construction First Group is also actively seeking to expand its current business to deliver and install clean air and odourless solid waste conveyance systems.

China Construction First Group believes that it can develop and work exclusively with PV Vacuum to promote such Vacuum System, whereas PV Vacuum designs, builds, and maintains such assets. As a strategic partner to PV Vacuum, China Construction First Group will use its extensive network to source and develop such opportunities. On the other hand, PV Vacuum will assist in the conceptual and detailed engineering design. China Construction and PV Vacuum therefore have strong synergies, given their complementary resources and capabilities to enter into mutually beneficial arrangements. Both of us plan to jointly bid for such projects and shall whenever appropriate enter into a separate definitive contracts to bid, deliver, install and provide maintenance service for these assets.

Here at Darco, we believe that the pursuit of sustainable urban development and an ecological city, is no longer a passing trend, but will soon be the only viable option for the global community. Currently, China is still at the stage of high growth and rapid urbanisation. At the same time, China is also focused on establishing high quality living standards. There are many opportunities for companies like ours to drive environmental sustainability via eco-friendly construction methods and projects. For example, indoor air purification and solids waste conveyance are key building blocks of an eco-city's infrastructure.

Historically, we have had a strong track record for both industrial and municipal projects. With the collaboration between Darco and China Construction First Group, we aim to provide practical and scalable indoor air purification and waste transportation systems for the people in China. We place a great value on strategic alliances and have had several successful collaborations with multinational companies. This strategic alliance with China Construction First Group will be positive for our plans to explore new business opportunities in China.

TAIWAN

On 10 May 2013, the Group announced that Darco Engineering (Taiwan) Co. Ltd.'s ("DET") former General Manager (Chen Kuai, then aged 54 years) and Administration Manager (Nina Chiu, then aged 46 years) have been "formally charged" by Taipei District Prosecutors Office for alleged fraud, breach of trust and misappropriating of company funds, while sixteen other suppliers have been charged for alleged complicity.

The Taipei District Court of Taiwan, had on 18 June 2014, found Chen Kuai guilty of criminal breach of trust and embezzlement, sentencing him to a total of six (6) years imprisonment, while Nina Chiu has been found guilty only of embezzlement and has been sentenced to three (3) years and eight (8) months jail term. Third parties facilitators and conspirators had been dealt with separately.

Darco 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. At Darco, we view cases involving fraud and embezzlement very seriously. We will spare no efforts in taking action against perpetrators of these acts. The judgment by the Taipei District Court represents positive news for our shareholders and clients who have kept their faith with us over the years.

We have further strengthened our accounting and internal control functions with the appointment of Mr Yeoh Kim Kooi and Mr Tan Sze Leng, Steve, as the Group Financial Controller and the Group Chief Financial Officer in June 2013 and September 2013 respectively. They possess relevant accounting and auditing experience and are expected to contribute positively to the Group. Going forward, we will continue to uphold the highest standards of financial integrity, and be vigilant in the prevention and detection of potential fraud.

MALAYSIA

On 8 April 2014, the Company entered into a final and amicable Settlement Agreement (the "Settlement") on 8 April 2014 with its former employees, Grober Industrial Services Sdn Bhd and KIJ Ultra Supreme Filtration Sdn Bhd (collectively, 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 total value of the Settlement is estimated to be approximately MYR 3 million. The Settlement was in relation to its 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 Settlement enables the Company to recover the assets that has been part of the Group's business under its ordinary course of business and has had a positive impact on the Company's financial results for FY2014.

Darco Malaysia's EE Systems revenue increased by approximately S$3.9 million 88.6% from S$4.4 million in FY2013 to S$8.3 million in FY2014 due to more projects secured in last quarter of FY2013 and higher project revenue recognised in FY2014. Darco Penang (DIW) also improved its profitability as a result of manpower reduction; lower depreciation charged to plant and machinery; and better costs control in term of projects.

DRIVING FUTURE GROWTH

On 30 June 2014, the Group proposed to undertake a renounceable non-underwritten rights issue in respect of up to 387,358,736 new ordinary shares in the capital of the Company on the basis of seven (7) Rights Shares for every five (5) ordinary shares in the capital of the Company held by shareholders of the Company. An Extraordinary General Meeting was called and held on 6 January 2015, and the resolutions on the rights issue were duly passed. On 6 January 2015, the Board announced that at the Extraordinary General Meeting ("EGM"), all the resolutions relating to the matters set out in the Notice of EGM dated 22 December 2014 were duly passed by the shareholders of the Company.

The Rights Issue has been undertaken, to strengthen the financial position and capital base of the Company and to provide additional working capital for the operations of the Group. The Rights Issue will also provide our shareholders with an opportunity to further participate in the equity of the Company, and allow the Group to repay existing indebtedness and be less reliant on external sources of funding.

Accordingly, the Group's operations are limited by the amount of available or unrestricted cash for its project management and working capital. Accordingly, the Group's ability to maintain its operations and also tender for water and/or soil remediation projects or such other projects is severely curtailed despite requests from end customers to participate for such jobs. In view of, inter-alia the Group's past performance and recent "up-lifting" of suspension, the Group is not in a favorable position and has difficulties in obtaining the required financing terms and conditions from financial institutions to fully meet its requirements without curtailment of its business, operations, projects and strategies.

The Rights Issue will strengthen the Group's balance sheet, enhance and supplement the cash balances and limited banking facilities available to the Group, thereby providing the financial flexibility and cash buffer for the Group's existing operations.

UPDATES ON NEW PERFORMANCE SHARE PLAN AND CHANGE OF AUDITORS

The Board of Directors of Darco Water Technologies Limited announced in October 2014, the proposed adoption of the Darco Performance Share Plan and the proposed change of auditors from Baker Tilly TFW LLP to Crowe Horwath First Trust LLP.

The Darco Performance Share Plan ("Share Plan") will enable employees of the Company, its subsidiaries and associated companies which the Company has control over to participate in the equity of the Company pursuant to the grant of contingent awards of fully paid ordinary shares in the capital of the Company under the Share Plan.

The purpose of the Share Plan is to provide an opportunity for the Directors (including Non-Executive Directors) and the employees of the Darco Water, who have met performance targets, to be remunerated not just through cash bonuses but also by an equity stake in the Company so as to motivate them to greater dedication, loyalty and higher standards of performance, and to give recognition to those who have contributed to the success and development of the Company and of the Group.

The Share Plan allows the Company to target specific performance objectives and to provide an incentive for participants to achieve these targets, which ultimately, will create and enhance economic value for shareholders of the Company. The Directors believe that the new Share Plan will incentivise the participants to excel in their performance and encourage greater dedication and loyalty to the Company. Through the Share Plan, the Company will be able to recognise and reward past contributions and services and motivate potential participants to continue to strive for the Group's long-term prosperity. In addition, the Share Plan aims to foster an ownership culture within the Group.

In the Notice of AGM dated 15 May 2014, it was noted that Baker Tilly will be retiring as Auditors of the Company and will not be seeking re-appointment at the Company's AGM on 30 May 2014. On 30 May 2014, the Company announced, along with the announcement of the results of the AGM, that it was in the process of seeking suitable auditors in place of Baker Tilly and was sourcing for an auditing firm to replace Baker Tilly as the Auditors of the Company.

After reviewing the credentials and competitive proposals of auditing firms, the Audit Committee has recommended the appointment of Crowe Horwath First Trust, in place of Baker Tilly, for the financial year ending 31 December 2014, subject to the approval of the Board and Shareholders at the extraordinary general meeting ("EGM"). The Board has accepted the recommendation of the Audit Committee. Crowe Horwath First Trust has on 26 September 2014 given their written consent to act as Auditors of the Company. The proposed change of Auditors had taken effect upon the approval of the same by Shareholders at the EGM on 6 November 2014.

OUTLOOK

The Group's core business remains in the electronic and semiconductor sectors. Barring unforeseen circumstances, various Water Management Services that we render to the clients, year on year, are likely to continue contributing to our Sales Revenue in the next 12 months. On the Engineered Water Systems, there has been an increase in enquiries for new water projects as compared to previous years, although it remains uncertain whether all these projects will go ahead in the next 12 months or that the Company may be successful to secure them.

In the municipal sector, the Company shall try to bid for more of such jobs to generate better revenues. However, this is subject to the Company being able to continually improve its utilisable cash position internally, and its ability to secure more project-specific funding from various financial institutions.

The Company has been also been on the lookout for Merger and Acquisition opportunities in the region. The Company will update shareholders via SGXNET if and when there are any material developments on Merger and Acquisition opportunities.

IN APPRECIATION

I would like to welcome two new Independent Non-Executive Directors to the Board: Mr. Ross Y. Limjoco and Mr. Tang Kai Meng. Mr. Ross has relevant experience in audit and business advisory, and will be able to provide guidance to the Company. Mr. Ross has served as Chief Financial Officer at PSL Holdings Limited between November 2012 and June 2014 and was Director/Head of Business Advisory at BDO LLP/BDO Advisory Pte Ltd during his tenure from February 2003 to September 2012. Mr. Tang comes with a strong background in financial and investment advisory, and we are confident he will provide valuable advice to us. Mr. Tang is currently a Director at Global Emerging Markets Specialist Capital. He was Director (Senior Investment Counsellor) at Deutsche Bank Private Wealth Management from 2007 to 2013. Prior to that, he served as Director (Senior Investment Counsellor) at Citibank Private Bank between 2004 and 2007. Both Mr. Ross and Mr. Tang were further appointed members of the Audit Committee and Nominating Committee, with effect from 30 May 2014. I would like to acknowledge the contributions of our ex-Directors Mr. Thye Ze Pin and Ms. Teo Sin Yng who have retired and not sought re-election at the Annual General Meeting held on 30 May 2014.

I would like to thank all our stakeholders: directors, management, colleagues, customers, suppliers and shareholders for your continued support. Looking ahead, we continue to work hard at enhancing shareholder value in FY2015 and beyond.

THYE KIM MENG
Chairman and Managing Director

BOARD OF DIRECTORS

MR THYE KIM MENG Malaysian, Aged 62
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 34
Executive Director (Process Engineering and Design)

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 and Remuneration 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.

MR ANG KHENG HUI Singapore Citizen, Aged 44
Non-Executive Lead Independent Director

Mr Ang Kheng Hui was appointed as a Non-Executive Independent Director of our Company on 17 July 2013. Mr Ang was appointed as the Lead Independent Director of the Company on 30 May 2014. He is the Chairman of the Audit Committee and a member of the Remuneration 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 YU LIMJOCO Singapore Permanent Residence, Aged 44
Non-Executive Independent Director

Mr Ross Yu Limjoco was appointed as a Non-Executive Independent Director of our Company on 5 May 2014. He is the Chairman of the Remuneration Committee and member of the Audit Committee and Nominating Committee.

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 44
Non-Executive Independent Director

Mr Tang Kai Meng was appointed as a Non-Executive Independent Director of our Company on 5 May 2014. He is the Chairman of the Nominating Committee and member of the Audit Committee and Remuneration Committee.

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 41
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 31
Group Financial Controller

Yeoh Kim Kooi, aged 31 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 64
General Manager

Thye Kim Fah, aged 64 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 FY2014 was $S31.9 million, a 4.5% increase from S$30.5 million in FY2013. The increase is mainly due to the increased business from the Water Management Services (WM Services) segment.

SEGMENTAL CONTRIBUTION

Revenue from Engineered Environmental System ("EE Systems") declined by approximately S$1.2 million or 8.2% from S$14.6 million in FY2013 to S$13.4 million in FY2014 mainly due to disposal of Taiwan subsidiary in FY2013 and the decrease in revenue from municipal project partly offset by the increase in EE Systems revenue in Malaysia segment due to higher project revenue recognised in FY2014.

Revenue from Water Management Services ("WM Services") increased by approximately S$2.9 million or 35.8% from S$8.1 million in FY2013 to S$11.0 million in FY2014 mainly due to higher revenue generated from medical waste treatment in Taiwan and contribution by a new subsidiary, Grober Industrial Services Sdn. Bhd, arising from a settlement agreement for a lawsuit with certain former employees in April 2014.

Sales from the trading of chemical, spare parts and others decreased by approximately S$0.3 million or 3.8% from S$7.9 million in FY2013 to S$7.6 million in FY2014 mainly due to loss of trading income from the disposal of a Taiwan subsidiary in FY2013, the decrease in trading business in the Malaysia subsidiary, DIW offset with the increase in the revenue from new subsidiary, Grober Industrial Services Sdn. Bhd in FY2014.

GEOGRAPHICAL CONTRIBUTION

Revenue for the group is mainly derived from the Malaysia and Taiwan operation. Revenue from Malaysia contributed to 71.1% of total FY2014 revenue as compared to 52.5% in FY2013.

The Taiwan operation contributed to 13.9% of total revenue in FY2014, as compared to 29.8% in FY2013.

The Group's overall gross profit margin recorded was S$8.6 million, or 26.9% in FY2014, as compared to 17.9% in FY2013. The improvement is due to the improvement of profitability in Darco Penang due to manpower reduction; lower depreciation charged to plant and machinery; better costs control in term of

SEGMENTAL REVENUE CONTRIBUTION

FY2014
(S$'000)

13,392
Engineered Environmental Systems

10,952
Water Management Sevices

7,571
Trading Sales

31,915
Consolidated

FY2013
(S$'000)

14,553
Engineered Environmental Systems

8,105
Water Management Sevices

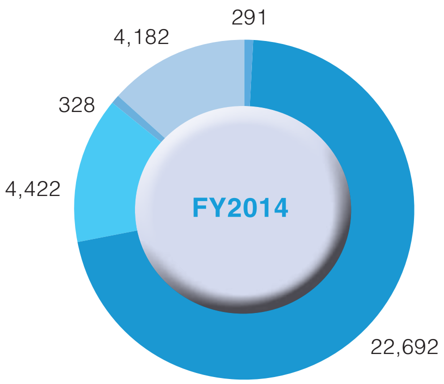
7,880
Trading Sales

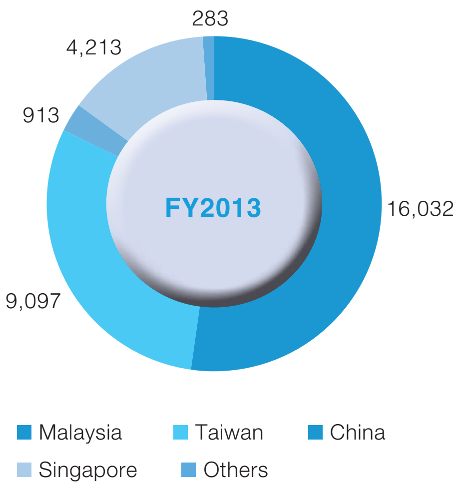
30,538
Consolidated

OPERATIONS REVIEW

GEOGRAPHICAL REVENUE CONTRIBUTION

(S$'000)





projects and contribution of higher margin by a new subsidiary, Grober Industries Sdn Bhd in April 2014 to the Malaysia business segment and completion of loss making project in Taiwan in 2013.

The Group's other income decreased by approximately S$0.3 million or 13.0% from S$2.3 million in FY2013 to S$2.0 million in FY2014. The decrease was mainly due to the one off gain in FY2013 on the disposal group held for sales, gain on disposal of land use rights and the decrease in the gain on disposal of property, plant and equipment. This was offset by the one off settlement gain of S$1.1 million relates to the lawsuit in Penang against former employees on 8 April 2014.

The Group's administrative expenses decreased by approximately S$4.7 million or 34.8% from S$13.5 million in FY2013 to S$8.9 million in FY2014. The decrease was mainly due to the reduction in staff costs as a results of reduction in manpower and related expenses in Taiwan, the disposal of Subsidiary in Taiwan, Darco Environmental Taiwan, in last quarter of FY2013, completion of municipal project in FY2014 and provision of approximately S$1.8 million made relating to the tax penalties imposed by the Taiwan tax authorities in FY2013.

Finance costs decreased by approximately S$0.2 million or 33.3% from S$0.6 million in FY2013 to S$0.4 million in FY2014. The decrease in finance costs is in line with the decrease in bank borrowings.

As a result of the above, the Group registered a profit after tax of S$0.3 million in FY2014, as compared to loss of S$8.8 million in FY2013.

Current assets of S$22.9 million as at 31 December 2014 largely comprised of trade and other receivables of S$12.5 million and cash and cash equivalents of S$9.3 million.

Non-current assets of S$5.5 million as at 31 December 2014 comprised mainly intangible assets, property, plant and equipment and deferred income tax assets.

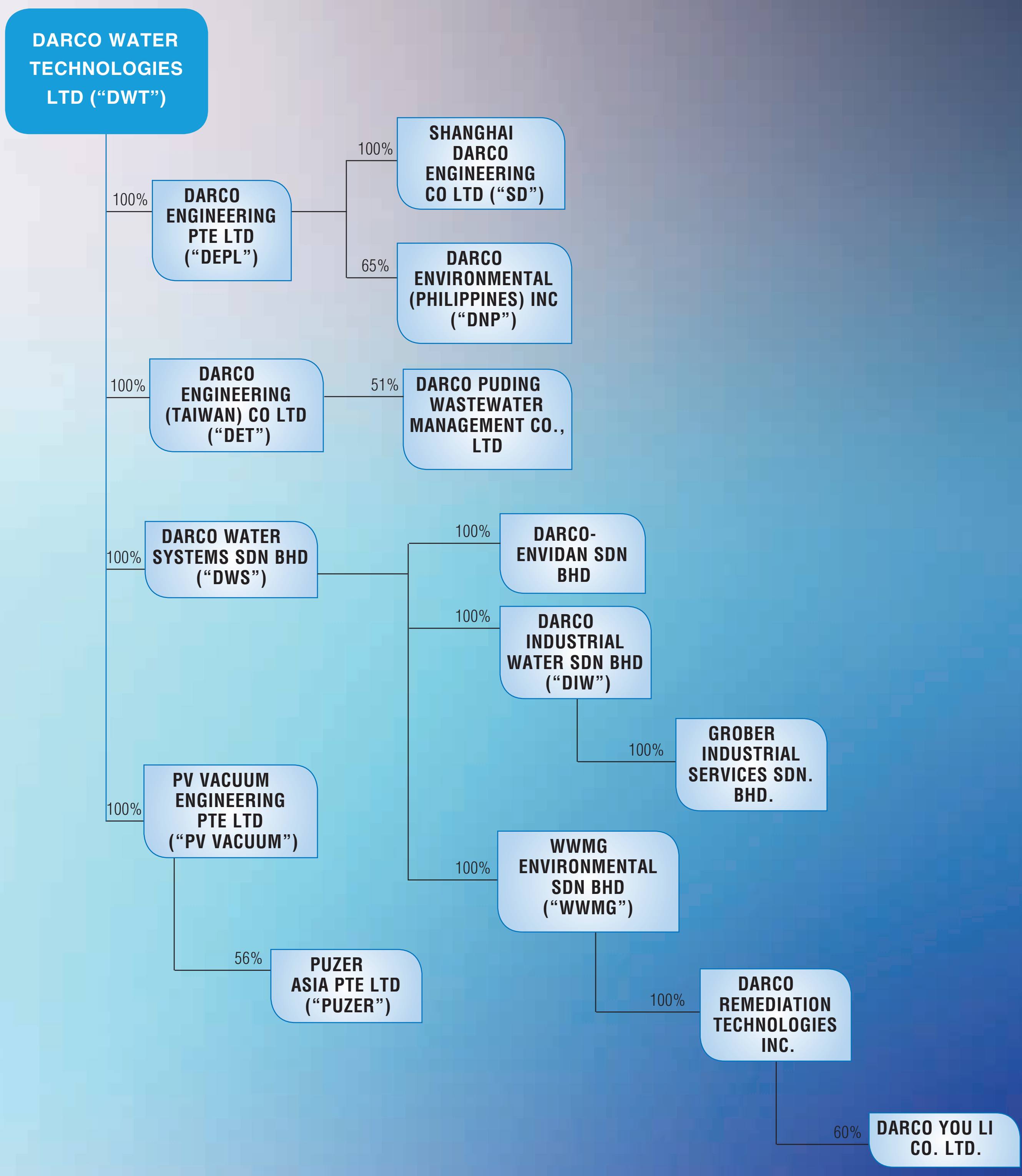
Current liabilities of S$17.2 million as at 31 December 2014 comprised of trade and other payables of S$13.8 million, income tax payables of 1.8 million and borrowings of S$1.6 million.

Non-current liabilities of S$1.7 million as at 31 December 2014 comprised mainly borrowings of S$1.5 million.

Shareholders' equity increased from S$9.1 million in FY2013 to S$9.5 million in FY2014 as a results of net profits for the year.

Net cash used in operating activities was S$1.0 million in FY2014, compared to cash outflow of S$0.3 million in FY2013. Net cash from in investing activities decreased from S$8.1 million in FY2013 to S$4.0 million in FY2014. Cash flow from financing activities increased by S$10.1 million from cash outflow of S$9.4 million in FY2013 to cash inflow of S$0.8 million in FY2014 largely due to the repayment of borrowing in FY2013. Overall, group cash and cash equivalents as at 31 December 2014 stands at S$7.9 million compared to S$4.0 million as at 31 December 2013.

GROUP STRUCTURE



CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Heather Tan Chern Ling
(Executive Director)

Ang Kheng Hui
(Non-Executive Lead Independent Director)

Ross Yu Limjoco
(Non-Executive Independent Director)

Tang Kai Meng
(Non-Executive Independent Director)

AUDIT COMMITTEE

Ang Kheng Hui (Chairman)
Ross Yu Limjoco
Tang Kai Meng
Heather Tan Chern Ling

NOMINATING COMMITTEE

Tang Kai Meng (Chairman)
Ang Kheng Hui
Ross Yu Limjoco

REMUNERATION COMMITTEE

Ross Yu Limjoco (Chairman)
Ang Kheng Hui
Tang Kai Meng
Heather Tan Chern Ling

COMPANY SECRETARY

Shirley Tan Sey Liy (ACIS)

REGISTERED OFFICE

123 Woodlands Industrial Park E5
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Singapore 757498
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REGISTRAR AND SHARE TRANSFER OFFICE

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

AUDITORS

Crowe Horwath First Trust LLP
Public Accountants and
Chartered Accountants
Singapore
8 Shenton Way
#05-01, AXA Tower
Singapore 068811

Partner-in-charge: Alfred Cheong Keng Chuan
(appointment effective from financial year
ended 31 December 2014)

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 REPORT

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 ended 31 December 2014 ("FY2014"), 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 FY2014. 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 REPORT

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 will meet as and when required 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. Meetings via telephone conference is permitted by the Company's Articles of Association.

The attendances of the Directors at the formal Board meetings and Board Committees meetings during FY2014, with the Company Secretary in attendance, are as follows:

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

(1) Mr. Ross Yu Limjoco and Mr. Tang Kai Meng were appointed as Independent Directors on 30 May 2014
(2) Mr. Ngiam Zee Moey resigned on 16 May 2014
(3) Mr. Joshua Siow Chee Keong resigned on 30 May 2014
(4) Mr. Thye Ze Pin and Ms. Teo Sin Yng retired on 30 May 2014. Mr. Thye Ze Pin thereafter remained as Executive Officer who received salary of more than S$50,000 for FY 2014

* By Invitation

CORPORATE GOVERNANCE REPORT

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 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 faced by our Company.

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.

New releases issued by the SGX-ST and Accounting and Corporate Regulatory Authority ("ACRA") which are relevant to the Directors are circulated to the Board. The Company Secretary informed the Directors of upcoming conferences and seminars relevant to their roles as Directors of the 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.

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 Directors shall be 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.

CORPORATE GOVERNANCE REPORT

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 two Executive Directors and three 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.

Name of Directors	Board	AC	NC	RC
Thye Kim Meng	Chairman, Managing Director and CEO	–	–	–
Heather Tan Chern Ling	Executive Director	Member	–	Member
Ang Kheng Hui[(1)]	Non-Executive Lead Independent Director	Chairman	Member	Member
Ross Yu Limjoco[(2)]	Non-Executive Independent Director	Member	Member	Chairman
Tang Kai Meng[(2)]	Non-Executive Independent Director	Member	Chairman	Member

(1) Appointed as Lead Independent Director on 30 May 2014
(2) Appointed as Independent Directors on 30 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 more than 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 judgement 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. Ross Yu 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.

CORPORATE GOVERNANCE REPORT

The Non-Executive 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 and Independent Directors communicate amongst themselves and with the Company's auditors and Senior Management.

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 2014.

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 and Independent Directors exercise no Management functions in the Group. The role of the Non-Executive 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 and Independent Directors to meet without the presence of the Executive Directors and/or the Management to discuss matters such as the Group's financial performance, corporate governance initiatives, Board processes, succession planning as well as leadership development and the remuneration of the Executive Directors.

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/CEO.

CORPORATE GOVERNANCE REPORT

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.

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. Ang Kheng Hui as the Lead Independent Director on 30 May 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 where such communication 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:

Nominating Committee

Mr. Tang Kai Meng (Chairman)
Mr. Ang Kheng Hui
Mr. Ross Yu Limjoco

Mr. Tang Kai Meng was appointed as the Chairman of the NC and Mr. Ross Yu Limjoco was appointed as the member of the NC on 30 May 2014. The Chairman of the NC is not associated in any way with the substantial shareholders of the Company.

CORPORATE GOVERNANCE REPORT

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;
- 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 new Directors, the NC will seek to identify the competencies required to enable the Board to fulfil its responsibilities. 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 may engage consultants to undertake research on or assess, candidates applying for new positions on the Board, or to engage such other independent experts, as it considers necessary to carry out its duties and responsibilities. New Directors are appointed by way of a Board resolution following which they are subject to re-election at the next Annual General Meeting ("AGM").

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 new Directors appointed by the Board will have to retire at the next AGM following their appointments (such Director shall then be eligible for re-election at that AGM).

The NC has recommended that Mr. Thye Kim Meng and Ms. Heather Tan Chern Ling (collectively, the "Retiring Directors"), be nominated for re-election at the forthcoming AGM. The Board has accepted the NC's recommendation and the Retiring Directors will be offering themselves for re-election.

Mr. Thye Kim Meng will, upon re-election as a Director, remain as the Chairman, Managing Director and CEO of the Company. Ms. Heather Tan Chern Ling will, upon re-election as a Director, remain as a member of the AC and the RC. Ms. Heather Tan Chern Ling is considered non-independent for the purpose of Rule 704(8) of the SGX-ST Listing Manual. Mr. Thye Kim Meng is the controlling shareholder of the Company. Save as aforementioned, Mr. Thye Kim Meng and Ms. Heather Tan Chern Ling do not have any relationship, including immediate family relationships with the other Directors, the Company or its 10% shareholders.

CORPORATE GOVERNANCE REPORT

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. Ross Yu 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.

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, their principal commitments and whether the appointment is executive or non-executive are set out in page 37 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 and for assessing the contribution by the Chairman and each individual Director to the effectiveness of the Board. 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 FY 2014 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 FY2014 are based on their attendance and contributions made at the Board and Board Committees meetings.

CORPORATE GOVERNANCE REPORT

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.

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 as a whole.

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. Ross Yu Limjoco (Chairman)
Mr. Ang Kheng Hui
Mr. Tang Kai Meng
Ms. Heather Tan Chern Ling

CORPORATE GOVERNANCE REPORT

Mr. Ross Yu Limjoco was appointed as the Chairman of the RC, Mr. Tang Kai Meng was appointed as member of the RC and Mr. Ang Kheng Hui was re-designated as a member of the RC on 30 May 2014.

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.

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 fixed fees as Directors' fees. The Directors' fee is subject to shareholders' approval at the AGM.

Each Director shall abstain from voting on any resolution and making any recommendation and/or participating in any deliberation 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.

CORPORATE GOVERNANCE REPORT

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, and the remuneration packages are also designed to align the Directors' interests with those of minority shareholders.

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 of the SGX-ST and their remuneration are subject to shareholders' approval at the AGM.

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.

CORPORATE GOVERNANCE REPORT

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 FY2014 is set out below:

Remuneration Bands & Name of Directors	Salaries, including CPF	Variable Bonus	Director's Fees	Total
Below $250,000				
Thye Kim Meng	61%	–	39%	100%
Teo Sin Yng(3)	80%	7%	13%	100%
Heather Tan Chern Ling	68%	–	32%	100%
Thye Ze Pin(3)	82%	7%	11%	100%
Joshua Siow Chee Keong(4)	–	–	100%	100%
Ngiam Zee Moey(2)	–	–	100%	100%
Ang Kheng Hui	–	–	100%	100%
Ross Yu Limjoco(1)	–	–	100%	100%
Tang Kai Meng(1)	–	–	100%	100%

(1) Mr. Ross Yu Limjoco and Mr. Tang Kai Meng were appointed as Independent Directors on 30 May 2014
(2) Mr. Ngiam Zee Moey resigned on 16 May 2014
(3) Mr. Thye Ze Pin and Ms. Teo Sin Yng retired on 30 May 2014
(4) Mr. Joshua Siow Chee Keong resigned on 30 May 2014

The remuneration of the top five key management personnel (who are not Directors or the CEO of the Company) whose remuneration fell within the following ranges for FY2014 are as follows:

Remuneration Bands & Name of Key Management Personnel	Salaries, including CPF	Variable Bonus	Others	Total
Below $250,000				
Thye Kim Fah	92%	8%	–	100%
David Heng	40%	34%	26%	100%
Ang Kar Yen	87%	–	13%	100%
Tan Sze Leng	100%	–	–	100%
Yeoh Kim Kooi	92%	8%	–	100%

CORPORATE GOVERNANCE REPORT

For FY2014, the aggregate total remuneration paid to the key management personnel (who are not Directors or the CEO) amounted to approximately S$608,000.

There were no termination, retirement or post-employment benefits granted to Directors, the CEO and key management personnel other than the standard contractual notice period termination payment in lieu of service for FY2014.

Immediate Family Members of Directors or CEO

Save as disclosed below, none of the Directors or Executive Officers are related by blood or marriage to one another nor are they related to any of the Substantial Shareholders of the Company.

Mr. Thye Kim Fah is the brother of Mr. Thye Kim Meng (the Chairman, Managing Director and CEO of the Company), and Mr. Thye Ze Pin is the nephew of Mr Thye Kim Meng. 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.

Details of remuneration paid to the immediate family member of Directors or CEO of the Company which exceeds S$50,000 for FY2014 are as follows:

Name of Immediate Family Member	Salaries, including CPF	Variable Bonus	Others	Total (%)
$50,000 – $100,000				
Thye Kim Fah	92%	8%	–	100%
Thye Ze Pin	82%	7%	11%	100%

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 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.

On 6 November 2014, Shareholders approved the Darco Performance Share Plan ("Share Plan") as part of a remuneration and compensation plan for attracting as well as retaining executive personnel and Directors. The Share Plan was approved to provide an opportunity for participants who have contributed and who may continue to contribute significantly to the growth and performance of the Group to participate in the equity of the Company in accordance with the rules of the Share Plan. The employees who are confirmed full-time employees of the Company and/or its subsidiaries, Directors of the Company and its subsidiaries (including Non-Executive Directors) and Directors and employees of an associated company where the Company has control over the associated company are eligible to participate in the Share Plan. The controlling shareholders and/or associates of controlling shareholders are not eligible to participate in the Share Plan.

The Share Plan is administered by the RC. To date, no Shares have been granted under the Share Plan. For more details on the Share Plan, please refer to the Circulars to Shareholders dated 21 October 2014.

CORPORATE GOVERNANCE REPORT

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.

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 but has outsourced this function to an external international auditing firm. Going forwards, the AC will consider the assessment and monitoring of the adequacy and effectiveness of the Group's internal controls via Control Self-Assessment ("CSA") to be performed by the Management annually. Also, the AC shall continue to outsource the internal audit function, and have the internal auditor review the CSA, when implemented, 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.

CORPORATE GOVERNANCE REPORT

Based on the internal controls established and maintained by the Group, the audits conducted by the internal auditors as well as ongoing Management reviews, 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 2014 but require certain improvement as highlighted by its internal auditor during their review, including the setting up of a structured Enterprise Risk Management programme.

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

Other than certain improvements as highlighted by the internal auditor report 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 2014 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 adequate given its current business environment.

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.

CORPORATE GOVERNANCE REPORT

Audit Committee

Mr. Ang Kheng Hui (Chairman)
Mr. Ross Yu Limjoco
Mr. Tang Kai Meng
Ms. Heather Tan Chern Ling

Mr. Ang Kheng Hui was re-designated as the Chairman of the AC, Mr. Ross Yu Limjoco and Mr. Tang Kai Meng was appointed as a member of the AC on 30 May 2014.

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 Board is of the view that the members of the AC are appropriately qualified, having the necessary accounting or related financial management expertise to discharge their responsibilities.

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-ST Listing Manual;
9. Undertake such other reviews and projects as may be requested by the Board;
10. Undertake such other functions and duties as may be required by statute or the SGX-ST 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.

CORPORATE GOVERNANCE REPORT

In July 2010, SGX-ST and ACRA had launched the "Guidance to Audit Committees on Evaluation of Quality of Work performed by External Auditors" which aims to facilitate the AC in evaluating the external auditors. Accordingly, the AC had evaluated the performance of the external auditors based on the key indicators of audit quality set out in the said Guidance.

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 services fees were S$395,400 for the financial period under review. For FY2014, there were no non-audit services provided by the external auditors to the Company.

The AC recommends to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors and approves the remuneration of the external auditors. The AC has recommended to the Board that Messrs Crowe Horwath First Trust LLP be nominated for re-appointment as external auditors at the forthcoming AGM of the Company.

In appointing the audit firms for the Group, the Company has complied with the requirements of Rules 712 and 715 of the Listing Manual of the SGX-ST. Apart from the Company's subsidiary in Philippines, the same auditors were appointed for the Company's subsidiaries. The Board and AC are satisfied that the appointment would not compromise the standard and effectiveness of the audit of the Company.

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 REPORT

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 practice selective disclosure. In line with the continuous obligations of the Company under the SGX-ST Listing Manual and the Companies Act, Chapter 50 of Singapore, 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.

CORPORATE GOVERNANCE REPORT

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 shareholders, 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 of Singapore and Singapore Financial Reporting Standards;
- Half yearly 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 have a team of investor relations personnel, our shareholders can access the Company's website at http://www.darcowater.com/for financial information, corporate announcements, press releases, annual reports and profile of the Group.

Price-sensitive information is first publicly released through SGXNet, 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 declared or paid for FY2014 in order to conserve cash and to ensure that there are adequate resources for the Company's expansion plans.

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 REPORT

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 Chairmen of the Board, 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.

The Company will make available minutes of general meetings to shareholders upon their request.

The Company acknowledges that voting by poll in all its general meeting is integral in the enhancement of corporate governance. Currently, the Company has yet to implement poll voting in all its general meetings in view of higher costs involved in polling. Nonetheless, the Company shall adhere to the requirements of the Code where all resolutions are to be voted by poll for general meetings held on or after 1 August 2015.

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 Person Transactions

The Company has established a register to ensure that all Interested Person 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-ST Listing Manual.

CORPORATE GOVERNANCE REPORT

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 (Honours) in Mechanical Engineering from Polytechnic of Wolverhamptom, England • Bachelor of Law (Honours) from University of London, United Kingdom	Executive Chairman, Managing Director and CEO	Board Chairman	13 October 2001	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 and RC	25 May 2006	31 August 2012	Nil	Nil
Ang Kheng Hui	• Bachelor of Accountancy (2nd Lower Honours) from Nanyang University of Singapore • Chartered Accountant with the Institute of Singapore Chartered Accountants • Chartered Financial Analyst with CFA Institute	Lead Independent Director	Board Member, Chairman of AC and Member of RC and NC	17 July 2013	30 May 2014	Nil	Greater China Precision Component Limited
Ross Yu Limjoco	• Bachelor of Science in Business Administration, Major in Accountancy • Certified Public Accountant from the Philippine Institute of Certified Public Accountants • Chartered Accountant with the Institute of Singapore Chartered Accountants • Certified Fraud Examiner with Association of Certified Fraud Examiners	Independent Director	Board Member, Chairman of RC and member of AC and NC	5 May 2014	30 May 2014	IPCO International Limited	Nil
Tang Kai Meng	• Degree of Bachelor of Business (2nd Upper Honours) from Nanyang Technological University • CFA Charterholder	Independent Director	Board Member, Chairman of NC and member of AC and RC	5 May 2014	30 May 2014	Nil	Nil

DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

The Directors present their report to the members together with the audited consolidated financial statements of Darco Water Technologies Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2014 and the balance sheet of the Company as at 31 December 2014.

DIRECTORS

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

Thye Kim Meng
Heather Tan Chern Ling
Ang Kheng Hui
Ross Yu Limjoco
Tang Kai Meng

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 object is, to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Cap. 50, none of the Directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Direct interests		**Deemed interests**	
	At 1 January 2014	**At 31 December 2014**	**At 1 January 2014**	**At 31 December 2014**
Company				
Ordinary shares				
Thye Kim Meng	63,795,711	63,795,711	–	–
Heather Tan Chern Ling	68,000	68,000	–	–

DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (CONTINUED)

Mr. Thye Kim Meng, who by virtue of his interest or not less than 20% of the issued capital of the Company, is deemed to have an interest in the whole of the share capital of the Company's wholly owned subsidiaries and in shares held by the Company in the following subsidiaries that are not wholly owned by the Group:

	Direct interests		Deemed interests	
	At 1 January 2014	At 31 December 2014	At 1 January 2014	At 31 December 2014
Darco Environmental (Philippines) Inc.				
Ordinary shares	–	–	65,000	65,000
Darco Puding Wastewater Management Co., Ltd.				
Ordinary shares	–	–	9,180,000	9,180,000
Darco Youli Co., Ltd.				
Ordinary shares	–	–	5,629,243	5,659,243
Puzer Asia Pte Ltd				
Ordinary shares	–	–	140,000	140,000

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2015.

DIRECTORS' CONTRACTUAL BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit 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, except for salaries, bonuses and other benefits as disclosed in the financial statements. Certain Directors received remuneration from related corporations in their capacity as Directors and/or executives of those related corporations.

SHARE OPTIONS

During the financial year, no options to take up unissued shares of the Company or any subsidiaries were granted and no shares were issued by virtue of the exercise of options to take up unissued shares of the Company or any subsidiaries. There were no unissued shares of the Company or any subsidiaries under option at the end of the financial year.

DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

AUDIT COMMITTEE

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

Ang Kheng Hui	(Chairman of the Audit Committee and Independent Director)
Tang Kai Meng	(Independent Director)
Ross Yu Limjoco	(Independent Director)
Heather Tan Chern Ling	(Executive Director)

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act, Chapter 50, the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") and the Code of Corporate Governance 2012. In performing those functions, the Audit Committee reviewed:

– the scope and the results of internal audit procedures with the internal auditor;

– the audit plan of the Company's independent auditors and any recommendations on internal accounting controls arising from the statutory audit;

– the assistance given by the Company's management to the independent auditors;

– the periodic results announcements prior to their submission to the Board for approval;

– the balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2014 prior to their submission to the Board of Directors, as well as the independent auditors' report on the balance sheet of the Company and the consolidated financial statements of the Group; and

– interested person transactions (as defined in Chapter 9 of the Listing Manual of the SGX-ST).

The Audit Committee has recommended to the Board of Directors that the independent auditors, Crowe Horwath First Trust LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company. The Audit Committee has conducted an annual review of non-audit services provided by the auditors to satisfy itself that the nature and extent of such services will not affect the independence and objectivity of the external auditors before confirming their re-nomination.

In appointing the external auditors for the Company and its subsidiaries, the Company has compiled with Rules 712 and 715 of the Listing Manual of the SGX-ST.

Further details regarding the Audit Committee are disclosed in the Corporate Governance Report.

DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

INDEPENDENT AUDITORS

The independent auditors, Crowe Horwath First Trust LLP, have expressed their willingness to accept re-appointment as auditors of the Company.

On behalf of the Board of Directors

HEATHER TAN CHERN LING	**THYE KIM MENG**
Director	Director

6 April 2015

STATEMENT BY DIRECTORS

In the opinion of the Directors,

(a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 46 to 137 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the results, changes in equity and cash flows of the Group for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors

HEATHER TAN CHERN LING
Director

THYE KIM MENG
Director

6 April 2015

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

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 46 to 137, which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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, 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 that transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 AUDITORS' REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Basis for Qualified Opinion

The financial statements for the financial year ended 31 December 2013 ("FY2013") were audited by another firm of public accountants and chartered accountants (the "Preceding Auditors"), whose report dated 5 May 2014 expressed an "except for" qualified opinion on those financial statements regarding the comparability of the FY2013 figures with those of FY2012 as a result of multiple qualifications raised on numerous matters arose since FY2009, as more fully described in the relevant previous financial reports.

Opening balances

As required by SSA 510 *Initial Audit Engagements – Opening Balances*, we have, *inter alia*, performed certain specific audit procedures with a view to obtaining evidence regarding the opening balances of the Company and the Group since we were denied access to the Preceding Auditors' working papers. Notwithstanding this, in the light of the multiple audit qualifications since FY 2009 and the significance of the opening balances relative to the current period's financial statements, we are unable to reasonably conclude that we have, as of the date of this report, obtained sufficient appropriate audit evidence that the opening balances do not contain misstatements that may materially affect the financial statements of the Company and the Group for the current financial year ended 31 December 2014.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements of the Group and the balance sheet 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 of the Company as at 31 December 2014 and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the financial statements. As at 31 December 2014, the Company's current liabilities have exceeded its current assets by $3,526,000, notwithstanding that the Group's current assets have exceeded its current liabilities by $5,715,000. The Group has incurred a negative operating cash flows of $1,041,000 for the financial year ended 31 December 2014. As disclosed in Note 26 to the financial statements, the Group have several on-going litigations relating to its Taiwan operations as at 31 December 2014.

These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Group and the Company to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Emphasis of Matter (Continued)

Despite the above, the accompanying financial statements have been prepared on a going concern basis as the Group and the Company has subsequent to 31 December 2014 been successful in a fund raising exercise via the issuance of the Rights Shares as disclosed in Note 31 to the financial statements, and are still seeking to secure new profitable contracts so as to generate positive operating cash flows to the Group and the Company.

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

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 those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

OTHER MATTER

The financial statements for the year ended 31 December 2013 were audited by the Preceding Auditors whose report dated 5 May 2014 expressed a qualified opinion on those financial statements, as described above.

Crowe Horwath First Trust LLP
Public Accountants and
Chartered Accountants
Singapore

6 April 2015

BALANCE SHEETS

AS AT 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	Group		Company	
		2014	2013	2014	2013
		$'000	$'000	$'000	$'000
			(Restated) (Note 30)		
ASSETS					
Non-current assets					
Property, plant and equipment	4	**4,423**	4,600	**–**	–
Intangible asset	5	**905**	905	**–**	–
Land use rights	6	**–**	–	**–**	–
Investment in subsidiaries	7	**–**	–	**4,418**	4,418
Deferred tax assets	8	**136**	110	**–**	–
		5,464	5,615	**4,418**	4,418
Current assets					
Inventories	9	**953**	1,139	**–**	–
Trade and other receivables	10	**12,480**	12,405	**773**	53
Income tax recoverable		**256**	555	**–**	133
Available-for-sale financial assets	12	**–**	3,555	**–**	–
Cash and bank balances	13	**9,219**	6,206	**249**	406
		22,908	23,860	**1,022**	592
TOTAL ASSETS		**28,372**	29,475	**5,440**	5,010
LIABILITIES					
Current liabilities					
Trade and other payables	14	**13,798**	14,483	**4,548**	5,901
Borrowings	15	**1,645**	2,945	**–**	–
Income tax payable		**1,750**	1,716	**–**	–
		17,193	19,144	**4,548**	5,901
Non-current liabilities					
Trade and other payables	14	**–**	–	**1,722**	–
Borrowings	15	**1,516**	1,195	**–**	–
Deferred tax liabilities	8	**169**	53	**–**	–
		1,685	1,248	**1,722**	–
TOTAL LIABILITIES		**18,878**	20,392	**6,270**	5,901
NET ASSETS / (LIABILITIES)		**9,494**	9,083	**(830)**	(891)

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

BALANCE SHEETS

AS AT 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	Group		Company	
		2014 $'000	2013 $'000 (Restated) (Note 30)	2014 $'000	2013 $'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	16	**36,985**	36,985	**36,985**	36,985
Other reserves	17	**(4,351)**	(4,515)	**–**	–
Accumulated losses		**(25,628)**	(25,689)	**(37,815)**	(37,876)
		7,006	6,781	**(830)**	(891)
Non-controlling interests		**2,488**	2,302	**–**	–
TOTAL EQUITY / (DEFICIT)		**9,494**	9,083	**(830)**	(891)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	2014 $'000	2013 $'000 (Restated) (Note 30)
Revenue	18	**31,915**	30,538
Cost of sales		**(23,334)**	(25,073)
Gross profit		**8,581**	5,465
Other income	19	**2,003**	2,288
Distribution expenses		**(586)**	(734)
Administrative expenses		**(8,862)**	(13,505)
Finance costs	20	**(394)**	(581)
Profit / (Loss) before income tax	22	**742**	(7,067)
Income tax expense	23	**(452)**	(1,769)
Profit / (Loss) for the financial year		**290**	(8,836)
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences arising from consolidation, representing other comprehensive income / (loss) for the financial year, net of tax		**121**	(368)
Total comprehensive income / (loss) for the financial year		**411**	(9,204)
Profit / (Loss) attributable to:			
Equity holders of the Company		**61**	(8,844)
Non-controlling interests		**229**	8
		290	(8,836)
Total comprehensive income / (loss) attributable to:			
Equity holders of the Company		**225**	(9,231)
Non-controlling interests		**186**	27
		411	(9,204)
Earnings / (Loss) per share (cents)			
Basic	24	**0.02**	(2.96)
Diluted	24	**0.02**	(2.96)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

	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
Balance at 1.1.2013	36,985	(3,988)	(16,845)	16,152	3,124	19,276
Loss for the financial year	–	–	(8,844)	(8,844)	8	(8,836)
Other comprehensive loss for the year, net of tax						
– Currency translation differences arising from consolidation	–	(387)	–	(387)	19	(368)
Total comprehensive loss for the financial year	–	(387)	(8,844)	(9,231)	27	(9,204)
Acquisition of non-controlling interests without a change in control	–	(140)	–	(140)	119	(21)
Disposal of a subsidiary	–	–	–	–	(968)	(968)
Total transactions with owners, recognised in equity for the financial year	–	(140)	–	(140)	(849)	(989)
Balance at 31.12.2013, as restated	36,985	(4,515)	(25,689)	6,781	2,302	9,083
Balance at 31.12.2013, as previously stated	36,985	(4,490)	(22,260)	10,235	2,302	12,537
Prior year adjustments (Note 30)	–	(25)	(3,429)	(3,454)	–	(3,454)
Balance as at 1 January 2014, as restated	36,985	(4,515)	(25,689)	6,781	2,302	9,083
Profit for the financial year	–	–	61	61	229	290
Other comprehensive income for the year, net of tax						
– Currency translation differences arising from consolidation	–	164	–	164	(43)	121
Total comprehensive income for the financial year	–	164	61	225	186	411
Balance at 31.12.2014	36,985	(4,351)	(25,628)	7,006	2,488	9,494

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

	2014 $'000	2013 $'000 (Restated) (Note 30)
Cash flows from operating activities		
Profit / (Loss) before income tax	**742**	(7,067)
Adjustments:		
Amortisation of land use rights	**–**	5
Depreciation of property, plant and equipment	**476**	1,287
Gain from settlement agreement	**(1,076)**	–
Gain on disposal of disposal group classified as held-for-sale	**–**	(503)
Gain on disposal of land use rights	**–**	(316)
Gain on disposal of property, plant and equipment	**(38)**	(1,013)
Loss on disposal of a subsidiary	**–**	699
Property, plant and equipment written off	**1**	18
Impairment loss of property, plant and equipment	**69**	1,591
Impairment loss on receivables	**26**	288
Write back of long outstanding trade payables	**(38)**	(40)
Interest expense	**394**	581
Provision for tax penalties	**–**	1,768
Interest income	**(179)**	(88)
Operating profit / (loss) before working capital changes	**377**	(2,790)
Inventories	**186**	477
Amount due from / to customers for contract work	**(2,554)**	2,531
Trade and other receivables	**1,404**	989
Trade and other payables	**(302)**	(1,546)
Cash used in operations	**(889)**	(339)
Income taxes (paid) / refunded	**(152)**	84
Net cash used in operating activities	**(1,041)**	(255)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	2014 $'000	2013 $'000 (Restated) (Note 30)
Cash flows from investing activities			
Purchase of property, plant and equipment	4	**(395)**	(2,261)
Proceeds from disposal of property, plant and equipment		**145**	2,076
Proceeds from disposal of land use rights		**–**	588
Proceeds from disposal of disposal group classified as held-for-sale		**–**	12,928
Placement in available-for-sale financial assets		**(8,244)**	(3,555)
Proceeds from available-for-sale financial assets		**11,748**	–
Additional acquisition of non-controlling interests	7(c)	**–**	(21)
Disposal of a subsidiary, net of cash disposed	7(d)	**–**	(1,723)
Proceeds arising from settlement agreement	7(b)	**722**	–
Interest received		**179**	88
Net cash from investing activities		**4,155**	8,120
Cash flows from financing activities			
Proceeds from borrowings		**724**	1,469
(Placement) / Withdrawal of short-term fixed deposits		**(66)**	1,339
Loan from a director		**210**	–
Loan from an individual shareholder		**1,000**	–
Repayment of borrowings		**(678)**	(12,061)
Repayment of finance lease liabilities		**(64)**	(283)
Interest paid		**(394)**	(581)
Net cash from / (used in) financing activities		**732**	(10,117)
Net increase / (decrease) in cash and cash equivalents		**3,846**	(2,252)
Cash and cash equivalents at beginning of financial year		**4,037**	5,729
Effect of exchange rate changes on cash and cash equivalents		**60**	(155)
Cash and cash equivalents at end of financial year	13	**7,943**	3,322

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

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 a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited (SGX-ST). The address of the Company's registered office and its principal place of business 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 a corporate manager and adviser and administrative centre to support business of the Company's subsidiaries. The principal activities of the subsidiaries are disclosed in Note 7.

The financial statements for the financial year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 6 April 2015.

2. FUNDAMENTAL ACCOUNTING CONCEPT

As at 31 December 2014, the Company's current liabilities have exceeded its current assets by $3,526,000, notwithstanding that the Group's current assets have exceeded its current liabilities by $5,715,000. The Group has incurred a negative operating cash flows of $1,041,000 for the financial year ended 31 December 2014. As disclosed in Note 26 to the financial statements, the Group have several on-going litigations relating to its Taiwan operations as at 31 December 2014.

These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Group and the Company to continue as a going concern.

Despite the above, the accompanying financial statements have been prepared on a going concern basis as the Group and the Company has subsequent to 31 December 2014 been successful in a fund raising exercise via issuance of the Rights Shares as disclosed in Note 31 to the financial statements, and are still seeking to secure new profitable contracts so as to generate positive operating cash flows to the Group and the Company.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below and are drawn up in accordance with the Singapore Financial Reporting Standards ("FRS"). The financial statements are presented in Singapore dollars ("$") and all values are recorded to nearest thousand ($'000) as indicated.

The preparation of the financial statements in conformity with FRS requires management to exercise its judgements in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements and areas involving a higher degree of judgement or complexity, are disclosed in this Note.

Adoption of new and revised standards

On 1 January 2014, the Group adopted the new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS. The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the Group's accounting policies and had no material effect on the amounts reported for the current or prior financial years, except as disclosed below:

FRS 112 *Disclosure of Interests in Other Entities*

FRS 112 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. FRS 112 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements. The additional disclosure required has been included in Note 7. As this is a disclosure standard, there is no impact to the financial position and financial performance of the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Descriptions	**Effective for annual periods beginning on or after**
Amendments to FRS 19: *Defined Benefit Plans: Employee Contributions*	1 July 2014
Improvements to FRSs (January 2014)	
– Amendment to FRS 102 *Share-based Payment*	1 July 2014*
– Amendment to FRS 103 *Business Combinations*	1 July 2014^
– Amendment to FRS 108 *Operating Segments*	1 July 2014
– Amendment to FRS 16 *Property, Plant and Equipment*	1 July 2014
– Amendment to FRS 24 *Related Party Disclosures*	1 July 2014
– Amendment to FRS 38 *Intangible Assets*	1 July 2014
Improvements to FRSs (February 2014)	
– Amendment to FRS 103 *Business Combinations*	1 July 2014
– Amendment to FRS 113 *Fair Value Measurement*	1 July 2014
– Amendment to FRS 40 *Investment Property*	1 July 2014
FRS 114 *Regulatory Deferral Accounts*	1 January 2016
Amendments to FRS 27: *Equity Method in Separate Financial Statements*	1 January 2016
Amendments to FRS 16 and FRS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016
Amendments to FRS 16 and FRS 41: *Agriculture: Bearer Plants*	1 January 2016
Amendments to FRS 111: *Accounting for Acquisitions of Interests in Joint Operations*	1 January 2016
Amendments to FRS 110 and FRS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	1 January 2016
Improvements to FRSs (November 2014)	
– Amendment to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*	1 January 2016
– Amendment to FRS 107 *Financial Instruments: Disclosures*	1 January 2016
– Amendment to FRS 19 *Employee Benefits*	1 January 2016
– Amendment to FRS 34 *Interim Financial Reporting*	1 January 2016
Amendments to FRS 1: *Disclosure Initiative*	1 January 2016
Amendments to FRS 110, FRS 112 and FRS 28: *Investment Entities: Applying the Consolidation Exception*	1 January 2016
FRS 115 *Revenue from Contracts with Customers*	1 January 2017
FRS 109 *Financial Instruments*	1 January 2018

* The amendment applies prospectively to share-based payment transactions with a grant date on or after 1 July 2014
^ The amendment applies prospectively to business combination for which the acquisition date is on or after 1 July 2014

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (Continued)

Except for Amendment to FRS 102, Amendment to FRS 103, Amendment to FRS 108, Amendment to FRS 24, Amendment to FRS 27, Amendment to FRS 113, Amendment to FRS 1, FRS 109 and FRS 115, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of these new or revised FRSs are described below.

Improvements to FRSs (January 2014): Amendment to FRS 102 *Share-based Payment*

The amendment changes the definition of 'vesting conditions' and 'market conditions'. In addition, it also defines and clarifies certain aspects of 'performance condition' and service condition', such as performance target in a group situation.

The Group will apply these amendments to the future grants of share-based payments from January 2015 onwards.

Improvements to FRSs (January 2014): Amendment to FRS 103 *Business Combinations*

The amendment clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of FRS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit or loss.

The Group will apply these amendments to the future business combination from January 2015 onwards.

Improvements to FRSs (January 2014): Amendment to FRS 108 *Operating Segments*

The amendment require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'. The amendment also clarifies that a reconciliation of the total segment assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in next financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (Continued)

Improvements to FRSs (January 2014): Amendment to FRS 24 *Related Party Disclosures*

The amendments clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity must disclose as a related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, the breakdown of the components of such compensation is not required to be disclosed.

The management expects that the adoption of the amendment will not result in additional parties being identified as related to the Group. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in next financial year.

Amendments to FRS 27: *Equity Method in Separate Financial Statements*

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements using the equity method as described in FRS 28 Investments in Associates and Joint Ventures, in addition to measurement at cost and in accordance with FRS 39 Financial Instruments: Recognition and Measurement. The accounting option must be applied by category of investments.

The Company currently presents its investment in separate financial statements at cost and will review this policy consequent to this amendment which is effective in 2016.

Improvements to FRSs (February 2014): Amendment to FRS 113 *Fair Value Measurement*

The scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, FRS 39, regardless of whether they meet the definitions of financial assets or financial liabilities in FRS 32 Financial Instruments: Presentation.

The management expects that this amendment will not have a material impact to the fair value measurement as the Group has no assets or liabilities that are already managed on a portfolio basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (Continued)

Amendments to FRS 1: *Disclosure Initiative*

FRS 1 *Presentation of Financial Statements* is amended as part of the initiatives by the standard-setters to improve presentation and disclosure in financial reports. The amendments clarify materiality guidance in FRS 1 and clarify on aggregating and disaggregating line items on the balance sheet and statement of comprehensive income, including added guidance on presenting sub-totals. The amendments also give examples on systematic ordering or grouping of the structure of the notes to financial statements. In addition, following the amendments, the share of Other Comprehensive Income (OCI) of the equity-accounted investments shall be presented separately from the other OCI on the statement of changes in equity. The Group will apply these amendments in 2016.

FRS 109 *Financial Instruments*

FRS 109 replaces FRS 39 Financial Instruments: Recognition and Measurement, and introduces new requirements for classification and measurement, impairment and hedge accounting. The adoption of FRS 109 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. FRS 109 also introduces a new expected loss impairment model, and adds detailed guidance on impairment-related presentation and disclosures. FRS 109 also contains new requirements on hedge accounting, which adopts a more principle-based approach, and allows entities to choose between applying hedge accounting requirements of FRS 109 or continue to apply the existing hedge accounting requirements in FRS 39 for all hedge accounting. FRS 109 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. The Group is in the process of assessing the impact of the new standard for the future periods.

FRS 115 *Revenue from Contracts with Customers*

FRS 115 establishes a single comprehensive model in accounting for revenue arising from contracts with customers, and will supersede the current revenue recognition guidance including FRS 18 *Revenue*, FRS 11 *Construction Contracts* and the related Interpretations when it becomes effective in 2017.

The core principle of FRS 115 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under FRS 115, an entity recognises revenue when (or as) a performance obligations is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customers.

The application of FRS 115 may have a material impact on the amounts reported and disclosures in the Group's consolidated financial statements. The Group is in the process of assessing the impact of the new standard for the future periods.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Group accounting

(i) Subsidiaries

(a) Basis of 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, statement of changes in equity and balance sheet. 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.

(b) Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed as incurred.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Group accounting (Continued)

(i) Subsidiaries (Continued)

(b) Acquisition of businesses (Continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the Group elects on an acquisition-by-acquisition basis whether to recognise them either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, at the date of acquisition.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

(c) Disposals of subsidiaries or businesses

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

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss. Subsequently, the retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Group accounting (Continued)

(ii) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owner of the Company.

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

Investment in subsidiaries

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

Currency translation

(i) Functional and presentation currency

The individual financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Singapore dollars, which is also the functional currency of the Company.

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Currency translation (Continued)

(ii) Transactions and balances (Continued)

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity in the consolidated financial statements. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

(iii) Translation of the Group's financial statements

The assets and liabilities of foreign operations are translated into Singapore dollars at the rate of exchange ruling at the balance sheet date and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss.

Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of property, plant and equipment including subsequent expenditure is recognised as an asset if, and only if, 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. When significant parts of property, plant and equipment is required to be replaced in intervals, the Group recognises such parts as individual assets with specific lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance expenses are recognised in profit or loss when incurred.

After initial recognition, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

Freehold land and assets under construction are not depreciated. All other items of property, plant and equipment are depreciated using the straight-line method to write-off the cost over their estimated useful lives as follows: -

	Useful lives (Years)
Freehold buildings	50
Leasehold land and building	30 to 50
Renovations	5
Motor vehicles	5
Plant and equipment	3 to 10

The estimated useful life and depreciation method are reviewed, and adjusted as appropriate, at each balance sheet date to ensure that the amount, method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Fully depreciated assets are retained in the financial statements until they are no longer in use.

The carrying amount of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on retirement or disposal is determined as the difference between any sales proceeds and the carrying amounts of the asset and is recognised in the profit or loss within "Other income (expenses)".

Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised on a straight-line basis over the remaining years of right allocated to use the land of 50 years.

Intangible asset

Goodwill on acquisition of subsidiaries or businesses represents the excess of (i) the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquire 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible asset (Continued)

Gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the entity sold. Certain portion of goodwill arose from a change in parent's ownership interests in a subsidiary (after control is obtained) before July 2009. The revised FRS 27 which was issued on 1 July 2009 did not require retrospective adjustment be made on goodwill that was recognised prior to 1 July 2009 and allowed the goodwill be stated at carrying value as of 1 July 2009.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group if cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent on those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the profit and loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

Financial assets

(i) Initial recognition and measurement

Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of financial assets classified as held-to-maturity, directly attributable transaction costs.

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on 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 and re-evaluates this designation at every balance sheet date. As at the balance sheet date, the Group has no other financial assets in the categories of financial assets other than the category of available-for-sale financial assets and loans and receivables.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

(ii) Subsequent measurement

The subsequent measurement of financial assets depends on the classification, as follows:

(a) Available-for-sale financial assets

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. Assets in this category are presented as non-current assets unless the investment matures or management intends to dispose of the assets within 12 months after the balance sheet date.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are stated at cost less impairment loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables comprise cash and bank balances, trade and other receivables, and excludes prepayments, advances to suppliers and tax recoverable.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

(iii) Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the marketplace concerned.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the profit or loss. When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

(i) Financial assets carried at amortised cost (Continued)

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(ii) Available-for-sale financial assets

Considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired include (i) a significant or prolonged decline in the fair value of the investment below its costs, (ii) significant financial difficulties of the issuer or obligor, and (iii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

When the available-for-sale financial asset is impaired, the cumulative loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss previously recognised in the profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income. For debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as the financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials comprise purchase costs accounted for on a weighted average basis. Work-in-progress and finished goods comprise cost of direct materials, direct labour and an attributable proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to be incurred for selling and distribution.

Construction contracts work-in-progress

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date (the percentage of completion method).

The outcome of a construction contract can be estimated reliably when: (i) total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of a contract cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable and contract costs are recognised as an expense in the period in which they are incurred. An expected loss on the construction contract should be recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

Contract revenue comprises the initial amount of revenue agreed in the contract and any variations in the contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they 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 contract costs incurred to date to the estimated total costs for the contract. Contract costs include costs that relates directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. 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 on the balance sheet 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts work-in-progress (Continued)

The aggregate of costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the financial year end. Where costs incurred and recognised profit (less recognised losses) exceed progress billings, the balance is shown as amounts due from customers for contract work. Where progress billings exceeds costs incurred and recognised profit (less recognised losses), the excess is shown as amounts due to customers for contract work.

Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs. As at the balance sheet date, the Group did not have any financial liabilities in the category of financial liabilities at fair value through profit and loss.

(ii) Subsequent measurement

Subsequent to initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when liabilities are derecognised, and through the amortisation process.

(iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognised when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Financial guarantees

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiaries. These guarantees are financial guarantee contracts 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 guarantee contracts are initially recognised as a liability at their fair values, adjusted for transaction costs directly attributable to the issuance of the guarantees. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If it is probable that the liabilities will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to profit or loss.

Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date, in which case they are presented as non-current liabilities.

Borrowings are initially recorded at fair value, net of transaction costs and subsequently carried for at amortised costs using the effective interest method.

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. Borrowings which are due to be settled within twelve months after the balance sheet date are included in current borrowings in the balance sheet even though the original term was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. For arrangements entered into prior to 1 January 2006, the date of inception is deemed to be 1 January 2006 in accordance with the transitional requirements of INT FRS 104.

(i) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in this Note. Contingent rents are recognised as revenue in the period in which they are earned.

(ii) As lessee

Finance leases, which transfers to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased item are classified as operating leases. Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share capital

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(b) Revenue from construction contracts – Engineered Environmental Systems

Revenue from projects are recognised based on the stage of completion of the contract activities. The stage of completion is measured by reference to the contract costs incurred to date to the estimated total costs for the contract. The accounting policy on accounting for "construction contracts work-in-progress" paragraph above.

(c) Revenue from rendering of services – Water Management Services

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

(d) Rental income

Rental income arising from operating leases is recognised on a straight-line basis over the lease terms.

(e) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all terms and conditions relating to the grants have been 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.

Dividends

Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

Employees' benefits

(i) Retirement benefits

The Group and the Company participate in the national schemes as defined by the laws of the countries in which it has operations.

The Company makes contribution to the Central Provident Fund (CPF) Scheme in Singapore, a defined contribution pension schemes.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the period in which the related service is performed.

(ii) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability as a result of services rendered by employees up to the balance sheet date.

Borrowing costs

All borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income taxes for current and prior periods are recognised at the amount expected to be paid to or recovered from the tax authorities, using tax rates and tax laws that have been substantively enacted by the balance sheet date in the countries where the Group operates and generates taxable income. Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and the Company if that person:

(i) Has control or joint control over the Company;

(ii) Has significant influence over the Company; or

(iii) Is a member of the key management personnel of the Group or the Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits with financial institutions, and short term, highly liquid investments readily convertible to known amounts of cash which have an insignificant risk of changes in value. For the purpose of statement of cash flows, cash and cash equivalents are presented net of bank overdraft and pledged deposits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingencies

A contingent liability is 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 a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or 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 balance sheet 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.

Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn resources and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, which in the case is the Chief Executive Officer of the Group, to make decision about resources to be allocated and to assess performance of the operating segments.

Critical accounting estimates, assumptions and judgements

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

(i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates, assumptions and judgements (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(a) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate included in the budget.

The carrying amount of goodwill and further details of the key assumptions applied in the impairment assessment of goodwill are disclosed in Note 5.

The carrying amount of property, plant and equipment, land use rights and investment in subsidiaries are disclosed in Note 4, 6 and 7 respectively.

(b) Income tax

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. In determining the income tax liabilities of a routine tax assessment year, management estimated the amount of capital allowance and the deductibility of certain expenses at each tax jurisdiction. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax recoverable and payable as at 31 December 2014 amounted to $256,000 and $112,000 excluding the additional tax (liabilities as disclosed in part(e)) (2013: $555,000 and $43,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates, assumptions and judgements (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(b) Income tax (Continued)

The Group and Company have unrecognised tax losses of approximately $12,646,000 and $1,869,000 (2013:$ $11,389,000 and $$1,836,000) respectively that are available to carried forward. These losses relate to the Company and certain subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The subsidiaries have neither temporary taxable differences nor any tax planning opportunities available that could support the recognition of any of these losses as deferred tax assets. If the Group was able to recognise all unrecognised deferred tax assets, profit for the year would increase by approximately $2,192,000 (2013: $1,938,000) (Note 8).

(c) Construction contracts

The Group uses the percentage-of-completion method in accounting for its contract revenue where it is probable that contract costs are recoverable. The stage of completion is measured by reference to the contract costs incurred to date 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 relied on past experiences and knowledge of the project engineers.

The carrying amounts of assets and liabilities arising from construction contracts as at 31 December 2014 disclosed in Note 11.

(d) Impairment of loans and receivables

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

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

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates, assumptions and judgements (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(d) Impairment of loans and receivables (Continued)

The carrying amounts of trade and other receivables of the Group and Company as at 31 December 2014 are disclosed in Note 10. The credit risk exposure including the aging profile of trade receivables are disclosed in Note 28 (iii).

If the net present values of estimated cash flows increase/decrease by 10% from management's estimates for all past due but not impaired trade receivables, the Group's allowance for impairment will decrease/increase by $310,400 (2013: $247,100).

(e) Additional tax liabilities and penalties (the "claim") from the Taiwanese tax authorities

Included in the income tax payable and other payables of the Group are additional tax liabilities and penalties amounting to $1,638,000 (2013: $1,673,000) and $1,746,000 (2013: $1,781,000) respectively, which was based on the additional tax assessments and penalties imposed by the taiwanese tax authorities in 2013 and 2014.

The additional tax assessments arose from the fraudulent acts committed by the previous management of Darco Engineering (Taiwan) Co., Ltd ("DET") and was related to the years of assessment 2006, 2007, 2008 and 2009 together with the corresponding penalties. The appeal on the claims and the legal suit against the former management of DET is still ongoing as at the date of this report.

Thus where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax payable and tax penalties in the period in which such determination is made.

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

The on-going legal cases initiated by the Group or against the Group and the management's assessment of the financial impact has been disclosed in Note 26. It is impracticable to disclose the extent of the possible outcome of these cases outstanding as at the balance sheet date, as it depends on the status of the proceedings and the judgement by the court. It is reasonably possible, on the basis of the existing information and knowledge, that the outcomes within the next financial year that are different from the management's assessment could result a material adjustment to the carrying amounts of the assets or liabilities affected, which is disclosed in Note 10 and 14 respectively.

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4. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land	Freehold buildings	Leasehold land and building	Renovations	Assets under construction	Motor vehicles	Plant and equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost								
As at 1.1.2013	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)
Written off	–	–	–	–	(18)	–	(20)	(38)
Disposal of subsidiaries	(2,039)	–	–	–	–	(65)	(37)	(2,141)
Currency translation differences	4	(33)	34	–	(2)	(10)	(53)	(60)
As at 31.12.2013	2,227	1,524	638	123	88	888	10,035	15,523
As at 1.1.2014	2,227	1,524	638	123	88	888	10,035	15,523
Additions	–	–	–	20	–	144	271	435
Addition arising from settlement agreement (Note 7(b))	–	–	–	–	–	25	99	124
Disposals	–	–	–	–	–	(134)	(3,751)	(3,885)
Written off	–	–	–	–	–	–	(1,578)	(1,578)
Reclassification	–	–	–	261	(88)	–	(173)	–
Currency translation differences	(42)	(30)	(13)	(5)	*	(10)	(120)	(220)
As at 31.12.2014	2,185	1,494	625	399	–	913	4,783	10,399

* Amount less than $1,000.

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4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Freehold land	Freehold buildings	Leasehold land and building	Renovations	Assets under construction	Motor vehicles	Plant and equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Accumulated depreciation								
As at 1.1.2013	–	268	275	123	–	685	5,971	7,322
Charge for the year	–	78	41	–	–	105	1,063	1,287
Disposals	–	–	(297)	–	–	(123)	(140)	(560)
Written off	–	–	–	–	–	–	(20)	(20)
Disposal of subsidiaries	–	–	–	–	–	(40)	(33)	(73)
Currency translation differences	–	(6)	13	–	–	(3)	(85)	(81)
As at 31.12.2013	–	340	32	123	–	624	6,756	7,875
As at 1.1.2014	–	340	32	123	–	624	6,756	7,875
Charge for the year	–	21	13	15	–	88	339	476
Disposals	–	–	–	–	–	(103)	(2,021)	(2,124)
Written off	–	–	–	–	–	–	(1,577)	(1,577)
Reclassification	–	(129)	–	176	–	–	(176)	(129)
Currency translation differences	–	(7)	(1)	(3)	–	(7)	(66)	(84)
As at 31.12.2014	–	225	44	311	–	602	3,255	4,437

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4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Freehold land	Freehold buildings	Leasehold land and building	Renovations	Assets under construction	Motor vehicles	Plant and equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Accumulated impairment losses								
As at 1.1.2013	1,041	–	–	–	–	34	362	1,437
Impairment loss	22	–	–	–	–	–	1,569	1,591
Disposals	–	–	–	–	–	(2)	–	(2)
Currency translation differences	8	–	–	–	–	–	14	22
As at 31.12.2013	1,071	–	–	–	–	32	1,945	3,048
As at 1.1.2014	1,071	–	–	–	–	32	1,945	3,048
Impairment loss	–	56	–	–	–	–	13	69
Disposals	–	–	–	–	–	(3)	(1,651)	(1,654)
Reclassification	–	129	–	–	–	–	–	129
Currency translation differences	(20)	*	–	–	–	(1)	(32)	(53)
As at 31.12.2014	1,051	185	–	–	–	28	275	1,539
Net carrying amount:								
As at 31.12.2013	1,156	1,184	606	–	88	232	1,334	4,600
As at 31.12.2014	1,134	1,084	581	88	–	283	1,253	4,423

* Amount less than $1,000.

Assets held under finance leases

During the financial year, the Group acquired motor vehicles with an aggregate cost of $40,000 (2013: $286,000) by means of finance leases. The cash outflow on acquisition of property, plant and equipment amounted to $395,000 (2013: $2,261,000).

The carrying amount of motor vehicles held under finance leases at the balance sheet date is $180,000 (2013: $166,000).

Leased assets are pledged as security for the related finance lease liabilities. (Note 15)

NOTES TO THE FINANCIAL STATEMENTS

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4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets pledged as security

In addition to assets held under finance leases, freehold land, freehold building and leasehold land and building with an aggregate carrying amount of $2,799,000 (2013: $2,946,000) is mortgaged to a bank to secure the Group's bank loans and facilities. (Note 15)

The properties held by the Group as at 31 December 2014 and 31 December 2013 are as follows:

Location	Description	Gross land area (sqm)	Gross built-in area (sqm)	Remaining Tenure	Use of property
Malaysia					
Lot 10465, Jalan Permata 1/6, Arab Malaysian Industrial Park, 71800 Nilai, Negeri Sembilan Darul Khusus, Malaysia	Freehold land and building	4,572	1,512	Freehold	Office, factory and warehouse
Lot No. 6546, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang Malaysia	Leasehold land and building	1,009	984	Ending on 30 September 2045	Office, factory and warehouse
Lot No. 6547, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang Malaysia	Leasehold land and building	1,009	984	Ending on 30 September 2045	Office, factory and warehouse
Taiwan					
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	Freehold	Office, factory and warehouse
Wurih Township, Town Urban, Tong An Segment 253-1, Taiwan	Freehold land	17,199	–	Freehold	Office, factory and warehouse

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5. INTANGIBLE ASSET

	Goodwill on consolidation	
Group	**2014**	**2013**
	$'000	**$'000**
Cost		
At beginning and end of financial year	**959**	959
Accumulated impairment losses		
At beginning and end of financial year	**(54)**	(54)
Net carrying amount	**905**	905

Impairment testing of goodwill

Goodwill acquired through business combinations are allocated to the Group's cash-generating units (CGUs) that are expected to benefit from that business combinations. The carrying amount of goodwill which had been allocated to the Engineering Environmental Systems segment is as follows:

	2014	2013
	$'000	**$'000**
Singapore	**905**	905
Malaysia*	**4**	4
Taiwan*	**35**	35
PRC*	**15**	15
	959	959

* Fully impaired in prior years.

The recoverable amounts of the CGUs are determined based on value-in-use calculations.

In determining value-in-use, the Group prepares 5-year cash flow projections based on the most recent financial budgets approved by the management covering a five-year period, which are based on the following key assumptions.

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5. INTANGIBLE ASSET (CONTINUED)

Impairment testing of goodwill (continued)

	Group	
	2014	**2013**
	%	**%**
Gross margin [(1)]	**65**	66
Growth rate [(2)]	**6**	6
Discount rate [(3)]	**10**	4

(1) Budgeted gross margin.
(2) Weighted average growth rate.
(3) Pre-tax discount rate applied to the pre-tax cash flow projections.

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. Gross margin included in the cash flow projections are based on past performance and management's expectation for market development as well as sustainable level of gross margin, given the existing product and revenue mix.

Sensitivity to changes in assumptions

Management believes that no reasonably possible changes in any of the above key assumption individually or in combination would cause the carrying value to materially exceed its recoverable amount.

6. LAND USE RIGHTS

	Group
	2013
	$'000
Cost	
At beginning of financial year	320
Disposal	(336)
Currency translation differences	16
At end of financial year	–
Accumulated impairment losses	
At beginning of financial year	56
Amortisation for the year (Note 22)	5
Disposal	(64)
Currency translation differences	3
At end of financial year	–
Net carrying amount at end of financial year	–

NOTES TO THE FINANCIAL STATEMENTS

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7. INVESTMENT IN SUBSIDIARIES

	Company	
	2014	**2013**
	$'000	**$'000**
Unquoted equity shares, at cost		
At beginning of financial year	**27,312**	27,291
Add: Additional equity interest in a subsidiary (Note (c))	**–**	21
At end of financial year	**27,312**	27,312
Less: Impairment loss		
At beginning and end of financial year	**(22,894)**	(22,894)
Net carrying amount	**4,418**	4,418

(a) Details of the subsidiaries are as follows:

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2014	**2013**
			%	**%**
Held by the Company				
Darco Engineering Pte. Ltd. [1]	Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business	Singapore	**100**	100
Darco Water Systems Sdn. Bhd. [2]	Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business and trading in related industrial products	Malaysia	**100**	100
PV Vacuum Engineering Pte. Ltd. [1]	Design and supply of environmental related equipment, centralised vacuum systems, refuse conveying system and any other engineering systems making use of vacuum technologies	Singapore	**100**	100
Darco Engineering (Taiwan) Co., Ltd. [2]	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	Taiwan	**100**	100

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7. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(a) Details of the subsidiaries are as follows (Continued):

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2014	**2013**
			%	**%**
Held by subsidiaries				
Darco Environmental (Philippines) Inc. [3]	Design, 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	Philippines	**65**	65
Shanghai Darco Engineering Co., Ltd [4]	Design and fabrication of water treatment systems and provision of consultancy services in relation to such business	People's Republic of China	**100**	100
Darco Industrial Water Sdn. Bhd. [2]	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	Malaysia	**100**	100
WWMG Environmental Sdn. Bhd. [2]	Investment holding	Malaysia	**100**	100
Darco-Envidan Sdn. Bhd. [2]	Designing, fabricating and constructing pure and waste water treatment plants and trading in related industrial products	Malaysia	**100**	100
Grober Industrial Services Sdn. Bhd. [2]	Supplying of all kinds of industrial equipment and industrial services	Malaysia	**100 (Note b)**	–
Darco Youli Co., Ltd. [2]	Recycling of medical waste	Taiwan	**60**	60
Darco Remediation Technologies Inc. [2]	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	Taiwan	**100**	100

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7. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(a) Details of the subsidiaries are as follows (Continued):

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2014	2013
			%	%
Held by subsidiaries (Continued)				
Darco Puding Wastewater Management Co., Ltd. [(2)]	Supply of potable water	Taiwan	**51**	51
Puzer Asia Pte Ltd [(1)]	Trading in vacuum cleaning systems and provision of related services	Singapore	**56**	56

(1) Audited by Crowe Horwath First Trust LLP, Singapore.
(2) Audited by member firms of Crowe Horwath International in the respective countries.
(3) Audited by Fernandez, Santos & Lopez, Philippines.
(4) Audited by a CPA firm in the People's Republic of China.

(b) Acquisition of a subsidiary, arising from the Settlement Agreement

On 8 April 2014, the Company's wholly owned subsidiary, Darco Industrial Water Sdn Bhd ("DIW") entered into a Settlement Agreement with its two former employees, Grober Industrial Services Sdn Bhd ("Grober") and KIJ Ultra Supreme Filtration Sdn Bhd (collectively the "YCS Group Parties"). The Settlement Agreement related to a law suit taken by the Group against YCS Group Parties as disclosed in the previous financial year ended 31 December 2013. Pursuant to the Settlement Agreement, the legal ownership and all current business of Grober shall be transferred to DIW at a token sum of $0.39 (MYR 1.00), The total settlement sum awarded to DIW was approximately $1.08 million (MYR 2.78 million) being compensation to DIW for YCS Group Parties' breach of duties and conspiracy to divert the Group's business contracts.

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7. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(b) Acquisition of a subsidiary, arising from the Settlement Agreement (Continued)

At the date of the transfer of ownership, the Group acquired the following assets and liabilities of Grober at the carrying amount and the effects of the Settlement Agreement were as follows:

	2014 $'000
Assets	
Cash and bank balances	528
Trade and other receivables	1,352
Property, plant and equipment	124
Total assets	2,004
Liabilities	
Trade and other payables	1,147
Borrowings	25
Deferred tax liabilities	21
Income tax payable	123
Total liabilities	1,316
Total identifiable net assets acquired for a token sum	688
Add: Settlement sum received and receivable	388
Gain arising from settlement agreement (Note 19)	1,076
Effect of the settlement agreement on cash flows	
Settlement sum received in cash	194
Add: Cash and bank balances of Grober acquired	528
Net cash inflow on arising from settlement arrangement	722

Upon completion and fulfilment of the conditions as stipulated in the Settlement Agreement, Grober became a wholly-owned subsidiary of the Group during the financial year.

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7. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(c) Changes in ownership interests in a subsidiary

In 2013, the Company acquired the remaining equity interest in a subsidiary, Darco Engineering (Taiwan) Co., Ltd ("DET") from its non-controlling shareholders for a cash consideration of $21,000. Following the acquisition, DET became a wholly-owned subsidiary of the Company. The effect of the addition was as follows:

	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 17)	140

(d) Disposal of a subsidiary

On 31 October 2013, DET disposed its entire equity interests of 59.58% in Darco Environmental (Taiwan) Inc., ("DNT") to third parties for a total cash consideration of approximately $1,016,000 (NTD$24,102,000). Subsequent to the disposal, DNT was no longer part of the Group as at 31 December 2013.

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

	As at date of disposal $'000
Carrying amounts of assets and liabilities disposed of:	
Cash and bank balances	2,739
Trade and other receivables	991
Property, plant and equipment	2,068
Deferred tax assets	16
Total assets	5,814
Trade and other payables	(3,207)
Borrowings	(211)
Total liabilities	(3,418)
Net assets derecognised	2,396
Les: Non-controlling interests	(968)
Net assets disposed of	1,428
Reclassification from currency translation reserve (Note 17)	287
Loss on disposal of a subsidiary (Note 22)	(699)
Total cash consideration	1,016
Less: Cash and bank balances in a subsidiary disposed of	(2,739)
Net cash outflow on disposal of a subsidiary	(1,723)

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7. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(e) Interest in subsidiaries with non-controlling interest ("NCI")

(i) The Group has the following subsidiaries that have NCI to the Group.

Name of subsidiary	Proportion (%) of ownership interests and voting rights held by NCI	
	2014	**2013**
	%	**%**
With material NCI		
Darco Puding Wastewater Management Co., Ltd ("Puding")	**49**	49
Darco Youli Co., Ltd ("Youli")	**40**	40
With immaterial NCI		
Darco Environmental (Philippines) Inc	**35**	35
Puzer Asia Pte Ltd	**44**	44

(ii) The carrying value of NCI to the Group are as follow:

	2014	**2013**
	$'000	**$'000**
Puding	**1,327**	1,385
Youli	**1,098**	842
Other subsidiaries with immaterial NCI	**63**	75
Total	**2,488**	2,302

NOTES TO THE FINANCIAL STATEMENTS

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7. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(e) Interest in subsidiaries with non-controlling interest ("NCI") (Continued)

(iii) The following summarises the financial information of each of the Group's subsidiaries with material NCI, based on their respective financial statements.

	Puding $'000	Youli $'000
2014		
Revenue	–	2,049
(Loss) / Profit	(65)	682
Other comprehensive Income (OCI)	–	–
Total comprehensive (loss) / income	(65)	682
Attributable to NCI:		
– (Loss) / Profit	(32)	273
– OCI	–	–
Total comprehensive (loss) / income	(32)	273
Non-current assets	–	2,175
Current assets	3,138	1,584
Non-current liabilities	–	(556)
Current liabilities	(429)	(457)
Net assets	2,709	2,746
Accumulated NCI of the subsidiary at end of year	1,327	1,098
Cash flows (used in) / from operating activities	(53)	994
Cash flows used in investing activities	–	(230)
Cash flows used in financing activities (dividends to NCI: Nil)	–	(463)

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7. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(e) Interest in subsidiaries with material non-controlling interest ("NCI") (Continued)

(iii) The following summarises the financial information of each of the Group's subsidiaries with material NCI, based on their respective financial statements (Continued).

	Puding $'000	Youli $'000
2013		
Revenue	–	1,329
(Loss) / Profit	(131)	168
Other comprehensive Income (OCI)	–	–
Total comprehensive (loss) / income	(131)	168
Attributable to NCI:		
– (Loss) / Profit	(64)	67
– OCI	–	–
Total comprehensive (loss) / income	(64)	67
Non-current assets	–	2,234
Current assets	3,252	1,273
Non-current liabilities	–	(1,065)
Current liabilities	(425)	(337)
Net assets	2,827	2,105
Accumulated NCI of the subsidiary at end of year	1,385	842
Cash flows (used in) / from operating activities	(151)	472
Cash flows from / (used in) investing activities	2	(696)
Cash flows (used in) / from financing activities (dividends to NCI: Nil)	(173)	590

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8. DEFERRED TAX ASSETS / (LIABILITIES)

	Group	
	2014	**2013**
	$'000	**$'000**
At beginning of financial year	**57**	30
Recognised in the profit or loss (Note 23)	**(77)**	46
Addition arising from settlement agreement (Note 7(b))	**(21)**	–
Disposal of a subsidiary (Note 7(d))	**–**	(16)
Currency translation differences	**8**	(3)
At end of financial year	**(33)**	57
Presented after appropriate offsetting as follows:		
Deferred tax assets, net	**136**	110
Deferred tax liabilities, net	**(169)**	(53)
	(33)	57

Deferred tax assets of the Group

	Allowance of doubtful debts	Unrealised foreign exchange	Others	Total
	$'000	**$'000**	**$'000**	**$'000**
2014				
At beginning of financial year	**69**	**(2)**	**43**	**110**
Recognised in the profit or loss	**–**	**–**	**22**	**22**
Currency translation differences	**2**	**1**	**1**	**4**
At end financial year	**71**	**(1)**	**66**	**136**
2013				
At beginning of financial year	88	5	5	98
Disposal of a subsidiary	(16)	–	–	(16)
Recognised in the profit or loss	*	(7)	39	32
Currency translation differences	(3)	–	(1)	(4)
At end of financial year	69	(2)	43	110

* Amount less than $1,000.

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8. DEFERRED TAX ASSETS / (LIABILITIES) (CONTINUED)

Deferred tax liabilities of the Group

	Tax over book depreciation
	$'000
2014	
At beginning of financial year	**53**
Recognised in the profit or loss	**99**
Addition arising from settlement agreement (Note 7(b))	**21**
Currency translation differences	**(4)**
At end financial year	**169**
2013	
At beginning of financial year	68
Recognised in the profit or loss	(14)
Currency translation differences	(1)
At end financial year	53

Deferred tax assets have not been recognised in respect of the following:

	2014	**2013**	**Jurisdiction**	**Expiring year**
Group	**$'000**	**$'000**		
Unabsorbed tax losses	**3,774**	4,466	Singapore/ Malaysia/ People's Republic of China	Indefinite
Unabsorbed tax losses	**6,923**	6,923	Taiwan	2022
Unabsorbed tax losses	**1,949**	–	Taiwan	2024
	12,646	11,389		
Unabsorbed capital allowances	**13**	12	Singapore	Indefinite
	12,659	11,401		

	2014	**2013**	**Jurisdiction**	**Expiring year**
Company	**$'000**	**$'000**		
Unabsorbed tax losses	**1,869**	1,836	Singapore	Indefinite

The unabsorbed tax losses and capital allowance that can be carried forward and used to offset against future taxable income are subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries. Deferred tax assets have not been recognised in respect of these items due to the uncertainty of its recoverability in foreseeable future.

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9. INVENTORIES

	Group	
	2014	2013
	$'000	$'000
Raw materials	863	92
Trading goods	90	1,047
	953	1,139

The cost of inventories recognised as 'cost of sales' amounted to $6,676,000 (2013: $7,078,000), of which $65,000 (2013: $271,000) pertained to write-downs of inventories to net realisable value.

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
		Restated (Note 30)		
Trade receivables:				
– Third parties	9,105	10,496	–	–
Less: Allowance for impairment	(3,912)	(4,030)	–	–
Trade receivables, net	5,193	6,466	–	–
Amounts due from customers for contract work (Note 11)	1,027	1,105	–	–
Other receivables:				
– Third parties	1,818	1,822	12	5
– Subsidiaries (non-trade)	–	–	8,944	8,384
	1,818	1,822	8,956	8,389
Less: Allowance for impairment				
– Third parties	(1,511)	(1,543)	–	–
– Subsidiaries (non-trade)	–	–	(8,336)	(8,336)
	307	279	620	53
Deposits	5,600	4,473	129	–
Staff loans	84	17	–	–
Prepayments	93	59	24	–
Advances to suppliers	176	6	–	–
	12,480	12,405	773	53

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables

Trade receivables are non-interest bearing with credit term of 30 to 90 days.

Subsidiaries (non-trade)

These are unsecured, interest-free and repayable on demand.

Staff loans

These are unsecured, interest-free and repayable on demand.

Deposits

Group's deposits mainly comprise of the following:

– a guarantee deposit placed with Taoyuan County Government under a build-operate-transfer contract in 2010, which is currently under litigation (Note 26 (a)(iii)) amounting to $2.5 million, or NTD$60.00 million (2013: $2.53 million, or NTD$60.00 million); and

– a refundable deposit placed with Tainwan High Court amounting to $0.63 million, or NTD$15.11 million (2013: $0.64 million, or NTD$15.11 million) (Note 26 (b)(i)) pertaining to Group's charges against former employees of Taiwan subsidiary.

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

	Group		Company	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
At beginning of financial year	**5,573**	5,376	**8,336**	14,355
Allowance made (Note 22)	**26**	287	**–**	–
Allowance written off	**2**	(49)	**–**	(5,655)
Reversal of impairment loss (Note 22)	**(85)**	(98)	**–**	(364)
Currency translation differences	**(93)**	57	**–**	–
At end of financial year	**5,423**	5,573	**8,336**	8,336

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

11. GROSS AMOUNT DUE FROM / (TO) CUSTOMERS FOR CONTRACT WORK

	Group	
	2014	**2013**
	$'000	**$'000**
Aggregate amount of costs incurred and recognised profits (less losses recognised) to date on uncompleted construction contracts	**26,056**	28,735
Less: Progress billings	**(26,618)**	(31,738)
	(562)	(3,003)
Presented as:		
Due from customers on construction contracts (Note 10)	**1,027**	1,105
Due to customers on construction contracts (Note 14)	**(1,589)**	(4,108)
	(562)	(3,003)

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2014	**2013**
	$'000	**$'000**
		(Restated)
		(Note 30)
Cost		
At beginning of financial year	**3,555**	–
Additions	**8,244**	3,555
Redemption	**(11,748)**	–
Currency translation differences	**(51)**	–
At end of financial year	**–**	3,555

Available-for-sale financial assets related to structured deposits, placed with a financial institution in the People's Republic of China by the Group.

Structured deposits are non-redeemable before maturity, non-capital protected and with unguaranteed rate of return of 3.8% to 5.7% per annum and with a maturity periods of 93 days and 177 days from placement date.

As at balance sheet date, all structured deposits were fully redeemed.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

13. CASH AND BANK BALANCES

	Group		Company	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
		(Restated)		
		(Note 30)		
Cash at bank and on hand	**8,346**	4,766	**185**	406
Short term fixed deposits [(i)]	**873**	1,440	**64**	–
Cash and bank balances as per balance sheets	**9,219**	6,206	**249**	406
Less: short term fixed deposits pledged [(ii)]	**(573)**	(1,223)		
Less: Bank overdraft (Note 15)	**(703)**	(1,661)		
Cash and cash equivalents as per consolidated statement of cash flows	**7,943**	3,322		

(i) Short term fixed deposits of the Group and Company bears interest rate ranging from 0.05% to 3.15% and at 0.05% (2013: 0.17% to 5.7% and at Nil) per annum respectively, and have a maturity period of ranging from 1 to 12 months and within 8 months (2013: 1 to 6 months and Nil) respectively from the balance sheet date.

(ii) These amounts are pledged in connection with the credit facilities granted by the banks for the Group's banking facilities.

Included in cash and cash equivalents are bank deposits amounting to $3,756,000 (2013: $577,000), which are not freely remissable for use by the Group because of currency exchange restrictions.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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14. TRADE AND OTHER PAYABLES

	Group		Company	
	2014 $'000	2013 $'000 (Restated) (Note 30)	2014 $'000	2013 $'000
Current				
Trade payables to:				
– Third parties	**3,698**	4,264	**–**	–
Construction contracts:				
– Due to customers (Note 11)	**1,589**	4,108	**–**	–
Other payables:				
– Subsidiaries (non-trade)	**–**	–	**2,872**	5,388
– A director-related company (non-trade)	**600**	600	**–**	–
– An individual shareholder (non-trade)	**1,028**	–	**1,028**	–
– A director of the Company (non-trade)	**980**	1,046	**210**	–
– Third parties	**2,358**	824	**46**	78
Accruals	**1,681**	1,749	**392**	435
Provision for unutilised leave	**118**	111	**–**	–
Tax penalties payable	**1,746**	1,781	**–**	–
	13,798	14,483	**4,548**	5,901
Non-current				
Other payable:				
– Subsidiary (non-trade)	**–**	–	**1,722**	–

Group

Included in the trade payables are from $0.87 million, or NTD$20.77 million (2013: $0.88 million, or NTD$20.77 million), which relates to a claim from a sub-contractor of the Group pertaining to its ongoing litigations (Note 26 (a)(i)).

Amount due to a director-related company owning by a subsidiary are unsecured, interest free and repayable on demand.

Amount due to an individual shareholder of the Company are unsecured, repayable on demand and bears interest at 3% (2013: Nil) per annum.

Amount due to a director of the Company is unsecured, interest-free and repayable on demand.

Included in the other payables to third parties are $0.41 million, or NTD$9.87 million (2013: $0.42 million, or NTD$9.87 million), which relates to penalty levied by Taoyuan County Government pertaining to a build-operate-transfer contract in 2010, which currently under litigations (Note 26 (b))(iii).

Tax penalties payable relates to the additional tax penalties imposed by the Taiwanese tax authorities in the previous financial year. (Note 30)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

14. TRADE AND OTHER PAYABLES (CONTINUED)

Company

Amounts due to subsidiaries are unsecured, interest-free and repayable on demand except for an amount of $1,722,000 as at 31 December 2014 which bears interest at 3% per annum. On 25 April 2014, the Company entered into a supplementary loan agreement with one of its subsidiary, to agree that an aggregate amount of $1,722,000 will be repayable within 5 years from 25 April 2014. Accordingly, the amount has been classified into non-current liabilities as at balance sheet date (2013: included in the current liabilities).

15. BORROWINGS

		Group	
	Maturity	**2014 $'000**	**2013 $'000**
Current			
Secured			
Bank overdrafts	On demand	**703**	936
Obligations under finance leases	2019	**35**	31
Term loan I	25 November 2032	**5**	5
Term loan II	19 December 2030	**45**	42
Term loan III	28 February 2038	**28**	–
Unsecured			
Bank overdrafts	On demand	**–**	725
Term loan IV	30 April 2016	**32**	–
Personal loan I	On demand	**229**	233
Personal loan II	–	**–**	471
Personal loan III	On demand	**492**	502
Trust receipt	2015	**76**	–
		1,645	2,945
Non-current			
Secured			
Obligations under finance leases	2019	**102**	102
Term loan I	25 November 2032	**131**	–
Term loan II	19 December 2030	**306**	498
Term loan III	28 February 2038	**556**	595
Unsecured			
Term loan IV	30 April 2016	**421**	–
		1,516	1,195
Total borrowings		**3,161**	4,140

Bank overdrafts

The bank overdrafts are secured by corporate guarantee from certain subsidiaries and freehold land of a subsidiary and bears an effective interest rates of 8.10% (2013: ranging from 7.85% to 8.10%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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15. BORROWINGS (CONTINUED)

Term loans

All term loans are secured over freehold land, freehold buildings and leasehold land and building of the Group (Note 4) and by corporate guarantee from certain subsidiaries. The term loans bears the interest rates as follows:

	Interest rate (per annum)	Group	
		2014	**2013**
Secured			
Term loan I	Bank Lending Rate – 2.1%	**6.85%**	6.60%
Term loan II	Bank Lending Rate + 1.4%	**6.85%**	6.60%
Term loan III	Bank Lending Rate – 1.9%	**6.85%**	6.60%
Unsecured			
Term loan IV	Fixed rate of 3.15%	**3.15%**	–

Obligations under finance leases

These obligations are secured by a charge over the leased assets (Note 4). The average discount rate implicit in the leases is at 5.32% (2013: 5.67%) per annum.

Future minimum lease payment under finance leases together with the present value of the net minimum lease payments are as follows:

	Minimum lease payments	Present value of payments
	$'000	$'000
Group		
2014		
Current portion:		
– Not later than 1 year	**39**	**35**
Non-current portion:		
– Later than 1 year and not later than 5 years	**106**	**97**
– Later than 5 years	**5**	**5**
	111	**102**
	150	**137**
Less: Amounts representing finance charges	**(13)**	**–**
	137	**137**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

15. BORROWINGS (CONTINUED)

Obligations under finance leases (Continued)

	Minimum lease payments	Present value of payments
	$'000	$'000
2013		
Current portion:		
– Not later than 1 year	37	31
Non-current portion:		
– Later than 1 year and not later than 5 years	97	88
– Later than 5 years	14	14
	111	102
	148	133
Less: Amounts representing finance charges	(15)	–
	133	133

Personal loan I

The personal loan I represents a loan from a third party. The personal loan is unsecured, bears interest at 2% per month and repayable on demand.

Personal loan II

This represented a loan from a non-controlling interest of a subsidiary of the Company. The loan was unsecured, interest free and had been settled during the financial year.

Personal loan III

This represented a loan from a staff of a subsidiary of the Company. The loan is unsecured, interest free and repayable on demand.

Trust Receipt

Trust receipt bears an effective interest rate at 3% per annum.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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16. SHARE CAPITAL

	Group and Company			
	2014		2013	
	Number of ordinary shares	$'000	Number of ordinary shares	$'000
Issued and fully paid ordinary shares				
At beginning and end of the financial year	**276,684,812**	**36,985**	276,684,812	36,985

On 6 November 2014, the shareholders of the Company has approved the proposed Darco Performance Share Plan ("Share Plan") as part of a remuneration and compensation plan for attracting as well as retaining executive personnel and Directors.

Directors of the Company and its subsidiaries (including Non-Executive Directors) and Directors and employees of an associated company where the Company has control over the associated company are eligible in the Share Plan.

The number of shares available under the said Share plan, will be subject to the maximum limit of 15% of the Company's total issued shares.

As at the date of this report, no Shares have been granted under the Share Plan.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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17. OTHER RESERVES

	Foreign currency translation reserve	Premium paid on acquisition of non-controlling interests	Total
	$'000 (Restated) (Note 30)	$'000	$'000
2013			
Group			
At beginning of the financial year	(3,988)	–	(3,988)
Acquisition of non-controlling interests without a change in control (Note 7 (c))	–	(140)	(140)
Reclassification on disposal of subsidiaries (Note 7(d))	287	–	287
Net exchange differences on translation of financial statements of foreign subsidiaries	(655)	–	(655)
Less: Non-controlling interests	(19)	–	(19)
At end of the financial year	(4,375)	(140)	(4,515)
2014			
Group			
At beginning of the financial year	**(4,375)**	**(140)**	**(4,515)**
Net exchange differences on translation of financial statements of foreign subsidiaries	**121**	**–**	**121**
Less: Non-controlling interests	**43**	**–**	**43**
At end of the financial year	**(4,211)**	**(140)**	**(4,351)**

18. REVENUE

	Group	
	2014	**2013**
	$'000	**$'000**
Revenue from construction contracts	**13,392**	14,553
Rendering of services	**10,952**	8,105
Sale of goods	**7,571**	7,880
	31,915	30,538

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

19. OTHER INCOME

	Group	
	2014	**2013**
	$'000	**$'000**
Insurance claim	**–**	29
Interest income	**179**	88
Rental income	**–**	12
Government grant	**44**	21
Gain on disposal of subsidiaries [(i)]	**–**	503
Gain on disposal of land use rights	**–**	316
Gain on disposal of property, plant and equipment	**38**	1,013
Gain on foreign exchange, net	**334**	187
Write back of long outstanding trade payables	**38**	40
Gain from settlement arrangement (Note 7(b))	**1,076**	–
Miscellaneous income	**294**	79
	2,003	2,288

[(i)] Gain on disposal of subsidiaries represented realisation of gain on disposal classified as held for sale in 2012.

20. FINANCE COSTS

	Group	
	2014	**2013**
	$'000	**$'000**
Interest expenses on:		
– borrowings	**386**	575
– finance leases	**8**	6
	394	581

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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21. PERSONNEL EXPENSES

	Group	
	2014	**2013**
	$'000	**$'000**
Directors of the Company:		
– Directors' fees	**240**	165
– Directors' remuneration and related costs	**213**	312
– Defined contributions plan expenses	**9**	15
Directors of the subsidiaries:		
– Directors' fees	**136**	168
– Directors' remuneration and related costs	**509**	678
– Defined contributions plan expenses	**46**	58
Other key management personnel (non-directors):		
– Salaries and related costs	**197**	169
– Defined contributions plan expenses	**18**	14
	1,368	1,579
Other personnel:		
– Salaries and related costs	**8,296**	9,312
– Defined contributions plan expenses	**716**	859
	10,380	11,750
Total personnel expenses comprises:		
– Salaries and related costs	**9,591**	10,804
– Defined contributions plan expenses	**789**	946
	10,380	11,750
Total key management personnel remuneration included above include:		
– Salaries and related costs	**1,295**	1,492
– Defined contributions plan expenses	**73**	87
	1,368	1,579

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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22. PROFIT / (LOSS) BEFORE INCOME TAX

This is determined after charging / (crediting) the following:

	Group	
	2014	**2013**
	$'000	**$'000**
		(Restated)
		(Note 30)
Allowance for impairment of receivables (Note 10)	**26**	287
Amortisation of land use rights (Note 6)	**–**	5
Auditors' remuneration paid/payable to:		
– auditors of the Company	**317**	200
– other auditors	**78**	77
Depreciation of property, plant and equipment (Note 4)	**476**	1,287
Fee for non-audit services paid / payable to:		
– auditors of the Company	**–**	4
– other auditors	**–**	2
Impairment loss of property, plant and equipment (Note 4)	**69**	1,591
Inventories written down (Note 9)	**65**	271
Loss on disposal of a subsidiary (Note 7(d))	**–**	699
Rental expense for operating leases	**512**	405
Personnel expenses (Note 21)	**10,380**	11,750
Property, plant and equipment written off	**1**	18
Provision for tax penalties (Note 30)	**–**	1,768
Write back of allowance for impairment of receivables (Note 10)	**(85)**	(98)

23. INCOME TAX EXPENSE

Major components of income tax expense for the year ended 31 December were:

	Group	
	2014	**2013**
	$'000	**$'000**
		(Restated)
		(Note 30)
Current tax		
– current year	**406**	154
– over provision in prior years	**(31)**	–
– under provision for in prior years (Note 30)	**–**	1,661
Deferred tax (Note 8)		
– current year	**29**	(54)
– under provision in prior years	**48**	8
Income tax expense	**452**	1,769

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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23. INCOME TAX EXPENSE (CONTINUED)

The reconciliation of income tax expense and the product of accounting profit / (loss) multiplied by the applicable rate is as follows:

	Group	
	2014	**2013**
	$'000	**$'000**
		(Restated)
		(Note 30)
Accounting profit / (loss)	**742**	(7,067)
Tax at the applicable tax rate of 17% (2013: 17%)	**126**	(1,201)
Tax effect of		
– different tax rates in other countries	**148**	(31)
– tax incentives	**(40)**	(60)
– expenses not deductible for tax purposes	**287**	864
– income not subject to tax	**(305)**	(349)
– Deferred tax asset on tax losses not recognised	**337**	1,084
– utilisation of previously unrecognised tax losses	**(109)**	(224)
– Others	**(9)**	17
– Under provision of deterred liabilities in prior years	**48**	8
– (over) / under provision of current tax in prior years	**(31)**	1,661
Income tax expense	**452**	1,769

The Company and Singapore subsidiaries

The Company and Singapore subsidiaries are subjected to an applicable tax rate of 17% (2013: 17%). Certain subsidiaries are in a tax loss position for both the financial years ended 31 December 2014 and 2013 and hence there are not subjected to tax in the respective years.

Taiwan subsidiaries

Taiwan subsidiaries are subjected to an applicable tax rate of 17% (2013: 17%). Certain subsidiaries are in a tax loss position for both the financial years ended 31 December 2014 and 2013 and hence they are not subjected to tax in the respective years.

NOTES TO THE FINANCIAL STATEMENTS

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23. INCOME TAX EXPENSE (CONTINUED)

Malaysia subsidiaries

Malaysia subsidiaries are subjected to an applicable tax rate of 25% (2013: 25%). One of its subsidiaries is in a tax loss position for both the financial years ended 31 December 2014 and 2013 and hence it is not subjected to tax in the respective years.

Shanghai Darco Engineering Co Ltd (PRC)

This subsidiary is subjected to an applicable tax rate of 25% (2013: 25%). It is in a tax loss position for the financial year ended 31 December 2014 and hence it is not subjected to tax.

Philippines subsidiary

This subsidiary is subjected to an applicable tax rate of 30% (2013: 30%). It is in a tax loss position for the financial year ended 31 December 2014 and hence it is not subjected to tax.

24. EARNINGS / (LOSS) PER SHARE

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

	Group	
	2014	**2013 (Restated) (Note 30)**
Net profit / (loss) attributable to equity holders of the Company ($'000)	**61**	(8,844)
Weighted average number of ordinary shares outstanding for basic earnings/loss per share – adjusted	**298,819,597**	298,819,597
Basic earnings / (loss) (cents per share)	**0.02**	(2.96)

As disclosed in Note 31, the Company has undertaken a (7) Rights share for every five (5) existing ordinary shares rights issue exercise subsequent to financial year end. For the purpose of calculating basis and diluted earnings per share, the weighted average number of shares have reflected these changes as if the rights issue were effected for the entire current financial and prior financial year presented.

Diluted earnings / (loss) per share is the same as the basic earnings / (loss) per share as there were no share options, warrants or other compound financial instruments with dilutive effect were granted during the financial year or outstanding at the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS

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25. RELATED PARTY TRANSACTIONS

Some of the arrangements with related parties (as defined in Note 3) and the effects of these bases determined between the parties are reflected elsewhere in this report. Transactions between the Company and its subsidiaries, which are related companies of the Company, have been eliminated on consolidation and are disclosed in this note. Details of transactions between the Group and other related companies are disclosed below.

	Group		Company	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Loans to subsidiaries	**–**	–	**350**	400
Dividend income received from a subsidiary	**–**	–	**370**	531
Payment on behalf of former associated companies	**–**	51	**–**	51
Management fee received from subsidiaries	**–**	–	**714**	204
Interest paid to a director-related company	**–**	18	**–**	2
Loan from a director-related company	**–**	250	**–**	150
Interest paid to a subsidiary	**–**	–	**57**	–
Loan from a director	**210**	–	**210**	–
Bad debts written off – due from former associated companies	**–**	–	**–**	75

Director-related company refers to a corporation in which a director of the Company has controlling interests. Outstanding balances as at 31 December 2014 and 31 December 2013 arising from loan from a director and director-related company are disclosed in Note 14.

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26. CONTINGENCIES AND COMMITMENTS

(a) Contingent liabilities

(i) A sub-contractor of Darco Engineering (Taiwan) Co., Ltd ("DET"), Zhan Ji Co. ("Zhan Ji") had made claims against DET for the balance contract sum and additional compensations relating to the following 2 projects, totalling approximately $2.82 million, or NTD$67.68 million (2013:$2.85 million, or NTD$67.68 million):

– Claim against DET by Zhan Ji on Keya project of $1.60 million, or NTD$38.43 million (2013: $1.62 million, or NTD$38.43 million). DET had won the first trial on 9 October 2012 and subsequently Zhan Ji had filed for an appeal on 25 December 2012. A second trial date has yet to be fixed. No provision has been recognised as at 31 December 2014 and 2013 as the Group's management does not consider that there is any probable loss in view of the outcome in the first trial.

– Claim against DET by Zhan Ji on Chu Bei project of $1.22 million, or NTD$29.25 million (2013: $1.23 million, or NTD$29.25 million). DET has lost the first trial and ordered by the court to compensate Zhan Ji for a sum of $0.87 million, or NTD$20.77 million (2013: $0.88 million, or NTD$20.77 million) on 24 Jan 2013. Subsequently DET has filed an appeal on 18 February 2013, for which a second trial date has yet to be fixed.

  In December 2014, Zhan Ji had applied for a provisional execution order from court to retain judicial compensation amounted to NTD$20.77 million and then filed an appeal on court's unfavourable judgment on its additional compensation claim of $0.25 million, or NTD$ 6.10 million.

  The claim awarded in the first trial amounting to $0.87 million, or NTD$20.77 million (2013: $0.88 million, or NTD$20.77 million) has been included as trade payables (Note 14) as at 31 December 2014 and 31 December 2013 respectively. Based on the outcome of the first trial, the management is of the view that there is no further liability beyond the amount recorded as at 31 December 2014.

As at the date of this report, the legal cases are currently still ongoing.

(ii) A main contractor of DET, Globe Environmental Co., Ltd. ("GEC") made an initial claim against DET for compensation amounted to approximately $0.97 million, or NTD$22.95 million, which DET had won the first trial on 29 April 2013. Subsequently GEC had reduced its initial claim sum to $0.61 million, or NTD$14.4 million in its second trial against DET, which DET had also won on 26 November 2014.

NOTES TO THE FINANCIAL STATEMENTS

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26. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(a) Contingent liabilities (Continued)

(ii) (Continued)

In November 2014, GEC had again filed an appeal to claim against DET for the same amount. On 27 January 2015, the Court has determined that the appeal is not valid and has maintained its original judgement. Based on the outcome of the proceedings, no provision has been recognised as at 31 December 2014 and 31 December 2013.

(iii) 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, the Company 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, Darco Puding 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. The following legal cases or claims arose as a result of the cessation of work:

– Relating to the refund of deposits claimed by Darco Puding:

Due to unacceptable delays in the BOT project in Taiwan, Darco Puding decided to rescind the BOT contract with TCG in November 2012, and has taken a legal action against TCG in the Taoyuan District Court for the refund of a guarantee deposit placed with TCG amounted to $2.50 million, or NTD$60.00 million (2013: $2.53 million, or NTD$60.00 million).

Based on the legal counsel's advice, the management has assessed that there is no impairment loss to be provided on the deposit with a carrying amount of to $2.50 million, or NTD$60.00 million (2013: $2.53 million, or NTD$60.00 million) (Note 10) as at 31 December 2014 and 31 December 2013 respectively, since the hazardous material found in the ground provides reasonable grounds for the termination of the BOT contract based on its contractual terms.

As the date of this report, the litigation preparation procedures have been completed and is now pending for a trial date to be fixed.

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26. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(a) Contingent liabilities (Continued)

(iii) (Continued)

– Relating to the penalty levied by TCG for non-compliance:

As a result of the cessation of work on the project, 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), which has subsequently been informed by TCG to have increased to $6.95 million (NTD$164.98 million) as at 6 December 2012.

Based on the legal counsel's advice, the management has assessed that there is no penalties payable beyond the amount accrued of $0.41 million, or NTD$$9.87million (2013: $0.42 million, or NTD$9.87 million) as at 31 December 2014 and 31 December 2013 respectively, included in Trade and Other payables (Note 14) since the hazardous material found in the ground provides reasonable grounds for the termination of the BOT contract based on the contractual terms.

The cumulative construction costs incurred for BOT contract amounted to $1.72 million, or NTD$40.70 million up to the cessation of work were written off since the financial year ended 31 December 2011 in view of uncertainty of its recoverability.

– Relating to the land use right attached to the BOT contract:

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 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 judgement in its favour in December 2013 and subsequently TCG has filed an appeal to the Taiwan Supreme Administration Court (the "Court"). In June 2014, the Court has rejected TCG's appeal, and the judgement of the early court was reaffirmed. Upon receipt of the judgement letter, TCG filed a judicial response in September 2014 to cancel the land use rights and to request that the legal costs be borne by Darco Puding.

As at the date of this report, the judicial response is still under review by the Taoyuan District Court.

The management has assessed that there is no impact to the financial statements as at 31 December 2014 in view that the land use rights provided to Darco Puding for use under the BOT contract has not been recognised as the Group's assets.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

26. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(a) Contingent liabilities (Continued)

(iv) The Group has provided the following guarantees as at 31 December 2014:

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Corporate guarantees provided to banks and financial institutions for credit facilities granted to subsidiaries	–	–	750	2,206
Performance guarantee to customers for performance of the contracts during the contract and warranty periods	5,419	8,589	–	–

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 2014 and 31 December 2013.

(b) Contingent assets

The legal actions initiated by the Group against third parties or former employees is summarised below. No assets or income has been recognised as a result of these legal actions as the legal cases are currently still on-going and the Group has yet to receive any compensation.

(i) In March 2010, the Group 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, or NTD$163.41 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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26. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(b) Contingent assets (Continued)

(i) The Group filed police reports against its former employees and third parties facilitators or conspirators, claiming a total misappropriated amounts of $8.7 million, or NTD$197 million as of 31 December 2013 ("Compensation Claim"). 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 administration manger (the "Defendants") 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.

On 18 June 2014, Taipei District Court of Taiwan has found the former general manager guilty of criminal breach of trust and embezzlement and sentencing him to a total of six years imprisonment, while the former administration manger has been guilty only of embezzlement and has been sentenced to three years and eight months jail term. Third parties facilitators and conspirators had been dealt with separately. The defendants has filed an appeal upon receipts of the judgment letter dated 18 June 2014.

As at the date of this report, the defendants' appeal is under the judicial review of Taiwan High Court. The judicial review of the compensation claim has been put on hold till the final judgement on the criminal misappropriating charge. Included in the deposits of the Group as at 31 December 2014 and 2013 (Note 10) is a refundable deposit of $0.63 million, or NTD$15.11 million (2013: $0.64 million, or NTD$15.11 million) paid to the court as guarantee for withholding the defendants' assets.

(ii) In an unrelated case, DET filed a legal claim of $0.08 million, or NTD$2.00 million during the previous financial years, against its former employees and third party facilitators for breach of trust. DET had lost the first and the second trials on 28 March 2013 and 25 March 2014 respectively. An appeal has been filed on 26 February 2015, for which a third trial date has yet to be fixed.

As at the date of this report, the legal case is currently still ongoing.

(iii) DET filed a legal claim against a subcontractor, Zhan Ji, for compensation amounting to approximately $0.21 million, or NTD$4.89 million in respect of construction defects. DET had won the first trial on 10 November 2014 and Zhan Ji had filed for appeal on 1 December 2014.

As at the date of this report, the legal case is currently still ongoing.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

26. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(c) Operating lease commitments – Where the Group is a lessee

The Group leases land, staff hostels, factories, warehouses and offices from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debts or further leasing.

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

	Group	
	2014	2013
	$'000	$'000
Future minimum lease payments		
– not later than 1 year	**433**	400
– later than 1 year and not later than 5 years	**356**	351
	789	751

27. SEGMENT INFORMATION

For management purposes, the Group has three operating and reportable segments – 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 application;

(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 2014
(Amounts in thousands of Singapore dollars ("$'000"))

27. 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 by the Chief Executive Officer (the chief operating decision maker) 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. Segment assets and liabilities reported to the CEO represents total assets and liabilities of the reportable segment excluding the corporate functions and any unallocated amounts.

The segment information provided to the management for the reportable segments for the financial year ended 31 December 2014 is as follows:

Business segments

2014

	EE Systems $'000	WM Services $'000	Trading $'000	Eliminations $'000	Total $'000
Revenue					
Sales to external customers	13,392	10,952	7,571	–	31,915
Inter-segment sales	–	–	24	(24)	–
Total	13,392	10,952	7,595	(24)	31,915
Segment profit	3,255	3,356	1,985	(15)	8,581
Other information:					
Additions to property, plant and equipment	19	117	217	–	353
Depreciation of property, plant and equipment	(29)	(205)	(194)	–	(428)
Impairment loss of property, plant and equipment	–	(69)	–	–	(69)
Gain on disposal of property, plant and equipment	–	7	31	–	38
Allowance for impairment of receivables	–	–	(26)	–	(26)
Interest income	8	165	3	–	176
Finance expenses	(7)	(144)	(52)	–	(203)
Assets					
Segment assets	7,167	17,024	5,763	(3,653)	26,301
Liabilities					
Segment liabilities	2,494	10,534	2,026	(1,964)	13,090

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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27. SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

The segment information provided to the management for the reportable segments for the financial years ended 31 December 2013 is as follows:

2013

	EE Systems $'000	WM Services $'000	Trading $'000	Eliminations $'000	Total $'000
Revenue					
Sales to external customers	14,553	8,105	7,880	–	30,538
Inter-segment sales	–	–	18	(18)	–
Total	14,553	8,105	7,898	(18)	30,538
Segment profit	3,101	1,077	1,305	(18)	5,465
Other information:					
Additions to property, plant and equipment	13	50	2,447	–	2,510
Depreciation of property, plant and equipment	(693)	(289)	(222)	–	(1,204)
Impairment loss of property, plant and equipment	(1,569)	(22)	–	–	(1,591)
Gain on disposal of property, plant and equipment	–	–	1,013	–	1,013
Amortisation of land use rights	–	–	(5)	–	(5)
Gain on disposal of land use right	–	–	316	–	316
Allowance for impairment of receivables	171	1	113	–	285
Interest income	3	3	–	–	6
Finance expenses	–	–	(33)	–	(33)
Assets					
Segment assets	11,565	4,938	5,304	(431)	21,376
Liabilities					
Segment liabilities	9,849	1,495	1,660	(29)	12,975

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

27. SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

Reconciliation

(i) Segment profits

The following items are added to / (deducted from) segment profit to arrive at "profit / (loss) before income tax" as presented in the consolidated statement of comprehensive income:

	Group	
	2014	**2013**
	$'000	**$'000**
Segment profit from reportable segment	**8,581**	5,465
Other income	**2,003**	2,288
Distribution expenses	**(587)**	(734)
Administrative expenses	**(8,861)**	(13,505)
Finance costs	**(394)**	(581)
Profit / (Loss) before income tax	**742**	(7,067)

(ii) Other material information

	Group	
	2014	**2013**
	$'000	**$'000**
<u>Additions to property, plant and equipment</u>		
Segment total	**353**	2,510
Unallocated:		
– Relating to general and corporate assets	**82**	38
	435	2,548
<u>Depreciation to property, plant and equipment</u>		
Segment total	**(428)**	(1,204)
Unallocated:		
– Relates to general and corporate assets	**(48)**	(83)
	(476)	(1,287)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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27. SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

Reconciliation (Continued)

(ii) Other material information (Continued)

	Group	
	2014	**2013**
	$'000	**$'000**
Interest income		
Segment total	**176**	6
Unallocated:		
– Arising from general and corporate used	**3**	82
	179	88
Finance expenses		
Segment total	**(203)**	(33)
Unallocated:		
– Relating to borrowing for general working capital purpose	**(191)**	(548)
	(394)	(581)

(iii) Segment assets

Segment assets are reconciled to total assets as follows:

	Group	
	2014	**2013**
	$'000	**$'000**
Segment assets for reportable segments	**26,301**	21,376
Unallocated assets:		
– Deferred tax assets	**136**	110
– Property, plant and equipment	**123**	123
– Other receivables	**382**	1,397
– Cash and bank balances	**1,430**	6,469
	28,372	29,475

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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27. SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

Reconciliation (Continued)

(iv) Segment liabilities

Segment liabilities are reconciled to total liabilities are as follows:

	Group	
	2014	**2013**
	$'000	**$'000**
Segment liabilities for reportable segments	**13,090**	12,975
Unallocated liabilities:		
– Deferred tax liabilities	**169**	53
– Income tax payable	**81**	276
– Other payables	**3,894**	4,214
– Borrowings	**1,644**	2,874
	18,878	20,392

Geographical segments

The Group's three business segments operate 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, spare parts and chemicals.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

27. SEGMENT INFORMATION (CONTINUED)

Geographical segments (Continued)

(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 areas are principally the investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business.

(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:

	Revenue		Non-current assets	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
Malaysia	**22,692**	16,032	**2,221**	2,302
Singapore	**4,182**	4,213	**1,015**	962
Taiwan	**4,422**	9,097	**2,006**	2,186
The People's Republic of China	**328**	913	**81**	48
Other countries	**291**	283	**5**	7
	31,915	30,538	**5,328**	5,505

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

NOTES TO THE FINANCIAL STATEMENTS

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28. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's activities expose it to market risk (including foreign exchange 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 of 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.

(i) Market risk

(a) Foreign exchange 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").

Foreign exchange 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") and others. Foreign exchange 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.

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28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

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

Group

2014	**SGD**	**USD**	**MYR**	**NTD**	**RMB**	**Others***	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets							
Trade and other receivables	**414**	**–**	**5,394**	**6,000**	**174**	**229**	**12,211**
Cash and bank balances	**2,022**	**646**	**1,258**	**1,320**	**3,654**	**319**	**9,219**
Intragroup receivables	**11,209**	**2,407**	**866**	**974**	**11**	**–**	**15,467**
	13,645	**3,053**	**7,518**	**8,294**	**3,839**	**548**	**36,897**
Financial liabilities							
Trade and other payables	**4,264**	**84**	**878**	**4,904**	**114**	**101**	**10,345**
Borrowings	**37**	**–**	**1,820**	**1,304**	**–**	**–**	**3,161**
Intragroup payables	**11,209**	**2,407**	**866**	**974**	**11**	**–**	**15,467**
	15,510	**2,491**	**3,564**	**7,182**	**125**	**101**	**28,973**
Net financial (liabilities) / assets	**(1,865)**	**562**	**3,954**	**1,112**	**3,714**	**447**	**7,924**
Less: Net financial liabilities denominated in the respective entities' functional currencies	**1,923**	**–**	**(3,954)**	**(1,112)**	**(3,712)**	**(197)**	**(7,052)**
Foreign currency exposure	**58**	**562**	**–**	**–**	**2**	**250**	**872**

* Others are denominated in Euro, Rupiah and Peso.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Group

2013	**SGD**	**USD**	**MYR**	**NTD**	**RMB**	**Others***	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets							
Available-for-sale financial assets	–	–	–	–	3,555	–	3,555
Trade and other receivables	480	397	5,185	6,064	167	47	12,340
Cash and bank balances	1,853	590	1,345	1,845	478	95	6,206
Intragroup receivables	10,339	2,653	1,760	–	–	493	15,245
	12,672	3,640	8,290	7,909	4,200	635	37,327
Financial liabilities							
Borrowings	5	–	2,335	1,800	–	–	4,140
Trade and other payables	3,016	60	1,749	3,388	206	64	8,483
Intragroup payables	10,339	2,653	1,760	–	–	493	15,245
	13,360	2,713	5,844	5,188	206	557	27,868
Net financial (liabilities) / assets	(688)	927	2,446	2,721	3,994	78	9,478
Less: Net financial liabilities denominated in the respective entities' functional currencies	690	–	(2,444)	(2,721)	(3,991)	5	(8,461)
Foreign currency exposure	2	927	2	–	3	83	1,017

* Others are denominated in Euro, Rupiah and Peso.

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28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Company

2014	**SGD**	**USD**	**RMB**	**Euro**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets					
Trade and other receivables	**620**	**–**	**–**	**129**	**749**
Cash and bank balances	**142**	**35**	**2**	**70**	**249**
	762	**35**	**2**	**199**	**998**
Financial liabilities					
Trade and other payables	**4,169**	**2,101**	**–**	**–**	**6,270**
Net financial (liabilities) / assets	**(3,407)**	**(2,066)**	**2**	**199**	**(5,272)**
Less: Net financial liabilities denominated in the Company's functional currency	**3,407**	**–**	**–**	**–**	**3,407**
Foreign currency exposure	**–**	**(2,066)**	**2**	**199**	**(1,865)**

Company

2013	**SGD**	**USD**	**RMB**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Trade and other receivables	53	–	–	53
Cash and bank balances	307	97	2	406
	360	97	2	459
Financial liabilities				
Trade and other payables	3,506	2,395	–	5,901
Net financial (liabilities) / assets	(3,146)	(2,298)	2	(5,442)
Less: Net financial liabilities denominated in the Company's functional currency	3,146	–	–	3,146
Foreign currency exposure	–	(2,298)	2	(2,296)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
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28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Foreign exchange risk sensitivity

The following table details the sensitivity to a 5% (2013: 2%) increase and decrease in the functional currency against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% (2013: 2%) in foreign currency rates.

If the functional currency strengthen by 5% (2013: 2%) against the relevant functional currencies, with all other variables held constant profit or loss and other equity will increase / (decrease) by:

	SGD $'000	USD $'000	MYR $'000	NTD $'000	RMB $'000	Others $'000
2014						
Group						
Profit for the financial year	**(2)**	**(23)**	**–**	**–**	**(*)**	**(10)**
Company						
Profit for the financial year	**–**	**86**	**–**	**–**	**(*)**	**(8)**
2013						
Group						
Loss for the financial year	*	15	*	–	*	1
Company						
Profit for the financial year	–	38	–	–	(*)	–

* Amount less than $1,000

A 5% (2013: 2%) weakening of the functional currency against the respective functional currencies at the balance sheet date would have had the equal opposite effect on the above currencies to the amount shown above, on the basis that all other variables remains constant.

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(Amounts in thousands of Singapore dollars ("$'000"))

28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(b) Interest rate risk

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 (2013: 50) basis points for variable rate borrowings is not expected to have a significant impact on the Group's profit / (loss) before income tax.

(ii) 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 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 13.

Management monitors rolling forecasts of the Group's and the Company's liquidity reserve (comprises borrowings (Note 15) and cash and bank balances (Note 13) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(ii) Liquidity risk (Continued)

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.

	Less than 1 year	Between 2 to 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000
Group				
2014				
Trade and other payables	10,345	–	–	10,345
Borrowings (Note 15)	1,715	1,059	540	3,314
	12,060	1,059	540	13,659
2013				
Trade and other payables	8,483	–	–	8,483
Borrowings (Note 15)	3,188	599	842	4,629
	11,671	599	842	13,112

	Less than 1 year	Between 2 to 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000
Company				
2014				
Trade and other payables	4,548	1,722	–	6,270
Financial guarantee contracts	750	–	–	750
	5,296	1,722	–	7,020
2013				
Trade and other payables	5,901	–	–	5,901
Financial guarantee contracts	2,206	–	–	2,206
	8,107	–	–	8,107

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(iii) 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 26.

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

Cash and bank balances are placed with reputable financial institutions. Therefore, credit risk arises mainly from the inability of its customers to make payments when due. The amounts presented in the balance sheets are net of allowances for impairment of trade receivables, estimated by management based on prior experience and the current economic environment. The age analysis of trade receivables is as follows:

	Group	
	2014	**2013**
	$'000	**$'000**
Not past due and not impaired	**2,089**	3,995
Past due but not impaired		
– Past due 0 to 3 months	**2,435**	1,225
– Past due 3 to 6 months	**669**	1,246
	3,104	2,471
Past due and impaired trade receivables	**3,912**	4,030
Less: Allowance for impairment loss	**(3,912)**	(4,030)
	5,193	6,466

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

The movement in allowance for impairment loss is show on Note 10.

Trade receivables that are individually determined to be impaired at the balance sheet related to debtors that are in financial difficulties and have defaulted on payments as well as by reference to past default experience. Included in the Group's trade receivables balance are debtors with total carrying amount of $3,104,000 (2013: $2,471,000), which are past due but not impaired as there has not been a significant change in credit quality and the amount are still considered recoverable.

The Group's trade receivables of $2,089,000 (2013: $3,995,000) that are neither past due and not impaired are with creditworthy debtors with good payment record with the Group. These balances are fully recoverable.

As at balance sheet date, the Company provided an impairment allowance of an aggregate amount of $8,336,000 (2013: $8,336,000) on advances to its subsidiaries (non-trade) as disclosed in Note 10. These pertain to subsidiaries which are incurring losses and deemed financially unable to repay.

As at balance sheet date, the Group provided an impairment allowance of an aggregate amount of $1,511,000 (2013: $1,543,000) on other receivables as disclosed in Note 10. These pertain to third parties receivables which are deemed financially unable to repay.

(iv) Financial instruments by category

	Group		Company	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets:				
– Available-for-sale financial assets	**–**	3,555	**–**	–
– Loans and receivables (including cash and bank balances)	**21,430**	12,340	**998**	459
	21,430	15,895	**998**	459
Financial liabilities at amortised cost	**13,506**	12,623	**6,270**	5,901

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

28. FINANCIAL INSTRUMENTS (CONTINUED)

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 are also required by the banks to maintain a gearing ratio of not exceeding 1.7 times (2013: 1.7 times). The Group's strategies, which were unchanged from 2013 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	
	2014	**2013**
	$'000	**$'000**
Total debts	**3,161**	4,140
Total tangible networth	**6,101**	5,876
Gearing ratio	**0.52 times**	0.70 times

The Group is in compliance with all externally imposed capital requirements for the financial year ended 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

29. FAIR VALUES OF ASSETS AND LIABILITIES

(i) Fair value of financial instruments that are carried at fair value

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

At balance sheet date, there are no financial instruments in this category.

(ii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of financial assets and financial liabilities reported on balance sheet date are reasonable approximation of their fair values, either due to their short-term nature or that they are floating rate instruments that are repriced to market interest rate on or near the balance sheet date.

(iii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

	Carrying amount		Fair values	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Group				
Financial assets				
Available-for-sale financial assets	–	3,555	–	#

\# Fair value of available-for-sale financial assets cannot be reliably estimated as there are no comparable quoted price in an active market for an identical asset.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

30. COMPARATIVES

Prior year comparatives have been audited by another firm of public accountants and chartered accountants.

Certain restatements have been made to the prior years' financial statements as a result of the following:

(a) Adjustments for additional tax liabilities and penalties, which were previously not taken up in the financial statements.

An additional tax assessment and tax penalties ("Additional Tax Liabilities") amounting to $1,661,000, or NTD$39,399,255 and $1,768,000, or NTD$41,909,854) respectively, or totaling $3,429,000, or NTD$81,309,109. The Additional Tax Liabilities were imposed by the competent Taiwanese tax authorities on the Taiwan subsidiary via various tax assessment notices issued between October 2013 and May 2014 relating to the years of assessment 2006, 2007, 2008 and 2009. No provision had previously been made in the financial statements for the financial year ended 31 December 2013 as management had been advised that the claims were excessive and wholly disputable. However, during the current financial year, it has become clear to management that the assessment and conclusion made last year was without any reasonable ground and thus constituted an error in applying the relevant Financial Reporting Standards. Despite the on-going appeals, management has re-assessed that, based on the available information as at 31 December 2013, there was no evidence substantiating that the Additional Tax Liabilities could reasonably be reduced substantially or avoided in full altogether. As this represents a material prior period error, correction has been made in the current financial year as a "prior year adjustment" by restating the comparative figures, as required by FRS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amount of the corrections for each affected financial statements line item for the financial year ended 31 December 2013 has been disclosed in this Note. There was no impact on the financial statements prior to 1 January 2013.

(b) During the financial year, the management has reclassified structured deposits as at 31 December 2013 from cash and cash equivalents to Available for Sale financial assets. (Note 12)

(c) Comparative figures have been reclassified to conform to the current year's presentation as to better reflect the nature of the balances and transactions.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

30. COMPARATIVES (CONTINUED)

The effects of the restatement on the prior years' financial statements and reclassification are as follows:

Group 2013	Balances as previously reported $'000	Adjustment (a) $'000	Reclassification (b)/(c) $'000	Balances as restated $'000
Consolidated balance sheet				
Current assets				
Trade and other receivables	13,040	–	(635)	12,405
Income tax recoverable	–	–	555	555
Cash and bank balances	9,761	–	(3,555)	6,206
Available-for-sale financial assets	–	–	3,555	3,555
Current liabilities				
Trade and other payables	12,782	1,781	(80)	14,483
Income tax payable	43	1,673	–	1,716
Equity				
Other reserves	(4,490)	(25)	–	(4,515)
Accumulated losses	(22,260)	(3,429)	–	(25,689)
Consolidated statement of comprehensive income				
Administrative expenses	(11,737)	(1,768)	–	(13,505)
Loss before income tax	(5,299)	(1,768)	–	(7,067)
Income tax expense	(108)	(1,661)	–	(1,769)
Loss for the financial year	(5,407)	(3,429)	–	(8,836)
Total comprehensive loss for the financial year, net of tax	(5,750)	(3,454)	–	(9,204)
Loss attributable to equity holders of the Company	(5,415)	(3,429)	–	(8,844)
Total comprehensive loss attributable to equity holders of the Company	(5,777)	(3,454)	–	(9,231)
Loss per share (cents)				
Basic	(1.96)	(1.00)	–	(2.96)*
Diluted	(1.96)	(1.00)	–	(2.96)*
Consolidated statement of cash flows				
Cash flows from investing activities	11,675	–	(3,555)	8,120
Net increase/(decrease) in cash and cash equivalents	1,303	–	(3,555)	(2,252)

* Inclusive of retrospective adjustment on number of shares due to Rights Issue. (Note 24)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014
(Amounts in thousands of Singapore dollars ("$'000"))

31. SUBSEQUENT EVENTS

Right Issues

On 30 June 2014, the Company announced the proposed renounceable non-underwritten Rights Issue of up to 387,358,736 new ordinary shares in the capital of the Company (the "Rights Shares") to be issued at an issue price of S$0.021 each, on the basis of seven (7) Rights share for every five (5) existing ordinary shares held in the capital of the Company, fractional entitlements to be disregarded.

The proposed Right Issue has been approved by the Shareholders of the Company on 6 January 2015.

On 5 March 2015, the Company announced that 387,358,736 Rights Shares, have been allotted and issued, and will be officially listed and quoted on the SGX-ST on 6 March 2015.

Following the allotment and issuance of the Rights Shares, the total number of issued shares has increased from 276,684,812 Shares to 664,043,548 Shares.

STATISTICS OF SHAREHOLDINGS

AS AT 31 MARCH 2015

Class of Shares	–	Ordinary shares
Number of Shares	–	664,043,548
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 – 99	79	3.15	1,432	0.00
100 – 1,000	258	10.29	245,805	0.04
1,000 – 10,000	821	32.74	5,665,520	0.85
10,001 – 1,000,000	1,293	51.55	137,261,776	20.67
1,000,001 AND ABOVE	57	2.27	520,869,015	78.44
TOTAL	**2,508**	**100.00**	**664,043,548**	**100.00**

LIST OF 20 LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	THYE KIM MENG	143,109,706	21.55
2	STONE ROBERT ALEXANDER	108,000,000	16.26
3	HELEN YANG	32,172,800	4.84
4	HUANG JIAN	30,096,000	4.53
5	HUANG LINGXI	28,003,200	4.22
6	UOB KAY HIAN PRIVATE LIMITED	10,803,400	1.63
7	CIMB SECURITIES (SINGAPORE) PTE. LTD.	10,696,122	1.61
8	LEE SUE LIN	10,079,120	1.52
9	FENG JUN	10,024,000	1.51
10	LIM CHYE HUAT @ BOBBY LIM CHYE HUAT	10,000,000	1.51
11	DBS NOMINEES (PRIVATE) LIMITED	8,778,404	1.32
12	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	8,000,000	1.20
13	TAN ENG CHUA EDWIN	7,157,100	1.08
14	ESTATE OF TEH SWEE HENG, DECEASED	6,994,820	1.05
15	PHILLIP SECURITIES PTE LTD	6,353,000	0.96
16	OCBC SECURITIES PRIVATE LIMITED	5,511,508	0.83
17	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	4,954,200	0.75
18	THYE KIM FAH	4,493,140	0.68
19	TAN LEK LEK	4,212,000	0.63
20	MAYBANK KIM ENG SECURITIES PTE. LTD.	4,092,060	0.62
	TOTAL	**453,530,580**	**68.30**

STATISTICS OF SHAREHOLDINGS

AS AT 31 MARCH 2015

SUBSTANTIAL SHAREHOLDERS AS AT 31 MARCH 2015

(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	143,109,706	21.55	–	–
2.	Stone Robert Alexander	108,000,000	16.26	–	–

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

As at 31 March 2015, 61.49% 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 Six Battery Road #10-01 Singapore 049909 on Monday, 27 April 2015 at 4.00 p.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company and the Group for the financial year ended 31 December 2014 together with the Auditors' Report thereon.
(Resolution 1)

2. To approve the payment of Directors' fees of S$164,484 for the financial year ended 31 December 2014. (2013: S$161,425)
(Resolution 2)

3. To re-elect the following Directors of the Company retiring pursuant to Article 106 of the Articles of Association of the Company:

   (i) Mr. Thye Kim Meng **(Resolution 3)**

   (ii) Ms. Heather Tan Chern Ling **(Resolution 4)**

4. To re-appoint Messrs Crowe Horwath First Trust LLP, Public Accountants and Chartered Accountants, as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration.
(Resolution 5)

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 resolutions as Ordinary Resolutions, with or without any modifications:

6. **Authority to 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 orotherwise; 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) options, warrants, debentures or other instruments convertible into shares,

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

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares pursuant to 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 pursuant to 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 total number of issued shares and Instruments shall be based on the 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 or subsisting at the time of the passing of this Resolution; and
(c) any subsequent consolidation or subdivision of shares;

(3) in exercising the Share Issue Mandate conferred by this Resolution, 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

NOTICE OF ANNUAL GENERAL MEETING

(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 (ii)] **(Resolution 6)**

7. **Authority to issue shares under the Darco Performance Share Plan**

That pursuant to Section 161 of the Companies Act, Chapter 50, the Directors of the Company be authorised and empowered to offer and grant awards under the Darco Performance Share Plan (the "**Share Plan**") and to issue from time to time such number of shares in the capital of the Company (excluding treasury shares) as may be required to be issued pursuant to the vesting of share awards under the Share Plan, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Share Plan shall not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion 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, whichever is earlier.

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

By Order of the Board

Shirley Tan Sey Liy
Company Secretary

Singapore, 10 April 2015

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

(i) Ms. Heather tan Chern Ling will, upon re-election as a Director of the Company, remain as a member of the Audit Committee and Remuneration Committee, and will be considered non-independent pursuant to Rule 704(8) of the Listing Manual of the SGX-ST.

(ii) 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.

(iii) Resolution 7 above, if passed, will empower the Directors of the Company, from the date of this AGM until 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 in the Company pursuant to the vesting of share awards under the Share Plan (for the entire duration of the Share Plan) provided that the aggregate additional shares to be issued pursuant to the Share Plan do not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time.

Notes:

1. A Member entitled to attend and vote at the AGM (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 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 holding the Meeting.

PERSONAL DATA PRIVACY

Where a member of the Company submits an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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DARCO WATER TECHNOLOGIES LIMITED

(Company 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 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 Six Battery Road #10-01 Singapore 049909 on Monday, 27 April 2015 at 4.00 p.m. and at any adjournment thereof. *I/We direct *my/our *proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the *proxy/proxies will vote or abstain from voting at *his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

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

No.	Resolutions relating to:	For	Against
	Ordinary Business		
1	Directors' Report and Audited Accounts for the financial year ended 31 December 2014		
2	Approval of Directors' fees amounting to S$164,484 for the financial year ended 31 December 2014		
3	Re-election of Mr Thye Kim Meng as a Director		
4	Re-election of Ms Heather Tan Chern Ling as a Director		
5	Re-appointment of Messrs Crowe Horwath First Trust LLP as Auditors and to authorise the Directors of the Company to fix their remuneration		
	Special Business		
6	Authority to allot and issue shares		
7	Authority to issue shares under the Darco Performance Share Plan		

Dated this ________ day of __________ 2015

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 appointer 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 appointer, 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 appointer are not ascertainable from the instructions of the appointer 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 appointer, 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.

PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 10 April 2015.

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DARCO

SOLUTIONS TO WATER & WASTE

DARCO WATER TECHNOLOGIES LIMITED
123 Woodlands Industrial Park E5
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