

**DARCO WATER TECHNOLOGIES LIMITED**  
(Incorporated in Singapore)  
(Registration No. 200106732C)

**MATERIAL VARIANCES BETWEEN UNAUDITED FINANCIAL STATEMENTS AND  
AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED  
31 DECEMBER 2016**

The Board of Directors (the “**Directors**”) of the Company refers to its full year financial results announcement for the financial year ended 31 December 2016 (“**FY2016**”) made on 27 February 2017 via the SGXNET (“**Preliminary Unaudited Results**”).

Pursuant to Rule 704(6) of the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”), the Company wishes to announce that subsequent to the release of the Preliminary Unaudited Results, the external auditor has proposed certain reclassifications and adjustments between the Preliminary Unaudited Results and FY2016 audited financial results (the “**Audited Financial Statements**”) which the management of the Company has adopted accordingly.

The details and explanation of the material variances between the Audited Financial Statements and the Preliminary Unaudited Results are shown below:

**Consolidated Statement of Profit or Loss**

	<b>Audited Financial Statements 2016 (S\$'000)</b>	<b>Preliminary Unaudited Results 2016 (S\$'000)</b>	<b>Variance  (S\$'000)</b>	<b>Note</b>
<b>Continuing operations</b>				
Revenue	60,746	60,596	150	A, C
Cost of sales	(46,861)	(47,006)	145	C
<b>Gross profit</b>	<u>13,885</u>	<u>13,590</u>		
Other income	4,678	4,700	(22)	C
Distribution expenses	(1,494)	(1,494)	-	C
Administrative expenses	(13,188)	(12,098)	(1,090)	B, C
Finance costs	(143)	(158)	15	C
<b>Profit before income tax from continuing operations</b>	<u>3,738</u>	<u>4,540</u>	(802)	
Income tax expense	(347)	(442)	95	D
<b>Profit after tax from continuing operations, net of tax</b>	<u>3,391</u>	<u>4,098</u>	(707)	
<b>Profit attributable to:</b>				
Equity holders of the Company				
-From continuing operations	2,572	2,988	(416)	
-From discontinued operations	-	-	-	
Non-controlling interests				
-From continuing operations	819	1,110	(291)	
-From discontinued operations	-	-	-	
	<u><b>3,391</b></u>	<u><b>4,098</b></u>	(707)	

Explanatory Notes for the material variances:

- (A) Additional revenue recognised in one of the subsidiary, Wuhan Kaidi Water Services Co., Ltd (“**WHKD**”)

	<b>S’\$000</b>	<b>Notes</b>
Revenue as per Preliminary Unaudited Results	60,596	
Additional revenue recognised	204	
Reclassification	(54)	C
<b>Revenue as per Audited Financial Statements</b>	<b>60,746</b>	

- (B) Impairment of receivables as the debts been identified as uncollectable

	<b>S’\$000</b>	<b>Notes</b>
Administrative expenses as per Preliminary Unaudited Results	(12,098)	
Impairment of receivables	(1,006)	
Reclassification	(84)	C
<b>Administrative expenses as per Audited Financial Statements</b>	<b>(13,188)</b>	

- (C) Reclassification of accounts

	<b>Revenue</b>	<b>Cost of sales</b>	<b>Other income</b>	<b>Administrative expenses</b>	<b>Finance costs</b>	<b>Notes</b>
	S’\$000	S’\$000	S’\$000	S’\$000	S’\$000	
As per Preliminary Unaudited Results	60,596	(47,006)	4,700	(11,475)	(158)	
Further revenue recognised	204	-	-	-	-	A
Impairment on receivables	-	-	-	(1,006)	-	B
Reclassification	(54)	145	(22)	(84)	15	
<b>As per Audited Financial Statements</b>	<b>60,746</b>	<b>(46,861)</b>	<b>4,678</b>	<b>(12,565)</b>	<b>(143)</b>	

- (D) The variance is mainly due to the adjustment on the provision of income tax and reversal of deferred tax assets.

## Statements of Financial Position

	Group			
	Audited Financial Statements 2016 (S\$'000)	Preliminary Unaudited Results 2016 (S\$'000)	Variance  (S\$'000)	Note
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant equipment	7,121	5,876	1,245	(i)
Intangible assets	9,492	9,492	-	
Investment in subsidiaries	-	-	-	
Deferred tax assets	318	369	(51)	(ii)
	<b>16,931</b>	<b>15,737</b>		
<b>Current assets</b>				
Inventories	1,003	1,003	-	
Trade and other Receivables	44,006	47,488	(3,482)	(iii)
Income tax recoverable	276	209	67	(ii)
Cash and cash equivalents	8,155	8,155	-	
	<b>53,440</b>	<b>56,855</b>	<b>(3,415)</b>	
<b>Total assets</b>	<b>70,371</b>	<b>72,592</b>	<b>(2,221)</b>	
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	30,692	31,939	(1,247)	(iv)
Borrowings	2,836	2,872	(36)	(v)
Income tax payable	578	599	(21)	(ii)
Total current liabilities	<b>34,106</b>	<b>35,410</b>	<b>(1,304)</b>	
<b>Non-current liabilities</b>				
Trade and other payables	-	77	(77)	(iv)
Borrowings	849	813	36	(v)
Deferred tax liabilities	1,033	1,154	(121)	(ii)
Total non-current liabilities	<b>1,882</b>	<b>2,044</b>	<b>(162)</b>	
<b>Total liabilities</b>	<b>35,988</b>	<b>37,454</b>	<b>(1,466)</b>	
<b>Net assets</b>	<b>34,383</b>	<b>35,138</b>	<b>(755)</b>	

Explanatory Notes for the material variances:

(i) Property, plant equipment

	<b>S\$'000</b>
Balance as per Preliminary Unaudited Results	5,876
Unpaid amount for the purchase of leasehold land and building	1,245
<b>Balance as per Audited Financial Statements</b>	<b>7,121</b>

(ii) Income tax and deferred tax

	<b>Deferred tax assets</b> S\$'000	<b>Income tax recoverable</b> S\$'000	<b>Income tax payable</b> S\$'000	<b>Deferred tax liabilities</b> S\$'000
Balance as per Preliminary Unaudited Results	369	209	(599)	(1,154)
Changes in the provision of income tax and deferred tax	(51)	4	21	121
Reclassification	-	63	-	-
<b>Balance as per Audited Financial Statements</b>	<b>318</b>	<b>276</b>	<b>(578)</b>	<b>(1,033)</b>

(iii) Trade and other receivables

	S\$'000
Balance as per Preliminary Unaudited Results	47,488
Additional impairment on receivables	(1,006)
Further recognition of revenue in WHKD, resulted in changes in amount due to/from customers	(910)
Foreign exchange translation difference	(48)
Reclassification	(1,518)
<b>Balance as per Audited Financial Statements</b>	<b>44,006</b>

(iv) Trade and other payables

	<b>Current</b> S\$'000	<b>Non- current</b> S\$'000
Balance as per Preliminary Unaudited Results	31,939	77
Unpaid amount for the purchase of leasehold land and building	1,245	-
Further recognition of revenue in WHKD, resulted in changes in amount due to/from customers	(1,114)	-
Reclassification	(1,378)	(77)
<b>Balance as per Audited Financial Statements</b>	<b>30,692</b>	<b>-</b>

(v) Borrowings

	<b>Current</b> S\$'000	<b>Non- current</b> S\$'000
Balance as per Preliminary Unaudited Results	2,872	813
Reclassification	(36)	36
<b>Balance as per Audited Financial Statements</b>	<b>2,836</b>	<b>849</b>

**Consolidated Statement of Cash Flows**

	<b>Group</b>			
	<b>Audited Financial Statements 2016 (S\$'000)</b>	<b>Preliminary Unaudited Results 2016 (S\$'000)</b>	<b>Variance (S\$'000)</b>	<b>Note</b>
Cash flows used in operating activities	(1,788)	(2,688)	900	(a)
Cash flows used in investing activities	(965)	1,229	(2,194)	(b)
Cash flows from financing activities	435	911	(476)	(c)
Net decrease in cash and cash equivalents	(2,318)	(548)	(1,770)	
Cash and cash equivalents at end of the financial year	5,494	6,908	(1,414)	(d)

Explanatory Notes for the material variances:

- (a) Variance in cash flows used in operating activities are mainly due to:
- (i) reclassification of “pledged fixed deposit and bank balances” in connection with notes payables and credit facilities granted by the banks from financing activities;
  - (ii) further identified of pledged bank balances to bank for note payables as disclosed in Note 10 of the Audited Financial Statements;
  - (iii) reclassification of certain cash inflow/outflow categories within working capital (gross amount due to/from customers for contract work, trade and other receivables, and trade and other payables; and
  - (iv) additional income tax paid identified subsequent to the Preliminary Unaudited Results.
- (b) Variance in cash flows used in investing activities is mainly due to the pledged bank balances identified subsequent to the preliminary unaudited results released.
- (c) Variance in cash flows used in financing activities are mainly due to:
- (i) reclassification of “pledged fixed deposit and bank balances” in connection with notes payables and credit facilities granted by the banks to operating activities ; and
  - (ii) unrealised foreign exchange were identified and classified as non-cash adjustments.

- (d) Changes in the cash and cash equivalents are mainly due to additional fixed deposits and bank balances pledged to the banks identified.

**By Order of the Board**

Thye Kim Meng  
Chairman, Managing Director and Chief Executive Officer  
12 April 2017