

**DARCO WATER TECHNOLOGIES LIMITED**  
(Company Registration No. 200106732C)  
(Incorporated in the Republic of Singapore)

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**QUALIFIED OPINION BY AUDITORS ON FINANCIAL STATEMENTS FOR THE  
FINANCIAL YEAR ENDED 31 DECEMBER 2015**

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Pursuant to Rule 704(5) of the Listing Manual of Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the Board of Directors of Darco Water Technologies Limited (the "**Company**") and together with its subsidiaries, the "**Group**") wishes to announce that the Independent Auditors of the Company, Messrs Crowe Horwath First Trust LLP ("**Auditors**"), has issued a "Qualified Opinion" in its Independent Auditors Report in respect of the audited financial statements of the Group for the financial year ended 31 December 2015 ("**FY2015**"). The nature and contents of the qualification are contained in the attached Independent Auditors Report. The Independent Auditors' Report will be despatched to shareholders and the SGX-ST as part of the Company's Annual Report for FY2015 on 5 April 2016.

In relation to the qualification, the Board wishes to inform shareholders that this arose due to the gain on disposal of its wholly owned subsidiary, Darco Engineering (Taiwan) Co., Ltd ("**DET**") and its subsidiary (collectively referred to as the "**DET Disposal Group**") during the financial year.

As the DET Disposal Group was one of the subject matters of the qualification in the previous year's report, the auditors were unable to determine if the resultant net gain on the disposal of the DET Disposal Group amounting to approximately S\$2.10 million was appropriately and accurately recorded in consolidated financial statements for the financial year ended 31 December 2015. Any adjustments that might have been necessary as a result of the previous qualifications on the opening balances of the DET Disposal Group included in the consolidated financial statements would have a corresponding effect on the amount of net gain recorded in the current financial year.

**By Order of the Board**

Thye Kim Meng  
Chairman, Managing Director and Chief Executive Officer  
1 April 2016

# 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 47 to 128, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2015, the consolidated statement of profit or loss and other 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 financial statements 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.

### *Basis for Qualified Opinion*

Our previous report dated 6 April 2015 for the financial statements of the Group and the statement of financial position of the Company for the financial year ended 31 December 2014 ("FY2014") contained an "except for" qualified opinion.

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

## REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

### *Basis for Qualified Opinion (Continued)*

The "except for" qualified opinion arose in relation to the opening balances which were audited by another auditors with multiple qualifications raised on numerous matters arose since FY 2009. In light of the qualifications and the significance of the opening balances relative to the FY 2014 financial statements, we were unable to reasonably conclude that the opening balances do not contain misstatements that may materially affect the financial statements of the Group and of the Company for the FY 2014.

As a result, the possible effects of adjustments, if any, on the financial statements of the Group and the Company for the FY 2014 could not be determined.

### *Financial effects on the current financial year*

As disclosed in Note 21 to the consolidated financial statements, the Company has disposed of its wholly owned subsidiary, Darco Engineering (Taiwan) Co., Ltd ("DET") and its subsidiary (collectively referred to as the "DET Disposal Group") during the financial year. Upon the completion of the disposal, the Group recorded a net gain of approximately S\$2.10 million, which was included in the loss from discontinued operation within the consolidated statement of profit or loss and other comprehensive income for the current financial year.

As the DET Disposal Group was one of the subject matters of our qualification in our previous report, we were unable to determine if the resultant net gain on the disposal of the DET Disposal Group amounting to approximately S\$2.10 million was appropriately and accurately recorded in consolidated financial statements for the financial year ended 31 December 2015. Any adjustments that might have been necessary as a result of the previous qualifications on the opening balances of the DET Disposal Group included in the consolidated financial statements would have a corresponding effect on the amount of net gain recorded in the current financial year.

### *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 statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015 and the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date.

## 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 subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

### **Crowe Horwath First Trust LLP**

Public Accountants and  
Chartered Accountants  
Singapore

30 March 2016

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015  
(Amounts in thousands of Singapore dollars (“\$’000”))

## 21. DISCONTINUED OPERATION – DISPOSAL OF SUBSIDIARIES

On 27 July 2015, the Company announced that on the same date, they had entered into a sale and purchase agreement (“SPA”) with Chonlin Environmental Corporation Ltd (“CECL”), whereby the Company has agreed to sell the entire issued and paid up capital of the Company’s wholly owned subsidiary, Darco Engineering (Taiwan) Co., Ltd. (“DET”) for a consideration of NTD\$30 million (approximately \$1.32 million).

DET has 51% shareholding equity in Darco Puding Wastewater Management Co., Ltd. as detailed in Note 5 (collectively referred to as the “DET Disposal Group”).

Upon the fulfilments of conditions as stipulated in the SPA, the Company disposed its entire interest in DET and accordingly the Group has deconsolidated the DET Disposal Group from that date, which has resulted in a gain on disposal that amounting to approximately \$2.10 million, which is included in the “Loss from discontinued operation” line item.

- (a) The results from the DET Disposal Group from 1 January 2015 and up to the date of disposal are presented separately on the statement of profit and loss and other comprehensive income as discontinued operation as follows:

	<b>Disposal Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$’000</b>	<b>\$’000</b>
Revenue	<b>89</b>	679
Cost of sales	<b>(650)</b>	(1,528)
Gross loss	<b>(561)</b>	(849)
Other income <sup>(i)</sup>	<b>1,409</b>	258
Selling and distribution expenses	<b>–</b>	(226)
Administrative expenses	<b>(832)</b>	(870)
Other expense <sup>(ii)</sup>	<b>(2,599)</b>	–
Finance costs – interest expense on borrowings	<b>(94)</b>	(123)
Loss before tax from discontinued operation	<b>(2,677)</b>	(1,810)
Income tax expense	<b>–</b>	(39)
Loss for the financial year from discontinued operation	<b>(2,677)</b>	(1,849)
Gain on disposal of discontinued operation (pre and post tax) (Note 20)	<b>2,095</b>	–
	<b>(582)</b>	(1,849)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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

## 21. DISCONTINUED OPERATION – DISPOSAL OF SUBSIDIARIES (CONTINUED)

- (a) The results from the DET Disposal Group from 1 January 2015 and up to the date of disposal are presented separately on the statement of comprehensive income as discontinued operation as follows (Continued):

- (i) *Other income comprises the following:*

	<b>Disposal Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest income	*	2
Government grants	–	17
Gain on disposal of property, plant and equipment	–	6
Gain on foreign exchange, net	<b>6</b>	15
Write back of long outstanding trade payables	–	38
Miscellaneous income	<b>1</b>	180
Reversal of payables and accruals following settlement of legal case	<b>1,402</b>	–
	<b>1,409</b>	258

\* Amount less than \$1,000.

- (ii) This pertains to an allowance for impairment loss made on the guarantee deposits (Note 8) that was previously being placed with Taoyuan County Government under a build-operate-transfer contract after the court has denied DET Disposal Group's request for the return of the guarantee deposit on 16 July 2015.
- (b) The impact of the discontinued operation on the cash flows of the Group is as follows:

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Operating cash outflow	<b>(960)</b>	(2,318)
Investing cash inflow	<b>12</b>	1,622
Financing cash inflow/(outflow)*	<b>899</b>	(602)
Total cash (outflow)/inflow	<b>(49)</b>	(1,298)

\* Financing cash inflows was mainly generated from issuance of new promissory note amounting to \$1,000,000.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015  
(Amounts in thousands of Singapore dollars (“\$’000”))

## 21. DISCONTINUED OPERATION – DISPOSAL OF SUBSIDIARIES (CONTINUED)

(c) Net liabilities of the DET Disposal Group as at the date on which control was lost were as follows:

	<b>Disposal Group</b>
	<b>2015</b>
	<b>\$’000</b>
Assets:	
Property, plant and equipment (Note 3)	–
Intangible asset (Note 4)	–
Deferred tax assets/(liabilities) (Note 6)	–
Cash and bank balances	491
Trade and other receivables	2,752
Income tax recoverable	*
Total assets	<u>3,243</u>
Liabilities:	
Trade and other payables	5,232
Borrowings	1,010
Total liabilities	<u>6,242</u>
Net liabilities derecognised	(2,999)
Less: Non-controlling interests	(87)
Net liabilities disposed of	<u><b>(3,086)</b></u>

The aggregate cash inflow arising from the disposal of DET Disposal Group were:

	<b>Disposal Group</b>
	<b>2015</b>
	<b>\$’000</b>
Net liabilities disposed of (as above)	(3,086)
Reclassification of foreign currency translation reserves (Note 15)	2,308
	(778)
Gain on disposal of subsidiaries	2,095
Total cash proceeds from disposal	1,317
Less: Cash and bank balances disposed of in DET Disposal Group	(491)
Net cash inflow on disposal	<u><b>826</b></u>

\* Amount less than \$1,000.