

Darco Water Technologies Limited
(Incorporated in Singapore)
(Company registration no: 200106732C)

Unaudited Financial Statements For the Full Year Ended 31 December 2017

PART I - INFORMATION REQUIRED FOR QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR ANNOUNCEMENTS

1(a)(i) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group together with a comparative statement for the corresponding period of the immediately preceding financial year.

| | Full year ended 31 December | | |
|--|------------------------------------|------------------|---------------|
| | Unaudited | Audited | |
| | 2017 | 2016 | |
| | (S\$'000) | (S\$'000) | change |
| | | | % |
| Revenue | 60,597 | 60,746 | -0.2 |
| Cost of sales | (45,911) | (46,861) | -2.0 |
| Gross profit | 14,686 | 13,885 | 5.8 |
| Other income | 1,293 | 4,678 | -72.4 |
| Distribution expenses | (1,743) | (1,494) | 16.7 |
| Administrative expenses | (11,987) | (13,188) | -9.1 |
| Finance costs | (273) | (143) | 90.9 |
| Profit before income tax from continuing operations | 1,976 | 3,738 | -47.1 |
| Income tax expense | (530) | (347) | 52.7 |
| Profit for the financial year, net of tax | 1,446 | 3,391 | -57.4 |
| Profit attributable to: | | | |
| Equity holders of the Company | 1,194 | 2,572 | n.m |
| Non-controlling interests | 252 | 819 | n.m |
| | 1,446 | 3,391 | n.m |

Note: n.m- Not Meaningful

1(a)(ii) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR FULL YEAR ENDED 31 DECEMBER 2017.

| | Full year ended 31 December | | change % |
|---|--------------------------------|------------------------------|-------------|
| | Unaudited 2017 (S\$'000) | Audited 2016 (S\$'000) | |
| Profit for the financial year, net of tax | 1,446 | 3,391 | -57.4 |
| Other comprehensive (loss)/income: | | | |
| <u>Items that may be reclassified to profit and loss subsequently</u> | | | |
| Currency translation differences arising from consolidation | (67) | (253) | n.m |
| Currency translation realised through from disposal of a subsidiary | (6) | - | n.m |
| Total comprehensive income for the financial year | 1,373 | 3,138 | n.m |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | 1,127 | 2,256 | n.m |
| Non-controlling interests | 246 | 882 | n.m |
| | 1,373 | 3,138 | n.m |

Note: n.m - not meaningful

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1(a)(iii) Profit before income tax from operations is arrived at after (charging)/crediting the followings:

| Included in other income are: | Group Financial Year Ended | | change % |
|--|--------------------------------------|------------------------------------|-------------|
| | Unaudited 31/12/2017 (S\$'000) | Audited 31/12/2016 (S\$'000) | |
| Interest income | 24 | 23 | 4.3 |
| Government grants | 151 | 93 | 62.4 |
| Gain on disposal of plant and equipment | 17 | 14 | 21.4 |
| Gain on foreign exchange, net | - | 142 | -100.0 |
| Bad debts recovered | 26 | 14 | 85.7 |
| Reversal of amount due to contract customer | 1,035 | - | n.m |
| Gain on bargain purchase arising from business combination | - | 4,167 | -100.0 |
| Miscellaneous income | 40 | 225 | -82.2 |
| | 1,293 | 4,678 | -72.4 |

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1(a)(iii) Profit before income tax from operations is arrived at after (charging)/crediting the followings:

| Finance costs: | Group | | |
|---|--------------------------------------|------------------------------------|---------------|
| | Financial Year Ended | | change % |
| | Unaudited 31/12/2017 (S\$'000) | Audited 31/12/2016 (S\$'000) | |
| Continuing operations | | | |
| Interest expense on:- | | | |
| Amount owing to a related party | 30 | 24 | 25.0 |
| Borrowings | 191 | 112 | 70.5 |
| Finance lease liabilities | 4 | 6 | -33.3 |
| Trust receipts | 48 | 1 | 4700.0 |
| | <u>273</u> | <u>143</u> | 90.9 |
| | | | |
| Included in the Profit before income tax are: | Group | | |
| | Financial Year Ended | | |
| | Unaudited | Audited | |
| | 31/12/2017 | 31/12/2016 | change |
| | (S\$'000) | (S\$'000) | % |
| Impairment loss on trade and other receivables | 20 | 1,294 | -98.5 |
| Amortisation of intangible assets | 1,774 | 1,349 | 31.5 |
| Depreciation of property, plant and equipment | 932 | 680 | 37.1 |
| Inventories written down | 33 | - | n.m |
| Rental expense for operating leases | 535 | 568 | -5.8 |
| Personnel expenses | 10,119 | 10,894 | -7.1 |
| Legal and professional fees | 592 | 1,162 | -49.1 |
| Loss on disposal of a subsidiary | 19 | - | n.m |
| Loss on foreign exchange | 90 | - | n.m |
| Property, plant and equipment written off | 8 | - | n.m |
| Gain on disposal of property, plant and equipment | (17) | (14) | 21.4 |
| Reversal of amount due to contract customer | 1,035 | - | n.m |
| Gain on bargain purchase arising from business combination | - | (4,167) | -100.0 |
| Writeback of allowance for receivables | (26) | (14) | -85.7 |

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial years.

| | Group | | Company | |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Unaudited | Audited | Unaudited | Audited |
| | 31/12/2017 | 31/12/2016 | 31/12/2017 | 31/12/2016 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant equipment | 5,482 | 7,121 | - | - |
| Intangible assets | 7,697 | 9,492 | - | - |
| Investment in subsidiaries | - | - | 12,210 | 10,822 |
| Deferred tax assets | 185 | 318 | - | - |
| | <u>13,364</u> | <u>16,931</u> | <u>12,210</u> | <u>10,822</u> |
| Current assets | | | | |
| Inventories | 2,056 | 1,003 | - | - |
| Trade and other receivables | 50,274 | 44,006 | 8,027 | 5,868 |
| Income tax recoverable | 293 | 276 | - | - |
| Cash and bank balances | 17,003 | 8,155 | 7,621 | 101 |
| | <u>69,626</u> | <u>53,440</u> | <u>15,648</u> | <u>5,969</u> |
| Total assets | <u>82,990</u> | <u>70,371</u> | <u>27,858</u> | <u>16,791</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Trade and other payables | 36,316 | 30,692 | 7,409 | 2,323 |
| Borrowings | 2,865 | 2,836 | - | - |
| Income tax payable | 663 | 578 | - | - |
| | <u>39,844</u> | <u>34,106</u> | <u>7,409</u> | <u>2,323</u> |
| Non-current liabilities | | | | |
| Trade and other payables | - | - | - | 517 |
| Borrowings | 5,267 | 849 | 4,000 | - |
| Deferred tax liabilities | 1,034 | 1,033 | - | - |
| | <u>6,301</u> | <u>1,882</u> | <u>-</u> | <u>517</u> |
| Total liabilities | <u>46,145</u> | <u>35,988</u> | <u>11,409</u> | <u>2,840</u> |
| Net assets | <u>36,845</u> | <u>34,383</u> | <u>16,449</u> | <u>13,951</u> |

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial years (Continued)

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | Unaudited | Audited | Unaudited | Audited |
| | 31/12/2017 | 31/12/2016 | 31/12/2017 | 31/12/2016 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| EQUITY | | | | |
| Capital and reserves attributable to equity holders of the Company | | | | |
| Share capital | 54,274 | 51,405 | 54,274 | 51,405 |
| Other reserves | (3,398) | (3,331) | - | - |
| Accumulated losses | (21,933) | (23,127) | (37,825) | (37,454) |
| | 28,943 | 24,947 | 16,449 | 13,951 |
| Non-controlling interests | 7,902 | 9,436 | - | - |
| Total equity | 36,845 | 34,383 | 16,449 | 13,951 |

(b)(ii) Aggregate amount of group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

| As at 31 Dec 2017 | | As at 31 Dec 2016 | |
|-------------------|-----------|-------------------|-----------|
| Secured | Unsecured | Secured | Unsecured |
| S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| 2,865 | - | 2,836 | - |

Amount repayable after one year

| As at 31 Dec 2017 | | As at 31 Dec 2016 | |
|-------------------|-----------|-------------------|-----------|
| Secured | Unsecured | Secured | Unsecured |
| S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| 1,267 | 4,000 | 849 | - |

Details of any collateral

As at 31 December 2017 and 31 December 2016, the secured borrowings are secured by corporate guarantees by the Company and freehold land and properties of subsidiaries.

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

| | Note | Full year ended 31 December | |
|--|------|---|---------------------------------------|
| | | Unaudited 2017 (S\$'000) | Audited 2016 (S\$'000) |
| Cash flows from operating activities | | | |
| Profit before income tax | | 1,976 | 3,738 |
| Adjustments for: | | | |
| Amortisation of intangible assets | | 1,774 | 1,349 |
| Depreciation of property, plant and equipment | | 932 | 680 |
| Gain on bargain purchase | | - | (4,167) |
| Gain on disposal of property, plant and equipment | | (17) | (14) |
| Loss on disposal of a subsidiary | | 19 | - |
| Property, plant and equipment written off | | 8 | - |
| Inventories written down | | 33 | - |
| Impairment loss on trade and other receivables | | 20 | 1,294 |
| Writeback of allowance for receivables | | (26) | - |
| Interest expense | | 273 | 143 |
| Interest income | | (24) | (23) |
| Unrealised exchange differences | | (71) | (75) |
| | | <hr/> | <hr/> |
| Operating profit before working capital changes | | 4,897 | 2,925 |
| Change in working capital: | | | |
| Inventories | | (1,086) | (50) |
| Amount due to / from customers for contract work | | (1,591) | (18,065) |
| Trade and other receivables | | (9,997) | 256 |
| Trade and other payables | | 4,231 | 12,736 |
| Refund of pledged fixed deposits and bank balances | | 261 | 1,198 |
| | | <hr/> | <hr/> |
| Cash used in operations | | (3,285) | (1,000) |
| Income taxes paid | | (310) | (788) |
| | | <hr/> | <hr/> |
| Net cash used in operating activities | | (3,595) | (1,788) |
| | | <hr/> | <hr/> |

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year. (Continued)

| | Note | Full year ended 31 December | |
|---|------|-------------------------------|-----------------------------|
| | | Unaudited 2017 (\$'000) | Audited 2016 (\$'000) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | A | (1,202) | (2,168) |
| Proceeds from disposal of property, plant and equipment | | 17 | 15 |
| Disposal of a subsidiary, net of cash disposed | B | 1,355 | - |
| Acquisition of a subsidiary, net of cash | C | - | 1,165 |
| Interest received | | 24 | 23 |
| | | <hr/> | <hr/> |
| Net cash from / (used in) investing activities | | 194 | (965) |
| | | <hr/> | <hr/> |
| Cash flows from financing activities | | | |
| Proceeds from issuance of new shares, by way of cash | | 3,000 | - |
| Share issuance cost | | (131) | - |
| Proceeds from borrowings | | 7,037 | 1,064 |
| Repayment of borrowings | | (1,676) | (440) |
| Repayment of finance lease liabilities | | (48) | (46) |
| Dividend paid to non-controlling shareholder | | (38) | - |
| Interest paid | | (273) | (143) |
| Advances from investors for placement of shares | | 4,860 | - |
| | | <hr/> | <hr/> |
| Net cash from financing activities | | 12,731 | 435 |
| | | <hr/> | <hr/> |
| Net increase / (decrease) in cash and cash equivalents | | 9,330 | (2,318) |
| Cash and cash equivalents at beginning of financial year | | 5,494 | 7,711 |
| Effect of exchange rate changes on cash and cash equivalents | | 124 | 101 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at end of financial year | | 14,948 | 5,494 |
| | | <hr/> | <hr/> |

Note A

For the purpose of the consolidated statement of cash flows, the Group's additions to property, plant and equipment during the financial year comprised of:

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Property, plant and equipment purchased during the financial year | 1,202 | 3,436 |
| Less: | | |
| Amount outstanding as at end of the financial year | - | (1,245) |
| Finance lease liabilities | - | (23) |
| | <hr/> | <hr/> |
| Cash payment to acquire property, plant and equipment | 1,202 | 2,168 |
| | <hr/> | <hr/> |

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year. (Continued)

Note B

The aggregate cash inflow arising from the disposal of Darco Youli were:

| | 2017 \$'000 |
|---|-------------------|
| Net assets disposed | 4,367 |
| Less: Non-controlling interests | (1,742) |
| | <hr/> 2,625 |
| Loss on disposal of subsidiaries | (19) |
| | <hr/> 2,606 |
| Total cash proceeds from disposal | 2,606 |
| Less: Cash and bank balances disposed of in Darco Youli | (1,251) |
| | <hr/> 1,355 |
| Net cash inflow on disposal | <hr/> <hr/> 1,355 |

Note C: Acquisition of subsidiary, net of cash acquired

| | 2017 \$'000 |
|--|-------------------|
| Total consideration for 60% equity interest acquired | 6,425 |
| Less: non-cash consideration | (6,425) |
| | <hr/> - |
| Consideration settled in cash | - |
| Less: Cash and cash equivalents of subsidiary acquired (after deducting pledged bank balances) | 1,165 |
| | <hr/> 1,165 |
| Net cash inflows on acquisition of a subsidiary | <hr/> <hr/> 1,165 |

1(c)(i) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

| | Full year ended 31 Dec | |
|---|---|---------------------------------------|
| | Unaudited 2017 (S\$'000) | Audited 2016 (S\$'000) |
| Cash and cash equivalents comprise the following:- | | |
| Bank and cash balances | 17,003 | 8,155 |
| Bank balances pledged | (1,125) | (1,272) |
| Short-term bank deposits pledged | (451) | (574) |
| Bank overdraft | (479) | (815) |
| Cash and cash equivalent as per consolidated cash flows | 14,948 | 5,494 |

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

| | Share Capital (S\$'000) | Other reserves (S\$'000) | Accumulated losses (S\$'000) | Sub- Total (S\$'000) | NCI (S\$'000) | Total (S\$'000) |
|---|--|---|---|-------------------------------------|--------------------------|----------------------------|
| Balance as at 1.1.2017 | 51,405 | (3,331) | (23,127) | 24,947 | 9,436 | 34,383 |
| Profit for the financial year | - | - | 1,194 | 1,194 | 252 | 1,446 |
| Other comprehensive income/(loss) | | | | | | |
| - Currency translation differences arising from consolidation | - | (67) | - | (67) | (6) | (73) |
| Total comprehensive income/(loss) for the financial year | - | (67) | 1,194 | 1,127 | 246 | 1,373 |
| <u>Contribution by and distribution to owners</u> | | | | | | |
| Issuance of shares | 2,869 | - | - | 2,869 | - | 2,869 |
| Dividend paid | - | - | - | - | (38) | (38) |
| Total contributions by and distribution to owners | 2,869 | - | - | 2,869 | (38) | 2,831 |
| <u>Change in ownership interests in subsidiaries</u> | | | | | | |
| Disposal of a subsidiary | - | - | - | - | (1,742) | (1,742) |
| Balance as at 31.12.2017 | 54,274 | (3,398) | (21,933) | 28,943 | 7,902 | 36,845 |

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year. (Continued)

| | Share Capital (S\$'000) | Other reserves (S\$'000) | Accumulated losses (S\$'000) | Sub- Total (S\$'000) | NCI (S\$'000) | Total (S\$'000) |
|---|--|---|---|-------------------------------------|--------------------------|----------------------------|
| Balance as at 1.1.2016 | 44,980 | (3,245) | (25,469) | 16,266 | 1,492 | 17,758 |
| Profit/(Loss) for the financial year | - | - | 2,572 | 2,572 | 819 | 3,391 |
| Other comprehensive income/(loss) | | | | | | |
| - Currency translation differences arising from consolidation | - | (316) | - | (316) | 63 | (253) |
| Total comprehensive income/(loss) for the financial year | - | (316) | 2,572 | 2,256 | 882 | 3,138 |
| <u>Contribution by owners</u> | | | | | | |
| Share issued for acquisition of a subsidiary | 6,425 | - | - | 6,425 | - | 6,425 |
| Transfer to a statutory reserve | - | 230 | (230) | - | - | - |
| Total contributions by owners | 6,425 | 230 | (230) | 6,425 | - | 6,425 |
| <u>Change in ownership interests in subsidiaries</u> | | | | | | |
| Acquisition of a subsidiary | - | - | - | - | 7,062 | 7,062 |
| Balance as at 31.12.2016 | 51,405 | (3,331) | (23,127) | 24,947 | 9,436 | 34,383 |

1(d)(i) A statement of Changes in equity of the Company

| Company | Share Capital (S\$'000) | Accumulated Losses (S\$'000) | Total (S\$'000) |
|--|----------------------------|---------------------------------|--------------------|
| Balance at 1 Jan 2017 | 51,405 | (37,454) | 13,951 |
| Total comprehensive loss for the financial year | - | (371) | (371) |
| Contribution by owners | | | |
| - Issuance of shares | 2,869 | - | 2,869 |
| Balance at 31 Dec 2017 | 54,274 | (37,825) | 16,449 |

| Company | Share Capital (S\$'000) | Accumulated Losses (S\$'000) | Total (S\$'000) |
|--|----------------------------|---------------------------------|--------------------|
| Balance at 1 Jan 2016 | 44,980 | (36,834) | 8,146 |
| Total comprehensive loss for the financial year | - | (620) | (620) |
| Contribution by owners | | | |
| - Issuance of shares | 6,425 | - | 6,425 |
| Balance at 31 Dec 2016 | 51,405 | (37,454) | 13,951 |

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

During the financial year, the Company has announced that it has:

- (a) Allotted and issued 2,500,000 placement shares to Capital Boom Limited on 7 April 2017; and
- (b) Allotted and issued 2,500,000 placement shares to Stone Robert Alexander ("Robert Stone") on 3 May 2017

As a result of the above, the total number of shares has increased from 52,326,601 shares to 57,326,601 shares.

| | As at 31/12/2017 | Company As at 30/6/2017 | As at 31/12/2016 |
|----------------------------|---------------------|-------------------------------|---------------------|
| Number of ordinary shares | 57,326,601 | 57,326,601 | 52,326,601 |
| Issued and paid up capital | \$'000 54,274 | \$'000 54,321 | \$'000 51,405 |

There were no outstanding convertibles or shares held as treasury shares as at the end of the current financial year reported on and as at the end of the corresponding year of the immediately preceding financial year.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

As at 31 December 2017 and 31 December 2016, the issued ordinary shares of the Company was 57,326,601 and 52,326,601 respectively. There were no treasury shares as at 31 December 2017 and 31 December 2016.

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable. The Company does not have any treasury shares during and as at the end of the current financial period reported on.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

These figures have not been reviewed nor audited by the Company's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

Save as disclosed in paragraph 5 below, the Group has adopted the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting year as per the most recent audited financial statements for the financial year ended 31 December 2016.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

The Group has adopted the new and revised Singapore Financial Reporting Standards ("FRSs") that are mandatory for financial years beginning on and after 1 Jan 2017, where applicable. The adoption of these standards did not result in substantial changes to the Group's accounting policies, and there is no material impact on the financial statements of the Group as at 1 Jan 2017.

6. **Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**
(a) Based on the weighted average number of ordinary shares on issue; and
(b) On a fully diluted basis (detailing any adjustments made to the earnings).

| | Financial Year ended | |
|--|-----------------------------------|---------------------------------|
| | Unaudited 31/12/2017 \$'000 | Audited 31/12/2016 \$'000 |
| Earnings per ordinary shares of the group for the current year reported on and the corresponding period of the immediate preceding financial year:- | | |
| Net profit attributable to equity holders of the Company (\$'000) | 1,194 | 2,572 |
| Weighted average number of ordinary shares outstanding for basic earnings per share - adjusted | 55,819,752 | 46,840,077 |
| Basic and diluted earnings per share (Cents) | 2.14 | 5.49 |

The basic and diluted earnings per share were the same as there were no potentially dilutive ordinary securities in issue as at 31 December 2016 and 31 December 2017.

7. **Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:-**
(a) current financial period reported on; and
(b) immediately preceding financial year.

| | Group | | Company | |
|---|----------------------------------|--------------------------------|----------------------------------|--------------------------------|
| | Unaudited 31/12/2017 Cents | Audited 31/12/2016 Cents | Unaudited 31/12/2017 Cents | Audited 31/12/2016 Cents |
| Net asset value (for issuer and group) per ordinary share based on issued share capital of the issuer at the end of the financial year. | 64.27 | 65.71 | 28.69 | 26.66 |
| Number of ordinary shares | 57,326,601 | 52,326,601 | 57,326,601 | 52,326,601 |

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**
- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
 - (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Revenue from continuing operations and Gross Profit

| | Group | | Change % |
|--|------------------------|-------------------|---------------------|
| | Full Year Ended | | |
| | Unaudited | Audited | |
| | 31/12/2017 | 31/12/2016 | |
| | (\$'000) | (\$'000) | |
| Engineered Environmental Systems ("EE Systems") | 41,318 | 39,710 | 4.0 |
| Water Management Services ("WM Services") | 10,098 | 11,004 | -8.2 |
| Trading | 9,181 | 10,032 | -8.5 |
| | 60,597 | 60,746 | -0.2 |

Revenue of the Group has been maintained at \$60.6 million in FY2017 as compared to \$60.7 million in FY2016.

Revenue from EE Systems segment increased from \$39.7 million in FY2016 to \$41.3 million in FY2017 mainly due to higher contribution from the Engineering, Procurement, and Construction ("EPC") projects in Singapore.

Revenue from WM Services segment decreased from \$11.0 million in FY2016 to \$10.1 million in FY2017 as a result of lower service revenue contribution following the sale of Darco Youli Medical Waste operations in Taiwan. As per announcement dated 16 June 2017, the Group has entered into two separate sale and purchase agreements for the disposal of Darco Youli, which was completed on 30 September 2017.

Revenue from continuing operations and Gross Profit (Continued)

Sales from the trading of chemical, spare parts and others decreased slightly from \$10.0 million in FY2016 to \$9.2 million in FY2017 mainly due to lesser demand for specialised water treatment chemicals from our customers in Malaysia.

The Group overall gross profit ("GP") margin has increased from 22.9% in FY2016 to 24.2% in FY2017. This is mainly due to the Group having successfully secured projects at higher margin through value engineering while maintaining its competitiveness in the market.

Other income

The significant decrease in other income is mainly due to:-

1. the gain on bargain purchase of \$4.2million, arising from the acquisition of Wuhan Kaidi Water Service Co., Ltd recorded in FY2016 was a one-off occurrence and did not recur in FY2017; and
2. loss in foreign exchange of \$90,000 in FY2017, as compared to gain in foreign exchange of \$142,000 in FY2016. This is mainly due to the volatility in foreign exchange movement, in particular, the Malaysian Ringgit ("MYR") against the Group's functional currency, Singapore Dollar ("SGD"). The Group is exposed to foreign exchange risks due to its overseas purchase of project materials denominated in foreign currency.

The above mentioned decrease was partially offset by the reversal of amount due to contract customer amounting to \$1.0 million in FY2017. During the FY2017, the Management has determined a project that was included in the contract order that was signed in July 2015 (pre-acquisition of WHKD, with no work started to-date), has no prospect of completion. Accordingly, reversal of amount due to contract customer has been made.

Operating expenses

The group's marketing and distribution expenses increased from \$1.5 million in FY2016 to \$1.7 million in FY2017 mainly due to higher marketing cost incurred in China. The Group has strengthened its marketing team in China by increasing its headcount of its sales division.

Administrative expenses which comprised mainly of staff salary, professional fees, rental and other operating expenses, slight decreased from \$13.2 million in FY2016 to \$12.0 million in FY2017. This are mainly due to lower impairment on receivables in FY2017 of \$20,000, as compared to an impairment amount of \$1.3 million in FY2016 and expenses amounting to \$0.6 million that was incurred for the acquisition of WHKD in FY2016.

Finance expenses

Finance costs increased by \$0.1 million mainly due to the newly secured long-term borrowing for the acquisition of an office building in China and also a higher utilisation of bank overdraft and trust receipts facilities in Singapore and Malaysia in FY2017.

Income tax expense

The increase in income tax expenses is mainly due to the reversal of corresponding deferred tax expenses relating to the reversal of amount due to contract customer amounting to \$1.0 million in FY2017.

Balance sheet

Current assets

The Group's current assets comprise the following items:-

| | As at 31 December 2017 (Unaudited) \$'000 | As at 31 December 2016 (Audited) \$'000 |
|---|--|--|
| Trade receivables | 22,944 | 17,649 |
| Gross amount due from customers for contract work | 20,000 | 21,620 |
| Other receivables, deposits and prepayments | 7,330 | 4,737 |
| Trade and other receivables | 50,274 | 44,006 |
| Inventories | 2,056 | 1,003 |
| Income tax recoverable | 293 | 276 |
| Cash and bank balances | 17,003 | 8,155 |
| Total | 69,626 | 53,440 |

Trade and other receivables

Trade receivables has been increased from \$17.6 million in FY2016 to \$22.9 million in FY2017, mainly due to higher trade receivables in China. The outstanding receivables in China has increased from \$8.9 million in FY2016 to \$15.2 million in FY2017.

Gross amount due from customers for contract work decreased mainly due to the lesser unbilled work done for China projects. The gross amount due from customers for contract work relating to China projects has decreased from \$19.2 million as at 31 December 2016 to \$18.1 million as at 31 December 2017.

The increase in other receivables was mainly due to:-

1. A refundable deposit of US\$1.0 million has been made to CA Trading Co., Ltd ("Vendor") as part of the purchase consideration for the acquisition of water treatment assets in Vietnam. This would allow the Company to carry out the due diligence and valuation work before entering into a definitive Sale and Purchase Agreement with the Vendor
2. Increase in the VAT receivables from \$1.1 million in FY2016 to \$2.4 million in FY2017

Inventories

There is an increase in inventories from \$1.0 million in FY2016 to \$2.1 million in FY2017, mainly due to the Group's subsidiaries in China and Malaysia having stocked up on frequently used parts and equipment for use in upcoming projects.

Non-current assets

Our non-current assets comprises of property, plant and equipment, intangible assets and deferred tax assets.

The decrease in the property, plant and equipment is mainly due to:

1. Depreciation of property, plant and equipment amounting to \$0.8 million;
2. Disposal of subsidiary in Taiwan, which caused a reduction in property, plant and equipment amounting to \$1.9 million

The above mentioned decrease was partially offset by the purchase of motor vehicles and plant and equipment amounting to \$1.2 million.

The decrease in the intangible assets is mainly due to the amortisation of intangible assets amounting to \$1.7 million.

Current liabilities

Trade and other payables

The Group's trade and other payables comprise of the following:-

| | As at 31 December 2017 (Unaudited) | As at 31 December 2016 (Audited) |
|---|---|---|
| | \$'000 | \$'000 |
| Trade payables | 17,552 | 15,331 |
| Other payables and accruals | 18,484 | 11,870 |
| Gross amount due to customers for contract work | 280 | 3,491 |
| Total | 36,316 | 30,692 |

The increase in trade payables from \$11.6 million in FY2016 to \$14.2 million in FY2017 is mainly due to numerous purchases made towards the end of the financial period, which remained unpaid as at 31 December 2017, in our China subsidiary.

The increase in other payables and accruals are mainly due to:-

1. increase in the downpayment from the customers from \$6.8 million in FY2016 to \$9.7 million in FY2017;
2. an amount of \$4.9 million* received from Wang Zhi, Robert Stone and Sofos Infrastructure Fund for the placement of shares in the Company

The above mentioned increase was partially offset by the outstanding balance due to vendor for the acquisition of building in Wuhan of \$1.2 million in FY2016.

*The placement consideration was recorded as other payables since the placement of shares was not completed as at year end of 2017.

Gross amount due to customers for contract work decreased mainly due to decrease in advance billing for work done in our China projects.

Borrowings

Total borrowings increased from \$3.7 million in FY2016 to \$8.1 million in FY2017.

The increase was mainly due to:

1. drawdown of loan amounting to \$4.0 million from Wang Zhi. Please refer to announcement dated 23 October 2017 on the placement of shares to Wang Zhi.
2. drawdown of loan for the acquisition of building in Wuhan amounting to \$1.0 million
3. drawdown of SME loan for working capital in Singapore amounting to \$0.3 million
4. proceeds from trust receipts amounting to \$1.7 million

The above mentioned increase was partially offset by:-

1. repayment of bank borrowing amounting to \$1.7 million
2. disposal of subsidiary in Taiwan, which caused a reduction in borrowing amounting to \$0.5 million

Equity

Share capital increased from \$51.4 million in FY2016 to \$54.3 million in FY2017. The increase in share capital was due to the issuance of 5,000,000 shares to the investors.

Cash flow statement for the year ended

| | Unaudited 31 Dec 2017 S\$'000 | Audited 31 Dec 2016 S\$'000 |
|--|--|--|
| Net cash used in operating activities | (3,595) | (1,788) |
| Cash flows from investing activities | 194 | (965) |
| Cash flows from financing activities | 12,252 | 435 |
| Net increase/(decrease) in cash and cash equivalents | <u>9,330</u> | <u>(2,318)</u> |

The group cash position was \$17.0 million as at 31 December 2017 compared to \$8.2 million, as at 31 December 2016.

In FY2017, operating cash flow before changes in working capital was \$4.9 million, after adding non cash items of \$3.9 million. Operating cash flows was used for the purchase of inventories and finance of construction projects.

Cash generated from investing activities in FY2017 is \$0.2 million mainly due to the net cash proceeds from the disposal of Taiwan plant amounting to \$1.4 million. Cash was used for the purchase of plant and equipment amounting to \$1.2 million.

Cash generated from financing activities in FY2017 of \$12.7 million mainly arose from:-

1. net proceeds from borrowing of \$5.4 million;
2. net proceeds from share placement of \$2.9 million; and
3. advances received from the investor of \$4.9 million for the placement of shares in the Company.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

The business activities of the Group remain broad-based and the actual results are in line with the statements made in announcements released earlier.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Subject to shareholder approval the Group shall complete several private placement agreements. The cash proceeds from these Placement exercises shall be used to expedite the construction, of several drinking water projects in Vietnam, to generate recurring income for the Group.

Going forward, the Group shall also try to expand its core engineering business activities, comprising of namely EE Systems, WM Services and Trading segments. The expertise deployed in these segments remain essential to optimise upcoming infrastructure projects secured recently.

The Group expects the global economic outlook to be steady, achieving a positive growth. Under such a scenario, the Group shall be in a good position to capitalise from opportunities arising within the manufacturing and production industries in the next 12 months.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

Not applicable.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

No

(c) Date payable

Not applicable

(d) Books closure date

Not applicable

12. If no dividend has been declared (recommended), a statement to that effect.

No dividend has been declared or recommended for FY2017.

13. Use of Rights issue proceeds

Pursuant to the share placement completed on 7 April 2017 and 3 May 2017 respectively, the Company received net proceeds from the issuance of new shares of approximately \$2,966,000, after deducting issue expenses.

The utilisation of the share placement proceeds as at the date of this announcement is as follows:

| S/N | Purpose from share placement proceeds | Amount allocated | Amount utilised | Balance |
|-----|--|------------------|-----------------|---------|
| | | \$'000 | \$'000 | \$'000 |
| 1 | Funding new projects or investments when opportunities arose | 2,076 | (2,076) | - |
| 2 | General working capital | 890 | (890) | - |
| | - Payment of company's indebtedness | - | (217) | - |
| | - Repayment of overdraft and loan taken for the working capital of the Group's working capital | - | (100) | - |
| | - Other general working capital | | | |
| | - Staff salary | - | (447) | - |
| | - Professional fees | - | (126) | - |
| | Total | 2,966 | 2,966 | - |

The above utilisation is in accordance with the intended use of proceeds of the Shares Placements as stated in the announcement dated 26 January 2017.

14. Segmented revenue and results of business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year

The segment information for the reportable segments of continuing operations for the financial year ended 31 December 2017 is as follows:

2017

| | EE Systems \$'000 | WM Services \$'000 | Trading \$'000 | Eliminations \$'000 | Total \$'000 |
|--|-------------------------|-----------------------|-------------------|------------------------|-----------------|
| Revenue | | | | | |
| Sales to external customers | 41,318 | 10,098 | 9,181 | - | 60,597 |
| Inter-segment sales | - | - | - | - | - |
| Total | 41,318 | 10,098 | 9,182 | - | 60,597 |
| Segment profit | 8,847 | 4,491 | 1,348 | - | 14,686 |
| Other information: | | | | | |
| Additions to property, plant and equipment | 459 | - | 91 | - | 550 |
| Impairment loss on trade and other receivables | - | - | 20 | - | 20 |
| Amortisation of intangible assets | 1,774 | - | - | - | 1,774 |
| Reversal of amount due to contract customer | (1,034) | - | - | - | (1,034) |
| Depreciation of property, plant and equipment | 334 | 214 | 82 | - | 630 |
| Finance costs | 83 | - | 3 | - | 86 |
| Interest income | 15 | - | 8 | - | 23 |
| Assets | | | | | |
| Segment assets | 60,659 | 2,461 | 5,222 | - | 68,342 |
| Liabilities | | | | | |
| Segment liabilities | 32,930 | 1,556 | 2,068 | - | 36,554 |

Segment assets and liabilities are derived after deducting deferred tax assets and liabilities.

14. Segmented revenue and results of business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year (Continued)

The segment information for the reportable segments of continuing operations for the financial year ended 31 December 2016 is as follows:

2016

| | EE Systems \$'000 | WM Services \$'000 | Trading \$'000 | Eliminations \$'000 | Total \$'000 |
|---|-------------------------|-----------------------|-------------------|------------------------|-----------------|
| Revenue | | | | | |
| Sales to external customers | 39,710 | 11,004 | 10,032 | - | 60,746 |
| Inter-segment sales | - | - | 2 | (2) | - |
| Total | 39,710 | 11,004 | 10,034 | (2) | 60,746 |
| Segment profit | 4,825 | 5,063 | 3,967 | - | 13,885 |
| Other information: | | | | | |
| Additions to property, plant and equipment | 2,814 | 394 | 114 | - | 3,322 |
| Impairment loss on trade and other receivables | - | - | (344) | - | (344) |
| Amortisation of intangible assets | 1,349 | - | - | - | 1,349 |
| Depreciation of property, plant and equipment | 36 | 361 | 156 | - | 553 |
| Finance costs | (1) | (16) | (6) | - | (23) |
| Gain on disposal of property, plant and equipment | - | - | 14 | - | 14 |
| Interest income | 10 | 2 | 3 | - | 15 |
| Assets | | | | | |
| Segment assets | 53,348 | 4,771 | 6,924 | - | 65,043 |
| Liabilities | | | | | |
| Segment liabilities | 28,180 | 1,314 | 3,187 | - | 32,681 |

Segment assets and liabilities are derived after deducting deferred tax assets and liabilities.

14. Segmented revenue and results of business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year (Continued)

Geographical information

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

| | Revenue | | Non-current assets | |
|--------------------------------|----------------|----------------|--------------------|----------------|
| | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 |
| <u>Geographical</u> | | | | |
| Malaysia | 20,559 | 23,594 | 2,160 | 1,929 |
| The People's Republic of China | 25,755 | 27,928 | 10,740 | 11,609 |
| Taiwan | 3,895 | 3,635 | 148 | 2,022 |
| Singapore | 10,388 | 5,452 | 131 | 1,052 |
| Other countries | - | 137 | - | 1 |
| | <u>60,597</u> | <u>60,746</u> | <u>13,179</u> | <u>16,613</u> |

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

15. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the operating segments.

Please refer to Paragraph 8 above for further details.

16. A breakdown of sales

| | 2017 S\$'000 | 2016 S\$'000 |
|--|-----------------|-----------------|
| Sales reported for the first half of the year | 24,767 | 26,677 |
| Profit/(loss) after tax before non-controlling interest reported for the first half year | <u>361</u> | <u>(511)</u> |
| Sales reported for the second half of the year | 35,830 | 34,069 |
| Profit after tax before non-controlling interest reported for the second half year | <u>833</u> | <u>3,083</u> |

17. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.

No dividend has been recommended or declared for the year ended 31 December 2017 and 2016.

- 18. If the Group has obtained a general mandate from shareholders for Interested Person Transactions ("IPT"), the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.**

| Name of Interested Person | Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) | Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000) |
|---------------------------|---|---|
| N/A | N/A | N/A |

The Group does not have any IPT general mandate from shareholders pursuant to Rule 920.

- 19. Disclosure of person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director of chief executive officer or substantial shareholder of the issuer pursuant to Rule 704(13) in the format below. If there are no such persons, the issuer must make an appropriate negative statement.**

| Name | Age | Family relationship with any director and/or substantial shareholder | Current position and duties, and the year position was held | Details of changes in duties and position held, if any, during the year |
|--------------|-----|---|---|---|
| Thye Kim Fah | 67 | Brother of Mr. Thye Kim Meng, Managing Director and Chief Executive Officer of Darco Water Technologies Limited | General Manager of Darco Water Systems Sdn. Bhd. ("DWSSB") responsible for overall management and operation of DWSSB, position held since January 1, 2000 | Nil |
| Thye Ze Pin | 36 | Nephew of Mr. Thye Kim Meng, Managing Director and Chief Executive Officer of Darco Water Technologies Limited | Team Head, Project Management for Darco Water Technologies Limited; responsible for project management, position held since January 1, 2009 | Nil |

20. Confirmation that the issuer has procured undertakings from all its Directors and Executive Officers (in the format set out in Appendix 7.7) under Rule 720(1)

The Company confirms that it has procured undertakings from all its directors and executive officers in the format set out in Appendix 7.7 under Rule 720(1) of the Listing Manual.

BY ORDER OF THE BOARD

Thye Kim Meng
Chairman, Managing Director and Chief Executive Officer
27 February 2018