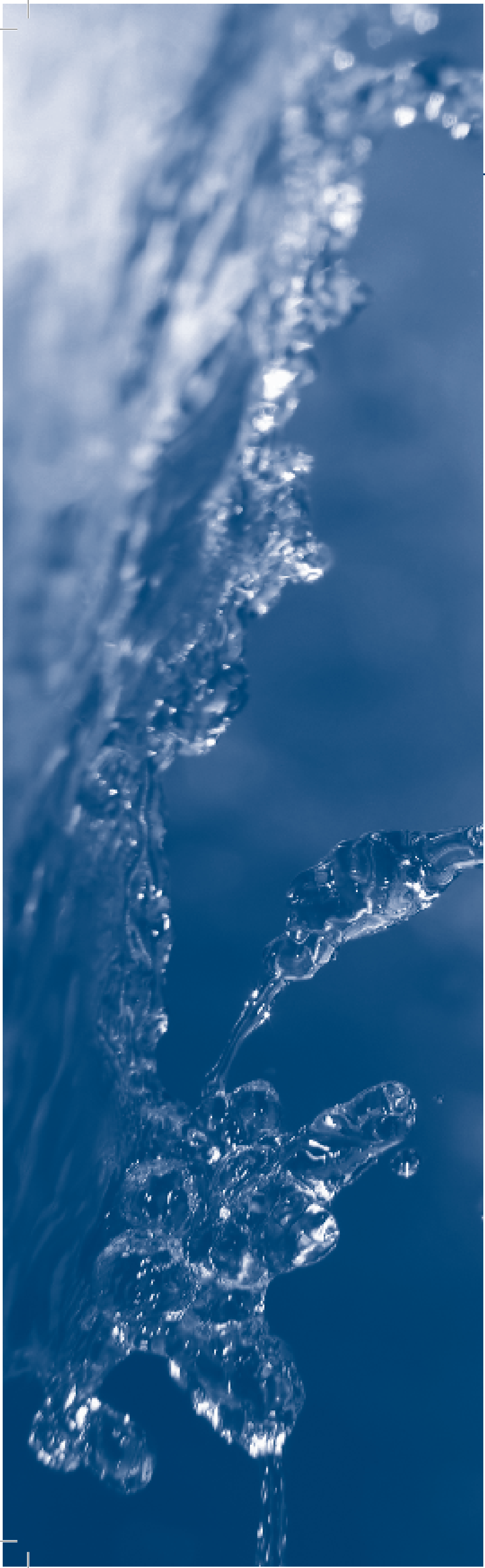

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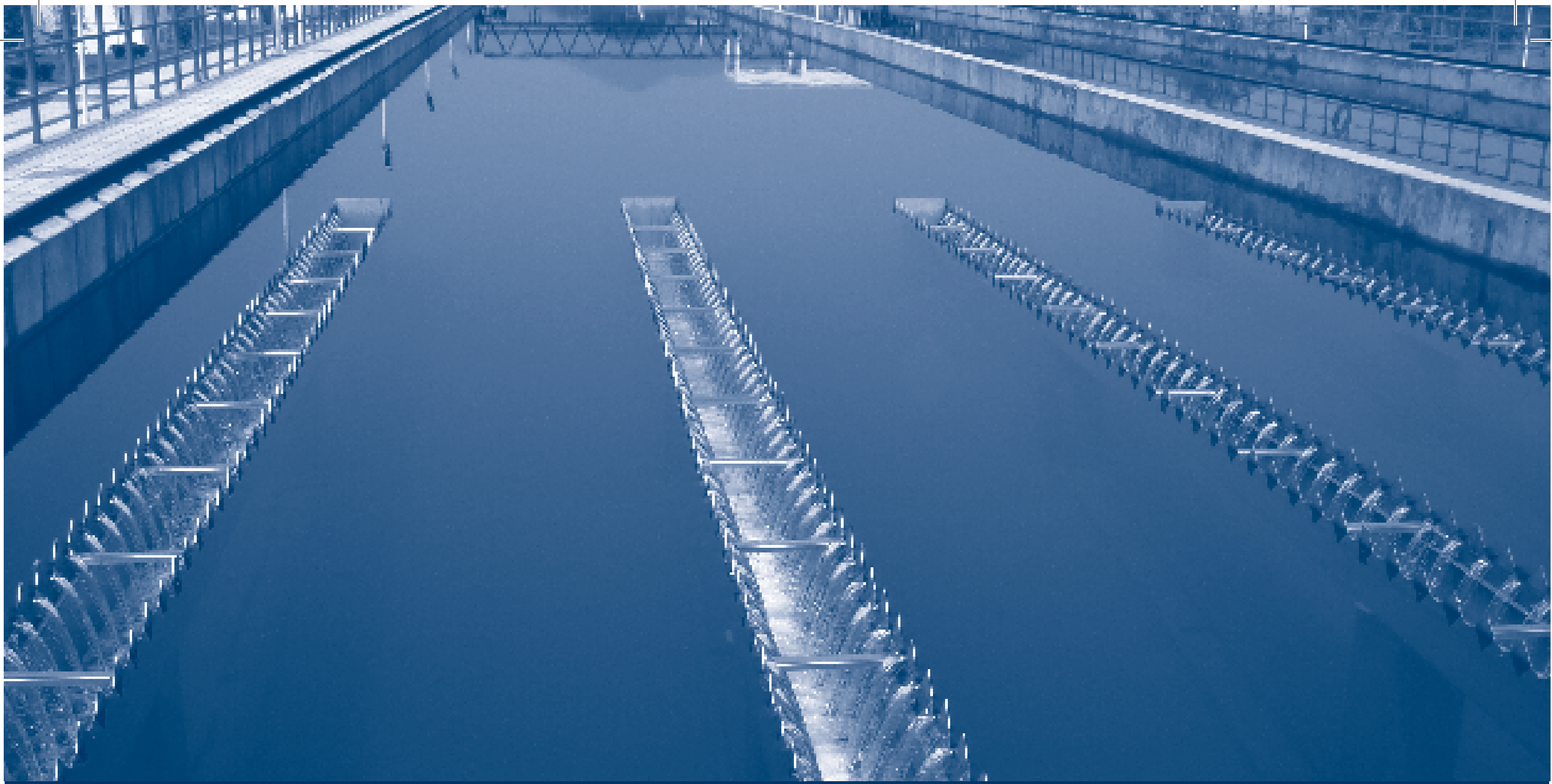


Corporate Information

BOARD OF DIRECTORS

Thye Kim Meng *(Managing Director and Chief Executive Officer)*
Teh Swee Heng *(Executive Director)*
Lee Sue Lin *(Executive Director)*
Heather Tan Chern Ling *(Executive Director)*
Robert Wong Kwan Seng *(Non-Executive Independent Director)*
Siow Chee Keong *(Non-Executive Independent Director)*

AUDIT COMMITTEE

Robert Wong Kwan Seng *(Chairman)*
Siow Chee Keong
Thye Kim Meng

NOMINATING COMMITTEE

Siow Chee Keong *(Chairman)*
Robert Wong Kwan Seng
Thye Kim Meng

REMUNERATION COMMITTEE

Siow Chee Keong *(Chairman)*
Robert Wong Kwan Seng
Teh Swee Heng

COMPANY SECRETARY

Low Mei Mei Maureen, ACIS, L.L.B (Hons) (London)

REGISTERED OFFICE

41 Loyang Drive
Singapore 508952
Tel : (65) 6545 3800
Fax : (65) 6545 3730

REGISTRAR AND SHARE TRANSFER OFFICE

Lim Associates (Pte) Ltd
3 Church Street #08-01
Samsung Hub
Singapore 049483

AUDITORS

LTC & Associates
Certified Public Accountants
1 Raffles Place #20-02
OUB Centre
Singapore 048616

Partner-in-charge:
Devdas Sawlani Kalyan
(appointment effective from financial year ended 31 December 2006)

Board of Directors

Mr Thye Kim Meng *Malaysian, Aged 54*

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 and is a member of the Audit Committee and the Nominating Committee. Mr Thye has more than 22 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.

Mr Teh Swee Heng *Malaysian, Aged 57*

Executive Director (Business Development)

Mr Teh Swee Heng is in charge of business development, sales and marketing of water purification and wastewater treatment systems and services for our Group. He was appointed to the Board of Directors of the Company on 11 March 2002 and is a member of the Remuneration Committee. Mr Teh has more than 15 years of experience in sales, operations and engineering project management in water purification and wastewater treatment facilities, having served as Sales and Operation Director with Wheelabrator (M) Sdn. Bhd. and U.S. Filter (M) Sdn. Bhd. He was also a Director and the Sales and Operation Manager of Darchet (M) Sdn Bhd. Mr Teh graduated from the University of Heriot-Watt, Edinburgh, Scotland with a Bachelor of Science in Electrical and Electronic Engineering. He does not hold any directorships or chairmanships in other listed companies in Singapore.

Mr Alfred Lee *Malaysian, Aged 54*

Executive Director (Technical)

Mr Alfred Lee Sue Lin is in charge of technical process design, process applications and technical operations in our Group. He was appointed to the Board of Directors of the Company on 13 October 2001 Mr Lee has more than 22 years of treatment process knowledge and experience in the field of water purification and wastewater treatment facilities, having served as Technical Director with Wheelabrator Engineered Systems (S) Pte Ltd, Wheelabrator Water Technologies (S) Pte Ltd, U.S. Filter (Asia) Pte Ltd and Darchet Engineering & Water Treatment Pte Ltd. Mr Lee graduated from the University of Birmingham with a Bachelor of Science in Chemical Engineering. He does not hold any directorships or chairmanships in other listed companies in Singapore.

Ms Heather Tan Chern Ling *Malaysian, Aged 25*

Executive Director (Process Engineering and Design)

Ms Heather Tan Chern Ling is currently the Head of Darco's application engineers in our Group, responsible for the water system treatment process. She was appointed to the Board of Directors of the Company on 25 May 2006. She coordinates technical and commercial matters between the company and prospective customers. Ms Tan graduated from the University of Melbourne, with a 1st Class Honours degree in Chemical 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 several short-term positions as a researcher with Orica Adhesives and Resins in Australia, Engineering Trainee in Agilent Technologies Malaysia, and was a Facilitator in Melody Learning Centre in Penang.

Mr Robert Wong Kwan Seng *Singaporean, Aged 49*

Non-Executive Independent Director

Mr Robert Wong was appointed as a Non-Executive Independent Director of our Company on 30 April 2005 and is the Chairman of the Audit Committee and a member of the Nominating Committee and Remuneration Committee. He is a lawyer by profession. He graduated from the National University of Singapore in 1983 and had practiced in various law firms. He is presently a director of Straits Law Practice LLC. Mr Wong practises mainly corporate law with particular emphasis in corporate finance such as initial public offers, right issue, issue of debentures, takeovers, mergers, acquisition and joint ventures. He is a director of various companies including Baker Technology Limited, Willas-Array Electronics (Holdings) Limited, Rotol Singapore Ltd and Aqua-Terra Supply Co. Limited, which are companies listed in Singapore.

Mr Siow Chee Keong *Canadian, Aged 52*

Non-Executive Independent Director

Mr Siow Chee Keong was appointed as a Non-Executive Independent Director of our Company on 30 April 2005 and is the Chairman of the Remuneration Committee and Nominating Committee and a member of the Audit Committee. He is a Certified Internal Auditor and a Certified Accountant. Currently, he is the managing director at JF Virtus Pte Ltd, responsible for directing all internal audit and risk management consultancy services to listed companies. Prior, he was the head of internal audit for the Singapore Exchange Limited. He has more than 25 years of internal and external auditing experience. He graduated with a MBA from the University of Warwick, England. He is a director of SunVic Chemical Holdings Ltd and a member of the Singapore Institute of Directors.

Key Executives

Yap Keck Meng *Aged 40*

Group's Financial Controller

Yap Keck Meng is responsible for the Group's financial and operation functions. Prior to joining the Group, he spent 8 years in credit/business development functions in foreign banks and 5 years in the finance functions in local and foreign MNCs in Singapore. He graduated from the National University of Singapore with a Bachelor of Accountancy and is a non-practicing member of the Institute of Certified Public Accountants of Singapore.

Calvin Thye *Aged 56*

General Manager of Darco System (M) Sdn. Bhd ("DSM")

Calvin Thye is 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. Calvin Thye has over 15 years of experience in water purification treatment business. Calvin Thye attained a Cambridge General Certificate of Education at the Ordinary Level. Calvin Thye is the brother of Thye Kim Meng.

Yeoh Choo Seng *Aged 39*

General Manager of Darco Industrial Water Sdn Bhd ("DIW")

Yeoh Choo Seng is responsible for the overall management and operations of DIW in relation to our business in the northern region of Peninsula Malaysia, in particular Penang and Kuching. Yeoh Choo Seng has over 14 years of experience in water treatment business. Yeoh Choo Seng attained an Electronic Engineering Diploma from Butterworth Technology Institute, a Full Technological Certificate (Electrical Engineering) from the City and Guilds of London Institute and a certificate from The Society of Engineers (Telecommunications and Electronics)

Tony Huang *Aged 55*

Head of Operations

Tony Huang is responsible for our Group's operations in wastewater treatment systems and maintenance services. Tony Huang has over 27 years of experience in design, installations and commissioning of wastewater treatment system. Tony Huang graduated with a degree in Bachelor of Science in Civil Engineering and obtained Masters of Science in Civil Engineering both from Cheng Kung University, Taiwan.

Chairman's Statement

Dear Esteemed Shareholders,

FY2006 was an encouraging year for Darco Water Technologies Limited, as we achieved broad-based revenue growth in all business segments. This was achieved despite facing a slowdown in the industrial segment, in particular the electronic and semiconductor sectors in the People's Republic of China ("PRC") during 2H2006.

Revenue grew 25% to S$68.9 million, while gross and net profit declined 1% and 64% to S$17 million and S$2.1 million respectively. Excluding a one-off administrative charge of S$2.6 million incurred for obtaining the new syndicated loan facility during the year, net profit would be S$4.6 million. Nonetheless, we still remain upbeat on our prospects, given that we have secured a substantial orderbook worth more than S$400 million, with major water projects that will propel growth from FY2007 onwards.

Milestones

Following our securing of two municipal projects in Taiwan in 2005, namely a joint turnkey project with Leader Construction Co. in Hsin Chu City worth NT 1.66 billion (S$83.8 million) and the NT$580 million (S$29.3 million) turnkey project solely undertaken by Darco in Chu Bei City, we have since obtained certain project financing facilities. This amounts to S$10.0 million, including a term loan facility of NT$150 million (S$7.6 million) for the Hsin Chu project and NT$262 million (S$13.2 million) from ANZ Bank, Taipei branch, for the Chu Bei project.

During the year under review, we made a breakthrough in the Chinese market with the securing of two Build-Own-Transfer ("BOT") municipal projects in Deqing, PRC. Through our wholly owned subsidiary, Darco Environmental Pte Ltd ("DNV"), we have obtained the final approval from Deqing County Government to build an extension to an existing 60,000 m^3 per day BOT water treatment plant as well as the approval to build and operate a 100,000 m^3 per day BOT potable water treatment plant in Qian Yuan Town, Deqing. We have since entered into a Water Purchase Agreement with Zhejiang Deqing Water Company with respect to the latter project.

This new potable water treatment plant will supply water to residents and industries, with the major user of the water being a large Japanese-owned beer manufacturing facility to be built in the Deqing County. In order to meet the pressing water needs for its rapid industrial development, the Deqing County Government has requested that construction of the 100,000 m^3 per day potable water treatment plant to be put on fast track basis, as it normally takes about 2 years to complete.

Investment for the existing 60,000 m³ per day wastewater treatment plant is USD 7.9 million (S$12.6 million) (see announcement Oct 23,2002) and we expect to reap total revenue of S$60-75 million over 15 years, or S$4-5 million per year. Upon the request of Deqing government, this project was later restructured in September 2005 to total revenue of S$81 million over 22 years. For our second BOT potable water treatment plant, we will invest US $20 million (S$32 million) in this, with DNV incorporating a wholly owned corporate entity in the PRC, known as Deqing Darco Producing Water Co., Ltd, for undertaking, owning, maintaining and operating this new potable water treatment plant in Qian Yuan Town, Deqing. We expect to yield an additional total revenue of RMB 1.2 billion over 25 years from this second BOT potable water treatment plant alone.

Last year, the Group entered into a Syndicated Loan Facility Agreement ("the Facility") with a group of international banks and financial institutions selected by Raiffeisen ZentralBank Osterreich AG ("RZB – Austria"), Singapore. The Facility comprises a 4-year US$9 million multi-currency term loan facility, a 4-year US$12 million multi-currency Revolving Credit Facility and a 4-year S$4 million Revolving Credit Facility, with the 2 said revolving credit facilities being extendable at the Borrower's option at the end of the 4 years.

This will allow us to further optimise our capital structure while keeping our consolidated net debt to equity at a comfortable level, significantly enhancing our ability to leverage our pipeline of projects and fund new revenue opportunities regionally, particularly China and Taiwan.

Thus, we will be using partial proceeds from the recently obtained Syndicated Loan Facility, internal resources and project financing borrowings to fund our investment in our second BOT potable water treatment plant in Deqing.

In the last quarter of 2006, we secured S$12.85 million of new environmental-related industrial contracts in Malaysia, Taiwan and China and these are expected to have a positive impact on our earnings in FY2007. The largest of these projects was a S$4.4 million contract awarded by Showa Kankyo Systems (S) Pte Ltd for the design, engineering, construction, installation, testing and commissioning of a 22.2 m³ per hour UNOX wastewater treatment system in Showa Denko HD Singapore Pte Ltd's new hard disk plant in Singapore, their fourth in the country.

Our strategic partner in wastewater treatment, Showa Engineering Co., will be supplying us the UNOX technology, which produces high purity oxygen as an aeration gas for organic wastewater treatment. Notably, this is the first time that a UNOX wastewater treatment system is being selected, installed and commissioned in Singapore and this contract is a synergistic result of the strategic technical and marketing alliance efforts between Showa Engineering Co., and Darco.

Other than the UNOX project, the Group has secured 12 other environmental projects amounting to S$8.45 million. These were for the design, fabrication, delivery and commissioning of pure water and wastewater treatment plants as well as for solids and air management.

Early this year, we secured 15 water and wastewater treatment projects in the industrial sectors with an estimated worth of S$17.4 million, which is equal to 25% of the Group's revenue in FY2006. With the inclusion of the outstanding orders of S$5.5 million that was received in FY2006, scheduled for delivery this year, total current orderbook for the industrial sector will amount to S$22.9 million in FY2007. The total secured orders of S$22.9 million for the industrial sectors marks an excellent start for FY2007, especially if compared to the S$23.4 million revenue generated from this sector in FY2006.

Significant projects include a S$3.5 million (US$2.3 million) contract from Marubeni Power Systems Corporation for the design, engineering, installation and commissioning of a water treatment plant for Bang Pakong, Thailand and a S$2.0 million (US$1.3 million) from PT Indonesia Power for the supply of a seawater desalination plant at the latter's steam power plant in Surabaya, Indonesia.

In terms of geographical breakdown, Taiwan is Darco's largest revenue contributor with S$4.6 million, followed by Thailand (S$3.5 million), China (S$2.6 million), Singapore (S$2.6 million), Indonesia (S$2.5 million) and Malaysia (S$1.7 million).

The projects we have secured in FY2006 and FY2007, together with revenue contribution from the municipal projects in Taiwan, are expected to contribute positively to our earnings in FY2007 and beyond.

Outlook and Future Plans

With a current outstanding orderbook of S$400 million with strong earnings visibility for up to 25 years, we remain upbeat about our performance in the municipal and industrial sectors. In fact we are confident that our performance in the municipal sector will fetch better margins and are optimistic about securing more orders in the industrial sector in FY2007.

We are confident about the outlook for municipal water treatment in China, however administrative peculiarities, project execution difficulties and political risks must be properly addressed. Our experience has shown us they are not insurmountable. For Taiwan, even though margins for civil construction in the municipal sector are supposedly lower, we believe that this is a strategic move to further penetrate the Taiwanese water industry. Barring unforeseen circumstances, our performance for FY2007 is likely to improve significantly.

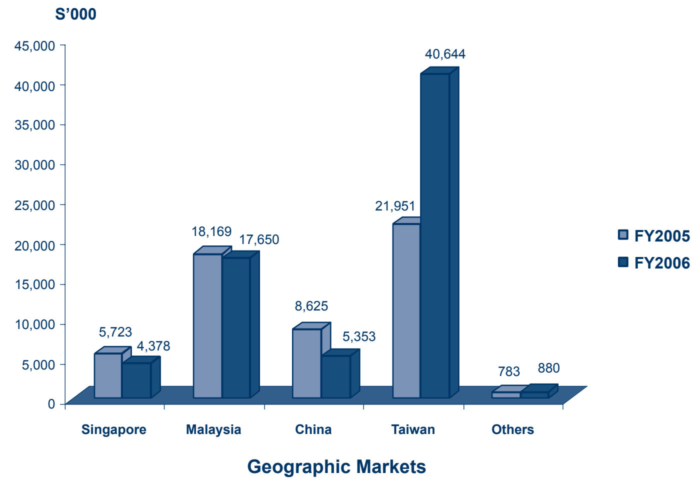
Acknowledgement

To thank our loyal shareholders, we recommend a dividend of 1 Singapore cent per share. At the same time, I would like to thank our directors, management staff, employees, customers, shareholders, suppliers and other business partners for their unwavering confidence and commitment. With continued support from all of you, Darco will continue to expand our markets and improve profits by diligently raising our competitiveness.

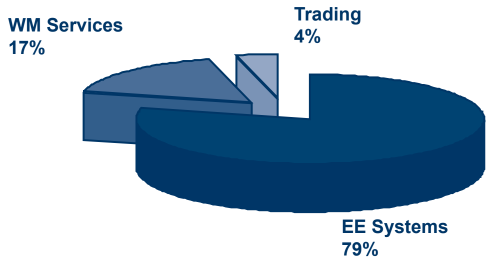
Thye Kim Meng
Chairman and Managing Director

Financial Highlights

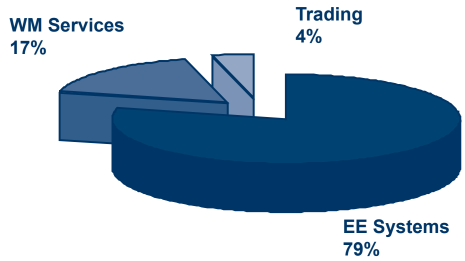
Sales by Geographic Markets



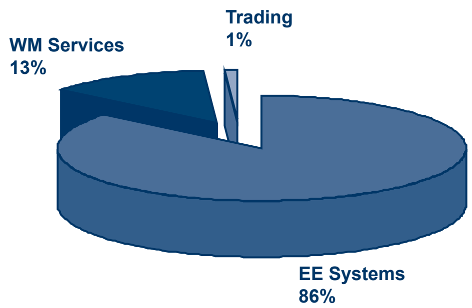
Sales By Activity FY2005



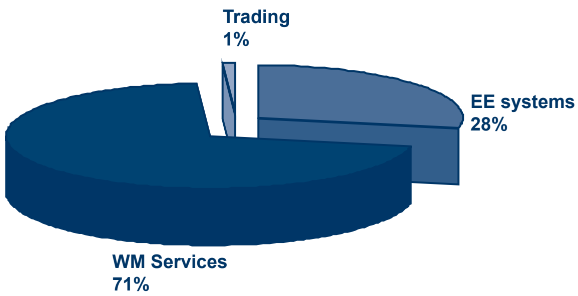
Sales By Activity FY2006



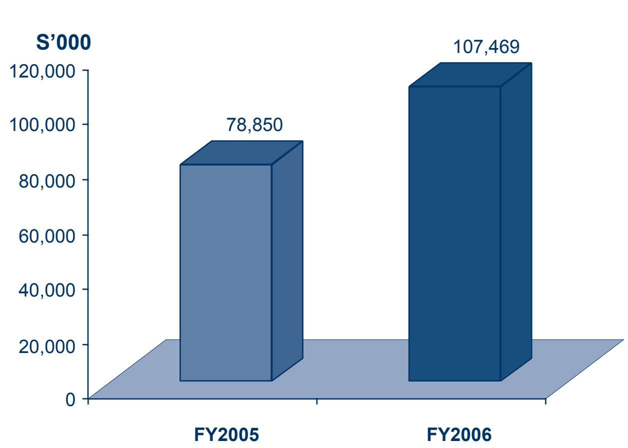
Profit Before Tax By Activity FY2005



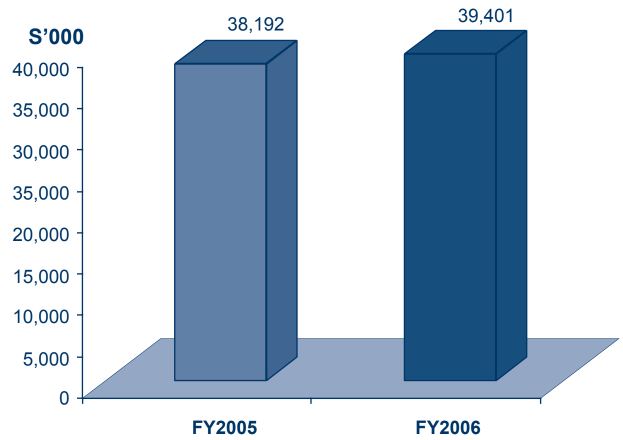
Profit Before Tax By Activity FY2006



Total Assets



Shareholders' Equity



Corporate Governance

For the year ended 31 December 2006

Our Board of Directors and Management are committed to maintaining a high standard of corporate governance to protect the interests of our shareholders.

This Report describes the Company's corporate governance processes and structures that were in place throughout the financial year 2006, with specific reference made to the principles and guidelines of the Code of Corporate Governance 2005 ("Code"). The Company was admitted to the Official List of the Stock Exchange of Singapore Dealing and Automated Quotation System ("SESDAQ") in July 2002. Steps have been taken, as far as practicable, towards continued compliance with the recommendations in the Code, taking into account the size of the Group's business and organization structure.

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 success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board

The Board comprises four Executive Directors and two Non-Executive Independent Directors. Together, the Directors bring a wide range of business, legal and financial experience relevant to the Group.

Thye Kim Meng	Chairman, Managing Director and Chief Executive Officer ("CEO")
Teh Swee Heng	Executive Director
Lee Sue Lin	Executive Director
Heather Tan Chern Ling	Executive Director
Robert Wong Kwan Seng	Non-Executive Independent Director
Siow Chee Keong	Non-Executive Independent Director

The Board's key responsibilities include providing leadership and supervision to the management of the Company and the subsidiaries (the "Group") with a view to protecting shareholders' interests and enhancing long-term shareholder value.

The Board's principal responsibilities are to:

a) guide the formulation of the Group's overall long-term strategic objectives and directions. This include 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

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

The Board has adopted the Group Charter in FY2003, which sets out the Group's the internal guidelines for material contracts and investments exceeding a specified amount. This Group Charter 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 meets regularly to approve matters relating to announcements of financial results, the annual report and financial statements, 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 management and the other Directors. The decision making process is an objective one.

The Board conducts meetings at least twice annually. In lieu of physical meetings, written resolutions were also circulated for approval by the members of the Board.

The Board is supported by key Board committees namely Audit Committee, Remuneration Committee and Nominating Committee, which are delegated specific responsibilities. The attendance of the directors at these meetings during the financial year are as follows:-

		Board Committees		
Board/Committees	**Board**	**Audit**	**Remuneration**	**Norminating**
No of meetings held	3	2	3	2
Directors				
Robert Wong Kwan Seng	3	2	3	2
Siow Chee Keong	3	2	3	2
Thye Kim Meng	3	2	-	2
Teh Swee Heng	2	-	2	-
Lee Su Lin	2	-	-	-
Heather Tan Chern Ling (Appointed on 25/05/2006)	2	-	-	-

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 CEO has been advising our Directors of the changing commercial and business risks facing our Company.

The Company will provide a formal letter to newly appointed Directors upon their appointment explaining their statutory duties and responsibilities as Directors. All new and existing Directors are provided with background information about the Group's history and core values, its strategic direction and corporate governance practices as well as industry-specific knowledge.

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. No individual or small group of individuals should be allowed to dominate the Board's decision

The Board comprises four Executive Directors and two Non-Executive Directors, who are also Independent Directors, therefore one third of the Board Members are independent. The Independent Directors have confirmed that they do not have any relationship with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interest of the Group. The Nominating Committee ("NC") has reviewed and determined that the directors namely Mr Robert Wong Kwan Seng and Mr Siow Chee Keong are independent.

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, legal, business management experience and industry knowledge that provide effective governance and stewardship for the Group.

The profiles of the Directors are found on page 2 of this Annual Report and their appointments on the Board and details of their roles in Board Committees are set out below:-

		Board Committees		
Board/Committees	**Board Membership**	**Audit**	**Remuneration**	**Norminating**
Thye Kim Meng	Managing Director and CEO	Member	-	Member
Teh Swee Heng	Executive Director	-	Member	-
Alfred Lee Sue Lin	Executive Director	-	-	-
Heather Tan Chern Ling (Appointed on 25/05/2006)	Executive Director	-	-	-
Robert Wong Kwan Seng	Non-Executive Independent Director	Chairman	Member	Member
Siow Chee Keong	Non-Executive Independent Director	Member	Chairman	Chairman

Role of Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities at the top of the Company – the working of the Board and the executive responsibility of the Company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

Although the Code of Corporate Governance states that the roles of the Chairman and the Chief Executive Officer 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 Chief Executive Officer are assumed by one of the Executive Directors, Mr Thye Kim Meng, who also hold the position of Managing Director.

Mr Thye Kim Meng believes that the scope of our business and the structure of our organization does not warrant the additional costs which will be incurred in the appointment of a third party as Chairman of the Board or a meaningful split of the position of Chairman and Managing Director.

The Chairman is guided by recommendations provided by our Company Secretary, the Chairman of the Audit, Chairman of the Nominating and Chairman of the Remuneration Committees and the Company's Group Financial Controller. With such support, he ensures that meetings are scheduled to enable the Board to perform its duties responsibly, prepare the meeting agenda, control the quantity, quality and timeliness of the flow of information between management and the Board, and ensure compliance with the Code.

Board Membership

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

The NC comprises of Mr Siow Chee Keong as Chairman and Mr Robert Wong Kwan Seng and Mr Thye Kim Meng as members, majority of whom including the Chairman are Non-Executive Independent Directors.

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

The NC's terms of reference includes ensuring proper procedures for appointment and re-appointment of Directors, determining on an annual basis the independence of the Non-Executive Independent Directors, deciding whether a Director has been adequately carrying out his duties as a Director, to re-nominate directors having regard to the director's contribution and performance and assessing the performance of the Board.

The Nominating Committee is satisfied that sufficient time and attention are given by the Directors to the affairs of the Company.

Details of the shareholdings of Directors in the shares of the Company are disclosed in paragraph 3 of the Director's Report.

Board Performance

Principle 5 : There should be a formal assessment of the effectiveness of the Board as a whole 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 as well as the contribution of individual Director. It 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.

The NC reviews and determines the independence of each Director and assesses the effectiveness of the Board as a whole and of individual Director. The NC has reviewed and assessed the effectiveness of the Board based on the criteria approved by the Board. The NC is of the opinion that each member of the Board has been effective during the year 2006 due to the active participation of each Board member during each meeting.

Access to Information

Principle 6 : In order to fulfill their responsibilities, board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

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 meeting, financial results announcements, reports from Committees, internal and external auditors.

The members of the Board have independent access to management and the Company Secretary, and are provided with adequate background information prior to Board Meetings. 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 of Directors. The Company Secretary attends all Board Meetings.

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 fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The Remuneration Committee ("RC") consists of three members, the majority of whom are Non-Executive Independent Directors. The members are Mr Siow Chee Keong as Chairman, and Mr Robert Wong Kwan Seng and Mr Teh Swee Heng. The Board is of the view 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 Non-Executive Director.

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.

Each member of the RC shall abstain from voting on any resolution in respect of his remuneration package.

Level and Mix of Remuneration

Principle 8 : The level of remuneration should be appropriate to attract, retain and motivate the Directors needed to run the company successfully but companies should avoid paying more for this purpose. A proportion of the remuneration, especially that of Executive Directors, should be linked to performance.

The RC takes into account performance related elements for the remuneration and performance measures for Executive Directors. The remuneration of the Executive Directors is based on service agreements dated 11 March 2006. The remuneration package is also designed to align the Director's interests with those of minority shareholders. The Non-Executive Independent Directors are paid directors' fees for their effort and time spent, responsibilities and contribution to the Board, based on the remuneration rates of comparable companies listed on SESDAQ and their remuneration are subject to shareholders' approval at the Annual General Meeting.

Disclosure of Remuneration

Principle 9 : Each company should provide clear disclosure of its remuneration policy, 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 remuneration of the Directors are disclosed in page 32 of this Annual Report. The number of Directors and top five senior executives (who are not Directors of the Company) whose remuneration fell within the following ranges are as follows:-

	Group			
	2006		**2005**	
	Directors	**Executives**	**Directors**	**Executives**
Below $250,000	6	5	5	5
$250,000 - $499,999	-	-	-	-
$500,000	-	-	-	-
	6	5	5	5

No employee, who is related to a Director or the CEO earned more than S$150,000 during the year under review. The Group does not have a share option scheme.

The breakdown of each Director's annual remuneration is set out below:-

	Salaries including CPF	**Variable Bonus**	**Director's Fee**	**Total**
Thye Kim Meng	100.0%	-	-	100.0%
Teh Swee Heng	96.2%	3.8%	-	100.0%
Lee Sue Lin	100.0%	-	-	100.0%
Robert Wong	-	-	100.0%	100.0%
Siow Chee Keong	-	-	100.0%	100.0%

Accountability and Audit

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

The Management is accountable to the Board, and provides members of the Board with a balanced and understandable accounts of the Company and its subsidiaries performance, financial position and prospects on a half-year basis.

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 shareholder when necessary, and where required by the regulators.

Audit Committee

Principle 11 : The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

The Audit Committee ("AC") comprises Mr Robert Wong Kwan Seng as Chairman, Mr Siow Chee Keong and Mr Thye Kim Meng as members, a majority of whom including the Chairman are Non-Executive Independent Directors. The AC members possess experience in finance, legal and business management. The Board is of the opinion that the members of the AC are appropriately qualified to carry out their responsibilities, which are set out in their terms of reference.

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

The Audit Committee has reviewed the non-audit services provided by the external auditors, Messrs LTC & Associates, and is satisfied that the external auditors are able to maintain their independence and objectivity in carrying out their duties, and that the scope and results of the audit are satisfactory and that the audit has been carried out in a cost effective manner.

Internal Controls

Principle 12 : The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

The Board is satisfied that the Audit Committee has made meaningful improvements within the Company in the area of financial internal controls and risk management processes. The Executive Directors and management continue to be involved in the day-to-day operations of the Group, and ensuring that the internal controls environment is maintained in a cost effective manner.

Management has put in place a risk management process to monitor, manage and build awareness within the organization of the various risks which the Group is exposed to.

Internal Audit

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

The Board believes in the importance of maintaining a sound system of internal controls to safeguard the interests of the shareholders and the Group's assets. The AC has met with the management and external auditors to review the internal auditor's plan and external auditors' audit plan. Also, as part of the annual statutory audit on financial statements, the external auditors report to the Audit Committee and appropriate level of management any material weaknesses in financial accounting controls over the areas which are significant to the audit.

Based on the discussion with the internal and external auditors and the management's responses to the auditors' recommendations for improvements to the Group's internal controls, the Broad is satisfied that the internal controls of the Group throughout the financial year and up to and as of the date of this Annual Report are adequate to safeguard its assets and ensure the integrity of its financial statements.

The Board had on the recommendation of AC approved and put in place the Whistle-Blowing Policy and Procedure For Reporting Impropriety In Matters of Financial Reporting And Other Matter.

Communication with Shareholders

Principle 14 : Companies should engage in regular, effective and fair communication with shareholders.

The Board shall continue to have regular, effective, fair and timely communication with Shareholders through public announcements and general meetings, where required.

Principle 15 : Communication by Shareholders

All Shareholders are given the opportunity for dialogue with the Board of Directors and external auditors at the Annual General Meetings.

The Group is continually reviewing and improving the business and operational activities to take into account the risk management perspective. This includes reviewing management and manpower resources, updating work flows, processes and procedures to meet the current and future market conditions.

Interested Party Transactions

The Company has established a register to ensure that all Interested Party Transactions are properly recorded, reviewed and approved, and are conducted on an arm's length basis.

Securities Transactions

The Board of Directors and key employees with access to sensitive financial information have been advised on the Best Practice Guides on Dealings in Securities issued by the Singapore Exchange Securities Trading Limited.

Report of the Directors

The directors of the company are pleased to present their report together with the audited financial statements of the company and of the group for the financial year ended 31 December 2006.

1. DIRECTORS AT DATE OF REPORT

The directors of the company in office at the date of this report are:

Thye Kim Meng	(Managing Director and Chief Executive Officer) (a)(c)
Lee Sue Lin	(Executive Director)
Teh Swee Heng	(Executive Director) (b)
Heather Tan Chern Ling	(Appointed on 25 May 2006)(Executive Director)
Siow Chee Keong	(Independent Director) (a)(b)(c)
Wong Kwan Seng Robert	(Independent Director) (a)(b)(c)

(a) member of audit committee
(b) member of remuneration committee
(c) member of nominating committee

2. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose objective is to enable the directors of the company to acquire benefits by means of the acquisition of shares or debentures in the company or any other body corporate.

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the company holding office at the end of the financial year had no interests in the share capital of the company and related corporations as recorded in the register of directors' shareholdings kept by the company under section 164 of the Companies Act, Cap. 50 except as follows:

	Direct interest		Deemed interest	
Name of directors and companies in which interests are held	At beginning of year or date of appointment, if later	At end of year	At beginning of year	At end of year
Darco Water Technologies Limited (the company)		Ordinary shares		
Thye Kim Meng	27,295,711	36,295,711	36,500,000	27,500,000
Lee Sue Lin	7,292,800	7,092,800	–	–
Teh Swee Heng	5,644,820	5,644,820	1,350,000	1,350,000
Heather Tan Chern Ling	–	33,000	–	–

By virtue of section 7 of the Companies Act, Cap. 50, Mr Thye Kim Meng is deemed to have an interest in all the related corporations of the company.

The directors' interests as at 21 January 2007 were the same as those at the end of the year.

4. CONTRACTUAL BENEFITS OF DIRECTORS

Since the beginning of the financial year, no director of the company has received or become entitled to receive a benefit which is required to be disclosed under section 201(8) of the Companies Act, Cap. 50 by reason of a contract made by the company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except as disclosed in the financial statements.

There were certain transactions (shown in the financial statements) with corporations in which certain directors have an interest.

5. OPTIONS TO TAKE UP UNISSUED SHARES

During the financial year, no option to take up unissued shares of the company or any corporation in the group was granted.

6. OPTIONS EXERCISED

During the financial year, there were no shares of the company or any corporation in the group issued by virtue of the exercise of an option to take up unissued shares.

7. UNISSUED SHARES UNDER OPTION

At the end of the financial year, there were no unissued shares under option.

8. AUDIT COMMITTEE

The members of the audit committee at the date of this report are as follows:

Wong Kwan Seng Robert	–	Chairman of audit committee and independent and non-executive Director
Siow Chee Keong	–	Independent and non-executive Director
Thye Kim Meng	–	Managing Director and Chief Executive Officer

The audit committee performs the functions specified by section 201B (5) of the Companies Act. Among others, it performed the following functions:

- Reviewed with the external auditors the external audit plan;
- Reviewed with the external auditors their evaluation of the company's internal accounting control, and their report on the financial statements and the assistance given by the company's officers to them;
- Reviewed the financial statements of the group and the company prior to their submission to the directors of the company for adoption; and
- Reviewed the interested person transactions (as defined in Chapter 9 of the Listing Manual of SGX).

Other functions performed by the audit committee are described in the report on corporate governance included in the annual report.

9. SUBSEQUENT DEVELOPMENTS

There are no significant developments subsequent to the release of the group's and the company's preliminary financial statements, as announced on 28 February 2007, which would materially affect the group's and the company's operating and financial performance as of the date of this report.

10. AUDITORS

The auditors, LTC & Associates, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS

………………………………………………….

Thye Kim Meng
Managing Director and Chief Executive Officer

………………………………………………….

Lee Sue Lin
Executive Director

19 March 2007

Statement of Directors

In the opinion of the directors, the accompanying financial statements set out on pages 21 to 56 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 2006 and of the results, changes in equity and cash flows of the group for the financial year then ended and 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 DIRECTORS

....……….....
Thye Kim Meng
Managing Director and Chief Executive Officer

....……….....
Lee Sue Lin
Executive Director

19 March 2007

Auditors' Report

To the members of DARCO Water Technologies Limited

We have audited the accompanying financial statements of Darco Water Technologies Limited set out on pages 21 to 56, for the financial year ended 31 December 2006, comprising the balance sheet of the Company and the consolidated financial statements of the Group. The financial statements for the financial year ended 31 December 2005 were audited by another auditor whose report dated 15 March 2006 expressed an unqualified opinion on those statements but included an emphasis of matter paragraph as disclosed in Note 31 to the financial statements.

Directors' Responsibility for the Financial Statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 as to whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion,

(a) the balance sheet of the Company and the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Singapore Companies Act, ("the Act") and Singapore Financial Reporting Standards 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 2006, and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and

(b) 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.

Without qualifying our opinion, we draw attention to Note 5(a) to the financial statements. Included in the trade receivables of the group is an amount of $5,818,000 (2005: $6,318,000) relating to sub-contract works due from a customer based in Taiwan. The outstanding amount of $5,818,000 (2005: $6,318,000) (or US$3,790,000) is overdue under the terms of the contract and it remains unpaid. An amount of $4,883,000 (2005: $5,303,000) (or US$3,181,000) out of the total outstanding amount of $5,818,000 (2005: $6,318,000) (or US$3,790,000) is covered by way of a credit insurance underwritten with a credit insurance company in Singapore. The delay in payment is the result of a delay in the completion of the main contract which the customer is involved in. The uninsured amount of $1,002,000 (2005: $1,002,000) (or US$589,000) had been fully provided for during the year 2004.

Management submitted a claim of $4,110,000 (2005: $4,268,000) (or US$2,678,000) to the credit insurance company concerned in 2004 and appointed a legal counsel in Taiwan in 2005 for the recovery of debt. Management also appointed a legal counsel in Singapore in 2005 to deal with the credit insurance company in order to expedite the claim process. To date, management has not submitted a claim to the credit insurance company for the retention monies of $773,000 (2005: $1,035,000) (or US$503,000) billed in 2005. It is management's intention to submit the claim for the retention monies of $773,000 (2005: $1,035,000) (or US$503,000) once the initial claim of $4,110,000 (2005: $4,268,000) (or US$2,678,000) has been satisfactorily settled. The directors are satisfied that management has taken the necessary steps to ensure that the group has met its obligations under the credit insurance policy to date and are of the view that the full insured amount is recoverable under the insurance policy.

In the current financial year, the claim is still under pre-trial, and the outcome of this claim is expected to be finalised in financial year 2007.

Based on the above, the directors are of the opinion that the above amount of $4,883,000 (2005: $5,303,000) (or US$3,181,000) is fully recoverable and no further provision for impairment is needed.

LTC & Associates
Certified Public Accountants

Singapore
19 March 2007

Partner-in-charge of audit : Devdas Sawlani Kalyan
Effective from year ended 31 December 2006

Balance Sheets

As at 31 December 2006

	Notes	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
ASSETS					
Current assets:					
Cash and cash equivalents	4	29,905	7,348	3,183	722
Trade and other receivables	5	49,846	42,684	53,821	38,464
Inventories	6	1,907	1,966	–	–
Total current assets		81,658	51,998	57,004	39,186
Non-current assets:					
Investments in subsidiaries	8	–	–	7,376	7,376
Property, plant and equipment	9	24,545	25,586	–	–
Goodwill	10	1,266	1,266	–	–
Long-term trade receivables	5	–	–	–	–
Total non-current assets		25,811	26,852	7,376	7,376
Total assets		107,469	78,850	64,380	46,562
LIABILITIES AND EQUITY					
Current liabilities:					
Short-term borrowings	11	22,506	9,934	12,768	7,502
Trade and other payables	12	19,120	21,041	3,069	3,919
Current tax payable		854	309	–	–
Current portion of long-term borrowings	13	2,208	1,886	2,208	1,667
Current portion of finance leases	14	446	–	–	–
Total current liabilities		45,134	33,170	18,045	13,088
Non-current liabilities:					
Deferred tax liabilities	21	157	130	–	–
Long-term borrowings	13	19,263	4,584	16,195	4,584
Finance lease	14	356	–	–	–
Total non-current liabilities		19,776	4,714	16,195	4,584
Total liabilities		64,910	37,884	34,240	17,672
Equity attributable to equity holders of the Company					
Share capital	15	27,062	9,224	27,062	9,224
Other reserves	16	(1,560)	17,446	–	17,838
Retained earnings		13,899	11,522	3,078	1,828
		39,401	38,192	30,140	28,890
Minority interests		3,158	2,774	–	–
Total equity		42,559	40,966	30,140	28,890
Total liabilities and equity		107,469	78,850	64,380	46,562

See accompanying notes to financial statements

Consolidated Income Statement

Year ended 31 December 2006

	Notes	Group 2006 $'000	Group 2005 $'000
Revenue	17	68,905	55,251
Cost of sales		(51,862)	(38,047)
Gross profit		17,043	17,204
Other income	18	671	142
Financial income	19	115	49
Financial expense	19	(1,363)	(2,116)
Distribution costs		(3,732)	(3,061)
Administrative expenses		(9,207)	(5,940)
Other credits / (charges)	20	(253)	4
Profit before tax		3,274	6,282
Income tax expense	21	(1,192)	(562)
Net Profit for the year		2,082	5,720
Attributable to:			
Equity holders of the Company		2,377	5,650
Minority interests		(295)	70
		2,082	5,720
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	24		
– Basic		1.29	3.06
– Diluted		1.29	3.06

See accompanying notes to financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

Group	Issued Capital $'000	Share Premium $'000	Foreign Currency Translation Reserve $'000	Retained Earnings $'000	Total $'000	Minority Interest $'000	Total Equity $'000
	Attributable to equity holders of the parent						
Balance at 1 January 2005	9,060	16,941	(842)	5,872	31,031	3,207	34,238
Changes in equity for 2005							
Foreign currency translation differences not recognized in the income statement	–	–	450	–	450	–	450
Net income recognized directly in equity	–	–	450	–	450	–	450
Profit for the year	–	–	–	5,650	5,650	70	5,720
Total recognized income and expense for the year	–	–	450	5,650	6,100	70	6,170
Issue of share capital (Note 4)	164	897	–	–	1,061	–	1,061
Acquisition of subsidiary from minority interest	–	–	–	–	–	(503)	(503)
Balance at 31 December 2005	9,224	17,838	(392)	11,522	38,192	2,774	40,966
		(a)	(a)				
Balance at 1 January 2006	9,224	17,838	(392)	11,522	38,192	2,774	40,966
Changes in equity for 2006							
Foreign currency translation differences not recognized in the income statement	–	–	(1,168)	–	(1,168)	–	(1,168)
Net income recognized directly in equity	–	–	(1,168)	–	(1,168)	–	(1,168)
Profit for the year	–	–	–	2,377	2,377	(295)	2,082
Total recognized income and expense for the year	–	–	(1,168)	2,377	1,209	(295)	914
Reduction of interest in subsidiary to minority interest	–	–	–	–	–	679	679
Transfer to share capital (Note 15)	17,838	(17,838)	–	–	–	–	–
Balance at 31 December 2006	27,062	–	(1,560)	13,899	39,401	3,158	42,559
			(a)				

(a) Not available for cash dividends.

See accompanying notes to financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Group	
	2006	2005
	$'000	$'000
Cash flows from operating activities:		
Net Profit for the year	2,082	5,720
Adjustments for :		
Income tax expense	1,192	562
Depreciation expense	1,226	1,000
Loss/(Gain) on disposal of plant and equipment	253	(4)
Interest income	(115)	(49)
Interest expense	1,775	1,160
Operating profit before working capital changes	6,413	8,389
Inventories	59	356
Trade and other receivables	(7,162)	(12,958)
Trade and other payables	(1,921)	6,411
Cash (used in)/generated from operations	(2,611)	2,198
Interest received	115	49
Interest paid	(1,775)	(1,160)
Income taxes paid	(619)	(716)
Net cash (used in)/from operating activities	(4,890)	371
Cash flows from investing activities		
Cash restricted in use over 3 months	(573)	(1,006)
Purchase of property, plant and equipment	(2,192)	(4,353)
Disposal of plant and equipment	827	10
Net cash used in investing activities	(1,938)	(5,349)
Cash flows from financing activities		
Increase/(Decrease) in long-term borrowings	15,001	(2,145)
Increase/(Decrease) in short-term borrowings	12,572	2,023
Increase/(Decrease) of finance leases	802	(21)
Net cash from/ (used in) financing activities	28,375	(143)
Net effect of exchange rate changes in consolidating of foreign subsidiaries	135	(585)
Net increase/ (decrease) in cash and cash equivalent	21,682	(5,706)
Cash and cash equivalent at beginning of year	4,283	9,619
Effect of foreign exchange rate adjustment	302	370
Cash and cash equivalent at end of year (Note 4)	26,267	4,283

See accompanying notes to the financial statements.

Notes to Financial Statements

31 December 2006

1 GENERAL

The company is incorporated in Singapore. The financial statements are presented in Singapore dollars. They are drawn up in accordance with the provisions of the Companies Act, Cap. 50 and the Singapore Financial Reporting Standards. The financial statements were approved and authorised for issue by the board of directors on 19 March 2007.

The principal activities of the company are those of investment holding and acting as corporate manager and adviser and administrative centre to support businesses of the company's subsidiaries. The company is listed on the Stock Exchange of Singapore Dealing and Automated Quotation System ("SESDAQ").

The principal activities of the subsidiaries are described in Note 8 below.

The registered office is: 41 Loyang Drive, Singapore 508952. The company is domiciled in Singapore.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING CONVENTION – The financial statements are prepared under the historical cost convention, modified to include the revaluation of financial assets and financial liabilities and certain properties as disclosed where appropriate in these financial statements.

BASIS OF PRESENTATION – The consolidation accounting method is used for the consolidated financial statements which include the financial statements made up to the balance sheet date each year of the company and of those companies in which it holds, directly or indirectly through subsidiaries, over 50 percent of the shares and voting rights. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intergroup balances and transactions, including income, expenses and dividends, are eliminated in full on consolidation. The results of the investees acquired or disposed of during the financial year are consolidated from the respective dates of acquisition or up to the dates of disposal. On disposal the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

BASIS OF PREPARATION – The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Apart from those involving estimations, management has made judgements in the process of applying the entity's accounting policies. The areas requiring management's most difficult, subjective or complex judgements, or areas where assumptions and estimates are significant to the financial statements, are disclosed at the end of this footnote, where applicable.

BUSINESS COMBINATIONS – Business combinations are accounted for by applying the purchase method. The cost of a business combination includes the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus any costs directly attributable to the business combination. Any excess of the cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised is accounted for as goodwill. The excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is accounted for as "negative goodwill". The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. An impairment loss in respect of goodwill is not reversed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

MINORITY INTERESTS – Any minority interests in the acquiree (subsidiary) is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

SUBSIDIARIES – A subsidiary is an entity including unincorporated and special purpose entities that are controlled by the group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities accompanying a shareholding of more than one half 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. In the company's own separate financial statements, the investments in subsidiaries are stated at cost less any provision for impairment in value. The net book values of the subsidiaries are not necessarily indicative of the amounts that would be realised in a current market exchange.

CASH AND CASH EQUIVALENTS – Cash and cash equivalents include bank and cash balances and any highly liquid debt instruments purchased with an original maturity of three months or less. Cash for the cash flow statement includes cash and cash equivalents less bank overdrafts payable on demand that form an integral part of cash management and cash subject to restriction.

TRADE RECEIVABLES - After initial recognition at fair value, trade receivables are measured at amortised cost using the effective interest method but short-duration receivables with no stated interest rate are normally measured at original invoice amount unless the effect of imputing interest would be significant. Trade receivables are stated after provision for impairment. A trade receivable amount is regarded as impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. The carrying amount of trade receivables are assumed to approximate their fair value. The amount of the provision is recognised in the income statement. Normally no interest is charged on trade receivables.

LOANS AND OTHER RECEIVABLES - Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not held for trading, not designated as available for sale and are not substantially recoverable other than because of credit deterioration which are classified as available for sale. Items with a short duration are not discounted. After initial recognition such financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for the non-current financial assets that are loans and receivables which are measured at amortised cost using the effective interest method less provision for impairment. These items are included in the balance sheet in loan receivables and trade and other receivables as current assets or as non-current assets where the maturities are greater than 12 months after the balance sheet date.

INVENTORIES – Inventories are measured at the lower of cost (weighted average method) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. A write down on cost is made for where the cost is not recoverable or if their selling prices have declined.

LONG-TERM CONTRACTS – When the outcome of a contract can be estimated reliably, the revenue and costs associated with the contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date using the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs method except where this would not be representative of the stage of completion. Contract costs consist of costs that relate directly to the specific project, costs that are attributable to contract activity in general and can be allocated to the project and such other costs as are specifically chargeable to the customer under the terms of the contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. The long-term work in progress projects have operating cycles longer than one year. The company includes in current assets amounts relating to the long-term contracts realisable over a period in excess of one year.

Notes to Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

PROPERTY, PLANT AND EQUIPMENT – Depreciation is provided on a straight-line basis to allocate the gross carrying amounts less their residual values over their estimated useful lives of each party of an item of property, plant and equipment. The annual rates of depreciation are as follows:

Freehold building	–	2%
Leasehold properties	–	2% to 3.33%
Plant and equipment	–	10% to 33.33%
Freehold land	–	Depreciation is not provided
Building under construction	–	Depreciation in not provided

An asset is depreciated when it is available for use until it is derecognised even if during that period the item is idle. Fully depreciated assets still in use are retained in the financial statements.

Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses. The residual value and the useful life of an asset is reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate, and the depreciation charge for the current and future periods are adjusted. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and recognised in the income statement.

IMPAIRMENT OF NON-FINANCIAL ASSETS – At each reporting date an assessment is made whether there is any indication that a depreciable or amortisable asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. Irrespective of whether there is any indication of impairment, an annual impairment test is performed at the same time every year on an intangible asset with an indefinite useful life or an intangible asset not yet available for use. The impairment loss is the excess of the carrying amount over the recoverable amount and is recognised in the income statement unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At each reporting date non-financial assets other than goodwill with impairment loss recognised in prior periods are assessed for possible reversal of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation if no impairment loss had been recognised.

IMPAIRMENT OF FINANCIAL ASSETS – All financial assets except those measured at fair value through profit or loss are subject to review for impairment. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

FINANCIAL LIABILITIES - Financial liabilities including bank and other borrowings when recognised initially are measured at fair value plus, in the case of items not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. After initial recognition these are measured at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value. Liabilities are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

BORROWING COSTS – All borrowing costs that are interest and other costs incurred in connection with the borrowing of funds costs are recognised as an expense in the period in which they are incurred except for borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of that asset until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. The interest expense is calculated using the effective interest rate method.

LEASES AS A LESSEE – A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. At the commencement of the lease term, a finance lease is recognised as an asset and as liability in the balance sheet at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate is used. Any initial direct costs of the lessee are added to the amount recognised as an asset. The excess of the lease payments over the recorded lease liability are treated as finance charges which are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred. The assets are depreciated as owned depreciable assets. Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. For operating leases, lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

LIABILITIES AND PROVISIONS – A liability or provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, 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. These include trade and other payables and where the effect of the time value of money is material, the amount recognised is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

SHARE CAPITAL – Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds. Where the company reacquires its own equity instruments as treasury shares, the consideration paid, including any directly attributable incremental cost is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders and no gain or loss is recognised in the income statement.

FAIR VALUE OF FINANCIAL INSTRUMENTS – The carrying values of current financial assets and financial liabilities including cash, accounts receivable, short-term borrowings, accounts payable approximate their fair values due to the short-term maturity of these instruments. The fair values of long-term debts are not disclosed unless there are significant items as at the end of the year and are disclosed in the relevant notes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

REVENUE RECOGNITION – The revenue amount is the fair value of the consideration received or receivable from the gross inflow of economic benefits during the period arising from in the course of the ordinary activities of the entity and it is shown net of related tax, estimated returns, discounts and volume rebates. Revenue from sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer, there is neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue from rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date determined by services performed to date as a percentage of total services and the amount of revenue, stage of completion, and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Interest revenue is recognised on a time-proportion basis using the effective interest rate that takes into account the effective yield on the asset. Rental revenue is recognised on a time-proportion basis that takes into account the effective yield on the asset. Revenue from construction contracts is recognised in accordance with the accounting policy on long term contracts.

FOREIGN CURRENCY TRANSACTIONS – The functional currency is the Singapore dollar as it reflects the primary economic environment in which the entity operates. Transactions in foreign currencies are recorded in Singapore dollars at the rates ruling at the dates of the transactions. At each balance sheet date, recorded monetary balances and balances measured at fair value that are denominated in foreign currencies are reported at the rates ruling at the balance sheet and fair value dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in the income statement.

FOREIGN CURRENCY FINANCIAL STATEMENTS – The foreign entities determine the appropriate functional currency as it reflects the primary economic environment in which the entities operate. In translating the financial statements of a foreign entity for incorporation in the combined financial statements, the assets and liabilities denominated in currencies other than the functional currency of the company are translated at year end rates of exchange and the income and expense items are translated at average rates of exchange for the year. The resulting translation adjustments (if any) are accumulated in a separate component of equity until the disposal of the foreign entity.

EMPLOYEE BENEFITS –Contributions to defined contribution retirement benefit plans are recorded as an expense as they fall due. The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. This includes the government managed retirement benefit plan such as the Central Provident Fund in Singapore. For employee leave entitlement the expected cost of short-term employee benefits in the form of compensated absences is recognised in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur.

INCOME TAX – The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statements or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted or substantially enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. Income tax expense represents the sum of the tax currently payable and deferred tax. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same income tax authority. The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised. A deferred tax amount is recognised for all temporary differences, unless the deferred tax amount arises from goodwill for which amortisation is not deductible for tax purposes. A deferred tax liability is not recognised for all taxable temporary differences associated with investments in subsidiaries because (a) the company is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future.

SEGMENT REPORTING – A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

CRITICAL JUDGEMENTS, ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

The critical judgements made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements and the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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:

CONSTRUCTION CONTRACTS - One of the most important phases for construction contracts relates to estimated costs to complete contracts in process, since that information is used in determining the estimated final gross profit or loss on contracts. Estimated costs to complete involve expectations about future performance, and the management does obtain explanations of apparent disparities between estimates and past performance on contracts. Because of the direct effect on the estimated gross profit or loss on the contract, management has to estimate that the cost to complete is reasonable. Events and circumstances frequently do not occur as expected. Even if the events anticipated under the assumptions occur, actual results are still likely to be different from the estimates since other anticipated events frequently do not occur as expected and the variation may be material.

DEFERRED INCOME TAXES – Management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and the extent to which deferred tax assets can be recognised. A deferred tax asset is recognised if it is probable that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilised. Management also considers future taxable income and tax planning strategies in assessing whether deferred tax assets should be recognised.

ALLOWANCES FOR DOUBTFUL ACCOUNTS **–** An allowance is for doubtful accounts for estimated losses resulting from the subsequent inability of our customers to make required payments. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods. Management specifically analyses accounts receivables and analyses historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment terms when making a judgement to evaluate the adequacy of the allowance for doubtful accounts.

INCOME TAXES – The entity operates in various countries. Significant judgment is required in determining whether items are subject to withholding tax and double taxation relief. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The entity recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. If the actual final outcome (on the judgement areas) were to differ by 10% from management's estimates, the increase to the income tax liability would increase by $55,000 and the deferred tax liability by $2,000, if unfavourable; or decrease the income tax liability by $55,000 and the deferred tax liability by $2,000, if favourable.

USEFUL LIVES OF PLANT AND EQUIPMENT - The estimates for the useful lives and related depreciation charges for plant and equipment is based on commercial and production factors which could change significantly as a result of technical innovations and competitor actions in response to severe market conditions. The depreciation charge is increased where useful lives are less than previously estimated lives, or the carrying amounts written off or written down for technically obsolete or non-strategic assets that have been abandoned or sold.

ESTIMATED IMPAIRMENT OF GOODWILL – The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. If the revised estimated gross margin at 31 December 2005 had been 10% lower than management's estimates at 31 December 2005, the group would need to reduce the carrying value of goodwill by $940,000. If the revised estimated pre-tax discount rate applied to the discounted cash flows had been 10% higher than management's estimates, the group would not need to reduce the carrying value of goodwill. If the actual gross margin had been higher or the pre-tax discounted rate lower than management's estimates, the group would not be able to reverse any impairment losses that arose on goodwill because reversal is not permitted by FRS 36.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

RISK MANAGEMENT POLICIES FOR FINANCIAL INSTRUMENTS

GENERAL RISK MANAGEMENT PRINCIPLES – The entity's financial instruments comprise borrowings, some cash and liquid resources, and various items, such as trade and other receivables, trade and other payables, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the entity's operations. The main risks arising from the entity's financial instruments are credit risk, interest risk, liquidity risk and foreign currency risk. The management reviews and agrees policies for managing each of these risks and they are summarised below.

CREDIT RISKS OF FINANCIAL ASSETS – Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations consist principally of cash, cash equivalents and trade and other accounts receivable. The management believes that the financial risks associated with these financial instruments are minimal. The cash and cash equivalents and other liquid financial assets are placed with high credit quality institutions. An ongoing credit evaluation is performed of the debtors' financial condition and a loss from impairment is recognised in the income statement. There is no significant concentration of credit risk, as the exposure is spread over a large number of counterparties and customers unless otherwise disclosed in the notes to the financial statements.

OTHER RISKS ON FINANCIAL INSTRUMENTS – The main risks arising from the entity's financial instruments are interest risk, liquidity risk and foreign currency risk. The operations are financed through a mixture of retained earnings and borrowings. Borrowings are in the desired currencies at both fixed and floating rates of interest. The policy is to retain flexibility in selecting borrowings at both fixed and floating rates interest. There is exposure to interest rate price risk for financial instruments with a fixed interest rate and to interest rate or cash flow risk for financial instruments with a floating interest rate that is reset as market rates change. Interest rate swaps are not used to generate the desired interest profit and to manage the exposure to interest rate fluctuations. There is also exposure to liquidity. As regards liquidity, the policy has to ensure continuity of funding and where necessary a certain percentage of the borrowings should mature in two to five years. Short-term flexibility is achieved by overdraft facilities. There is also exposure to changes in foreign exchange rates arising from foreign currency transactions and balances and changes in fair values. These exposures and changes in fair values from time to time are monitored and any gains and losses are included in the income statement unless otherwise stated in the notes to the financial statements. There is no policy to reduce currency exposures through forward currency contracts, derivatives transactions or other arrangements.

3. RELATED PARTY TRANSACTIONS

A related party is an entity or person that directly or indirectly through one or more intermediaries controls, is controlled by, or is under common or joint control with, the entity in governing the financial and operating policies, or that has an interest in the entity that gives it significant influence over the entity in financial and operating decisions. It also includes members of the key management personnel or close members of the family of any individual referred to herein and others who have the ability to control, jointly control or significantly influence by or for which significant voting power in such entity resides with, directly or indirectly, any such individual. This includes parents, subsidiaries, fellow subsidiaries, associates, joint venture and post-employment benefit plan, if any.

3.1 <u>Related companies</u>:

Related companies in these financial statements refer to members of the parent company's group of companies.

There are transactions and arrangements between the company and members of the group and the effects of these on the basis determined between the parties are reflected in these financial statements. The current intercompany balances are unsecured, interest free and repayable on demand unless stated otherwise. For non-current balances an interest is imputed based on the cost of borrowing less the interest rate if any provided in the agreement for the balance.

Intragroup transactions and balances that have been eliminated in the consolidated financial statements are not disclosed as related party transactions and balances below.

3. RELATED PARTY TRANSACTIONS (Cont'd)

3.2 Other related parties:

There are transactions and arrangements between the company and related parties and the effects of these on the basis determined between the parties are reflected in these financial statements. The current related party balances are unsecured, interest free and repayable on demand unless stated otherwise. For non-current balances interest is imputed based on the cost of borrowing less the interest rate if any provided in the agreement for the balance.

Significant related party transactions :

In addition to the transactions and balances disclosed elsewhere in the notes to the financial statements, this item includes the following :-

	Group	
	2006	2005
	$'000	$'000
Professional fees paid		
Straits Law Practice	3	10
Rental expense		
Calvin Thye, an Executive Officer of the company	5	5
Perusahaan Adchem Sdn. Bhd.	21	21

3.3. Key management compensation:

	2006	2005
Group	$'000	$'000
Salaries and other short-term employee benefits	811	620

The above amounts are included under employee benefits expense (Note 22). Included in the above amounts are following items:

	2006	2005
	$'000	$'000
Directors' remuneration of directors of the company	317	320
Directors' fees	55	55

Further information about the remuneration of individual directors is provided in the report on corporate governance.

Key management personnel are directors and those persons having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly. The above amount for key management compensation is for all the directors and other key management personnel.

Subsequent to the financial year end, the Company has proposed to pay directors' fees amounting to $135,000 in respect of the financial year ended 31 December 2006, and which is subject to approval by shareholders of the Company at the forthcoming Annual General Meeting. No adjustment has been made in the financial statements for the financial year ended 31 December 2006 in respect of this.

3. RELATED PARTY TRANSACTIONS (Cont'd)

3.4. Other receivables from and other payables to related parties.

The trade receivables and payables balances arising from sales and purchases of goods and services are disclosed elsewhere in the notes to the financial statements.

The movements in other receivables from and other payables to related parties are as follows:

Group	Director 2006 $'000	Other related parties 2006 $'000
Other receivables/(other payables):		
Balance at beginning of year	(65)	(3,493)
Amounts paid out during the year	–	622
Amounts received during the year	–	–
Balance at end of year	(65)	(2,871)

	Director 2005 $'000	Other related parties 2005 $'000
Other receivables/(other payables):		
Balance at beginning of year	(500)	(2,430)
Amounts paid out during the year	820	178
Amounts received during the year	(385)	(1,241)
Balance at end of year	(65)	(3,493)

Company	Director 2006 $'000	Other related parties 2006 $'000
Other receivables/(other payables):		
Balance at beginning of year	(65)	(3,430)
Amounts paid out during the year	–	622
Amounts received during the year	–	–
Balance at end of year	(65)	(2,808)

	Director 2005 $'000	Other related parties 2005 $'000
Other receivables/(other payables):		
Balance at beginning of year	(500)	(2,430)
Amounts paid out during the year	820	100
Amounts received during the year	(385)	(1,100)
Balance at end of year	(65)	(3,430)

4. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Not restricted in use	26,771	4,765	3,183	722
Restricted (a)	3,134	2,583	–	–
	29,905	7,348	3,183	722

Analysis of above amount by currencies :

	Group		Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
New Taiwan Dollars	10,792	3,056	–	–
Chinese Renminbi	9,355	77	–	–
Singapore Dollars	2,177	961	2,756	212
Malaysian Ringgit	3,062	1,813	–	–
US Dollars	3,612	1,391	427	510
Philippines Pesos	112	15	–	–
Hong Kong Dollars	33	–	–	–
Indonesia Rupiah	762	23	–	–
Euro Dollar	–	12	–	–
	29,905	7,348	3,183	722

(a) This amount has been pledged to a bank as collateral for banking facilities granted to the subsidiary (see Note 11).

The effective rate of interest for the cash on interest earning accounts is approximately 0.375% (2005: 0.42%) receivable monthly.

Cash and cash equivalent in the cash flow statement:

	2006	2005
	$'000	$'000
As shown above	29,905	7,348
Bank overdraft (Note 11)	(504)	(482)
Fixed deposits pledge with bank	(3,134)	(2,583)
	26,267	4,283

NON-CASH TRANSACTIONS – In 2005, the additional investment in a subsidiary, PV Vacuum Engineering Pte Ltd, amounting to $1,061,000 were financed by issuance of 1,059,664 and 2,207,631 ordinary shares of $0.05 each at premium of $0.20 and $0.31 respectively.

5. TRADE AND OTHER RECEIVABLES

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Trade receivables:				
Outside parties (a)	18,885	22,526	–	–
Less provision for impairment	(1,290)	(1,261)	–	–
Construction contract receivables (Note 7)	26,899	17,317	–	–
Subsidiaries (Notes 3 and 8)	–	–	60	370
	44,494	38,582	60	370
Total current portion	(44,494)	(38,582)	(60)	(370)
Non-current portion	–	–	–	–
Other receivables and prepayments				
Subsidiaries (Note 3 and 8)	–	–	53,716	37,988
Deposits (b)	1,237	1,184	–	–
Prepayments	602	1,470	327	–
Tax refundable	98	200	81	106
Related party (Note 3)	194	78	–	–
Sundry recoverable	3,988	1,594	25	–
Less provision for impairment	(767)	(424)	(388)	–
	5,352	4,102	53,761	38,094
Total trade and other receivables	49,846	42,684	53,821	38,464

(a) Included in the trade receivables of the group is an amount of $5,818,000 (2005: $6,318,000) relating to sub-contract works due from a customer based in Taiwan. The outstanding amount of $5,818,000 (2005: $6,318,000) (or US$3,790,000) is overdue under the terms of the contract and it remains unpaid. An amount of $4,883,000 (2005: $5,303,000) (or US$3,181,000) out of the total outstanding amount of $5,818,000 (2005: $6,318,000) (or US$3,790,000) is covered by way of a credit insurance underwritten with a credit insurance company in Singapore. The delay in payment is the result of a delay in the completion of the main contract which the customer is involved in. The uninsured amount of $1,002,000 (2005: $1,002,000) (or US$589,000) had been fully provided for during the year 2004.

Management submitted a claim of $4,110,000 (2005: $4,268,000) (or US$2,678,000) to the credit insurance company concerned in 2004 and appointed a legal counsel in Taiwan in 2005 for the recovery of debt. Management also appointed a legal counsel in Singapore in 2005 to deal with the credit insurance company in order to expedite the claim process. To date, management has not submitted a claim to the credit insurance company for the retention monies of $773,000 (2005: $1,035,000) (or US$503,000) billed in 2005. It is management's intention to submit the claim for the retention monies of $773,000 (2005: $1,035,000) (or US$503,000) once the initial claim of $4,110,000 (2005: $4,268,000) (or US$2,678,000) has been satisfactorily settled. The directors are satisfied that management has taken the necessary steps to ensure that the group has met its obligations under the credit insurance policy to date and are of the view that the full insured amount is recoverable under the insurance policy.

In the current financial year, the claim is still under pre-trial, and the outcome of this claim is expected to be finalised in financial year 2007.

Based on the above, the directors are of the opinion that the above amount of $4,883,000 (2005: $5,303,000) (or US$3,181,000) is fully recoverable and no further provision for impairment is needed.

5. TRADE AND OTHER RECEIVABLES (Cont'd)

(b) Included in deposits of the group is an amount of $767,500 (2005: $833,500) (or US$500,000) which relates to a refundable deposit paid to a third party vendor for the group's acquisition of 10% interest, comprising 150,000 ordinary shares of Rupiah 1 each, in PT Air Bintan Biru ("PT ABB"), a company incorporated in the Republic of Indonesia. The total consideration is $4,605,000 (2005: $5,001,000) (or US$3,000,000). The remaining consideration $3,837,500 (2005: $4,167,500) (or US$2,500,000) is payable upon the fulfilment of certain conditions in the sale and purchase agreement, dated 24 May 2003.

PT ABB is a special purpose vehicle mandated for the purpose of holding the concession of the water resources in Bintan. It is also responsible for the development of such water resources and is the designated representative of the Indonesian Government in its negotiations to sell water to the Singapore Government.

Due to the volatility and uncertainty of the present economic situation in the Indonesia region, the conditions have yet to be fulfilled by the vendor (see also Note 26(a)) and the project has been put on hold for the past two years.

A provision of $400,000 was made in 2005. During the current financial year, management has made a full provision for impairment.

	Group		Company	
	2006	2005	2006	2005
Movements in above provision:				
Balance at beginning of year	1,685	1,258	–	–
Charge for trade receivables to income statement included in financial expense	29	3	–	–
Charge for other receivables to income statement included in financial expense	343	424	388	–
Balance at end of year	2,057	1,685	388	–

Analysis of above amount by currencies :

	Group		Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
New Taiwan Dollars	36,124	21,745	–	–
US Dollars	5,876	10,739	–	–
Malaysian Ringgit	4,089	5,697	–	–
Singapore Dollars	2,137	1,890	53,821	38,464
Philippines Pesos	301	363	–	–
Chinese Renminbi	1,090	1,261	–	–
Indonesia Rupiah	229	197	–	–
Hong Kong Dollars	–	792	–	–
	49,846	42,684	53,821	38,464

5. TRADE AND OTHER RECEIVABLES (Cont'd)

The general credit period granted to customers of the group ranged from 30 to 90 (2005: 30 to 90) days.

Current receivables with a short duration are not discounted and the carrying values are assumed to approximate the fair value.

Concentration of trade receivable customers:

	Group		Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Top 1 customer	4,883	5,303	–	–

6. INVENTORIES

	Group	
	2006	2005
	$'000	$'000
Goods for resale, at cost	1,907	1,966
Changes in inventories of finished goods	59	356
Cost of purchases	51,137	20,051

7 CONTRACTS WORK-IN-PROGRESS

	Group	
	2006	2005
	$'000	$'000
Balance at beginning of year	33,470	20,782
Aggregate amount of costs incurred during the year	78,101	21,273
Less amounts recognised in the income statement	(62,695)	(8,585)
Balance at end of year – contract costs that relate to future activity recognised as an asset	48,876	33,470
Aggregate amount of costs incurred and recognised profits (less recognised losses) to date on uncompleted contracts	71,869	51,358
Less progress payments received and receivable to date	(47,999)	(37,941)
Net amount due from or (to) contract customers at end of year	23,870	13,417

Included in the accompanying balance sheet as follows:

	Group	
	2006	2005
	$'000	$'000
As an asset under trade receivables (Note 5)	26,899	17,317
As a liability under trade payables (Note 12)	(3,029)	(3,900)
	23,870	13,417
Construction contract retention receivables as an asset under trade receivables	2,142	1,609

8. INVESTMENTS IN SUBSIDIARIES

	Company 2006 $'000	Company 2005 $'000
Unquoted equity shares at cost to company	7,376	7,376
Analysis of above amount by currency:		
Singapore Dollars	5,038	5,038
Malaysian Ringgit	2,338	2,338
	7,376	7,376

The investment is carried at cost less provision for impairment.

The subsidiaries held by the company and the subsidiaries are listed below:

Name of subsidiaries, country of incorporation, place of operations and principal activities (and auditors)	Cost in books of group 2006 $'000	Cost in books of group 2005 $'000	Effective percentage of equity held by group 2006 %	Effective percentage of equity held by group 2005 %
Held by the company:				
Darco Engineering Pte Ltd Singapore Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business (LTC & Associates)	2,679	2,679	100	100
Singaway Fluidcontrols Private Limited Singapore Trading and supply of chemicals, electrical controls, instruments and apparatus used in water treatment systems (LTC & Associates)	100	100	100	100
Darco Environmental Pte Ltd Singapore Investment holding (LTC & Associates)	200	200	100	100
Darco Water Systems Sdn. Bhd. Malaysia Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business (BKR Peter Chong) (b)	2,338 (RM4,802)	2,338 (RM4,802)	100	100
PV Vacuum Engineering Pte Ltd Singapore Design and supply of environmental related equipment (Tan, Teo & Partners) (a)	2,059	2,059	100	100
	7,376	7,376		

8. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name of subsidiaries, country of incorporation, place of operations and principal activities (and auditors)	Cost in books of group		Effective percentage of equity held by group	
	2006	2005	2006	2005
	$'000	$'000	%	%
Held by subsidiaries:				
Darco Engineering (Taiwan) Inc Taiwan Design, fabrication, installation of water and waste water pollution control engineering; air pollution control engineering; solid waste disposal treatment and incineration; noise and vibration prevention engineering; soil pollution control engineering; environmental monitoring system (Deloitte & Touche) (a)	17,421 (NT$350,000)	7,589 (NT$150,000)	100	100
P.T. Darco Indonesia Indonesia Design and fabrication of water treatment systems and providing consultancy services in relation to such business (BKR dbs&d) (b)	929 (US$554)	134 (US$75)	51	75
Darco Environmental (Philippines) Inc The Philippines Design, installation and commissioning of treatment systems for water purification, treatment of wastewater and other waste discharge for industrial use (Fernandez, Santos & Lopez) (a)	230 (US$130)	230 (US$130)	65	65
Shanghai Challenge Environmental Engineering Co., Ltd The People's Republic of China Design, fabrication, installation and commissioning of environmental engineering system and providing consultancy services in relation to such business (Deloitte & Touche) (a)	106 (US$60)	106 (US$60)	100	100
Globe Industrial Technology Company Ltd Hong Kong Investment holding (Deloitte & Touche) (a)	1,830 (HK$7,990)	1,830 (HK$7,990)	75	75
Deqing Darco Producing Water Co., Ltd The People's Republic of China Supply of potable water (Deloitte & Touche) (a)	7,750 (US$5,000)	-	100	-

8. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name of subsidiaries, country of incorporation, place of operations and principal activities (and auditors)	Cost in books of group		Effective percentage of equity held by group	
	2006	2005	2006	2005
	$'000	$'000	%	%
Held by subsidiaries:				
Shanghai Darco Engineering Company Limited The People's Republic of China Design and fabrication of water treatment systems and providing consultancy services in relation to such business (Deloitte & Touche) (a)	1,838 (US$1,050)	1,838 (US$1,050)	100	100
Darco System (M) Sdn. Bhd. Malaysia Designing, fabrication and constructing pure and waste water treatment plants and trading in related industrial products (BKR Peter Chong) (b)	2,299 (RM4,802)	2,299 (RM4,802)	100	100
Darco Industrial Water Systems Sdn. Bhd. Malaysia Designing, installing, setting up and maintaining of industrial waste treatment plant ultra pure system, testing of waste water and processed water, rendering of other related waste treatment plant services and trading in industrial water treatment equipment, spare parts and chemicals (BKR Peter Chong) (b)	201 (RM420)	201 (RM420)	100	100
WWMG Environmental Sdn. Bhd. Malaysia Dormant (BKR Peter Chong) (b)	– (c)	– (c)	100	100
Deqing Huanzhong Producing Water Co., Ltd The People's Republic of China Supply of potable water (Deloitte & Touche) (a)	13,752 (US$7,894)	13,752 (US$7,894)	66	66
Darco Environmental (Taiwan) Inc Taiwan Design and fabrication of water treatment systems and providing consultancy services in relation to such business (Deloitte & Touche) (a)	360 (NT$7,200)	360 (NT$7,200)	60	60
Puzer Asia Pte Ltd Singapore Trading in vacuum cleaning systems and provision of related services (Tan, Teo & Partners) (a)	16	16	56	56

(a) Other auditors. Audited by firms of accountants other than member firms of BKR International of which LTC & Associates, Singapore is a member.

(b) Member firms of BKR International of which LTC & Associates, Singapore is a member.

(c) Cost in books of group is $0.90 (RM2).

9. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land $'000	Freehold building $'000	Leasehold properties $'000	Plant and equipment $'000	Building under construction $'000	Total $'000
Cost:						
At beginning of year 1 January 2005	257	1182	2,283	7,104	12,827	23,653
Foreign exchange adjustments	5	26	29	221	549	830
Additions	–	–	1408	543	2,402	4,353
Disposals	–	–	(7)	(6)	–	(13)
Reclassification	–	–	–	222	(222)	–
At end of year 31 December 2005	262	1,208	3,713	8,084	15,556	28,823
Accumulated depreciation :						
At beginning of year 1 January 2005	–	62	133	1,911	–	2,106
Foreign exchange adjustments	–	1	–	137	–	138
Depreciation for the year	–	24	53	889	34	1,000
Disposals	–	–	–	(7)	–	(7)
Reclassification	–	–	–	–	–	–
At end of year 31 December 2005	–	87	186	2,930	34	3,237
Net book value :						
At end of year 31 December 2005	262	1,121	3,527	5,154	15,522	25,586
Group						
Cost:						
At beginning of year 1 January 2006	262	1,208	3,713	8,084	15,556	28,823
Foreign exchange adjustments	(3)	(16)	(109)	(194)	(801)	(1,123)
Additions	–	–	35	1,334	823	2,192
Disposals	–	(124)	(51)	(1,105)	–	(1,280)
Reclassification	–	–	–	–	–	–
At end of year 31 December 2006	259	1,068	3,588	8,119	15,578	28,612
Accumulated depreciation :						
At beginning of year 1 January 2006	–	87	186	2,930	34	3,237
Foreign exchange adjustments	–	(1)	–	(193)	(2)	(196)
Depreciation for the year	–	23	53	1,116	34	1,226
Disposals	–	–	–	(200)	–	(200)
At end of year 31 December 2006	–	109	239	3,653	66	4,067
Net book value :						
At end of year 31 December 2006	259	959	3,349	4,466	15,512	24,545

Certain items of plant and equipment are under finance lease agreements (see Note 14).

9. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The group owns the following properties :

Location	Description and tenure	Gross land area (sqm)	Gross built-in area (sqm)	Use of property
41 Loyang Drive, Singapore 508952 (a)	JTC standard terrace/ detached factory 30-years lease with effect from 1 April 2002	2,320	1,010	Office, factory and warehouse
No. 20 Lorong Pala 4, Kawasan Industri Ringgan Permatang Tinggi, 14000 Bukit Mertajam, Pulau Pinang, Malaysia (Lot No. 7808, Mukim 14, Daerah Seberang Perai Tengah, Pulau Pinang, Malaysia	Freehold $1^{1}/_{2}$ storey semi-detached light industrial factory	622	290	Factory
Lot No.PT16724, H.S(D)1100898, Arab Malaysia Industrial Park, Nilai Mukim of Setul, Daerah Seremban, Negeri Sembilan Darul Khusus, Malaysia (a)	Freehold land	4,572	1,512	Office, factory and warehouse
Songkai No.III-32, Songjiang Development Zone, Shanghai, The People's Republic of China	50 years leasehold land with effect from 30 April 2002	6,960	3,391	Office, factory and warehouse

Note:

(a) In the financial year 2005, these properties were mortgaged to banks to secure loan facilities granted to the Company, Darco Water Technologies Limited (Note 11 and 13).

10. GOODWILL

	Group 2006 $'000	Group 2005 $'000
Cost:		
At beginning and end of year	1,266	1,144
Change in accounting policy adjustment	–	(409)
Restated amount	1,266	735
Arising from increase in interest in subsidiary	–	531
At end of year	1,266	1,266
Accumulated amortisation:		
At beginning of year	–	409
Change in accounting policy adjustment	–	(409)
Restated amount	–	–
At end of year	–	–
Net book value at end of year	1,266	1,266

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the group's investment by each primary reporting segments as follows:-

	EW Systems $'000
2006	
Name of subsidiary:	
PV Vacuum Engineering Pte Ltd	905
Darco Engineering (Taiwan) Inc	35
Shanghai Challenge Environmental Engineering Co., Ltd	15
Globe Industrial Technology Company Ltd	311
Cost as at 31 December 2006	1,266
2005	
Name of subsidiary:	
PV Vacuum Engineering Pte Ltd	905
Darco Engineering (Taiwan) Inc	35
Shanghai Challenge Environmental Engineering Co., Ltd	15
Globe Industrial Technology Company Ltd	311
Cost as at 31 December 2005	1,266

The goodwill was tested for impairment at the end of the year. An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit ("CGU") is the higher of its fair value less its value in use. The recoverable amounts of cash-generating units have been determined based on the value in use method.

The value in use was determined by management. The key assumptions for the value in use calculations are as follows:

1.	Estimated discount rates using pre-tax rates that reflect current market assessments at the risks specific to the CGUs.	8.44%
2.	Growth rates based on industry growth forecasts and not exceeding the average long – term growth rate for the relevant markets.	3.0%
3.	Cash flow forecasts derived from the most recent financial budgets approved by management for the next five years.	5 years

11. SHORT-TERM BORROWINGS

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Revolving loan facility (secured)	12,768	7,502	12,768	7,502
Bills payable to bank (secured)	8,302	414	–	–
Bank overdraft (secured)	504	482	–	–
Finance company loans (secured)	932	1,536	–	–
Total short-term borrowings	22,506	9,934	12,768	7,502
Analysis of above amount by currencies:				
Singapore Dollars	1,004	482	500	–
New Taiwan Dollars	9,024	7,502	–	–
US Dollars	12,268	1,536	12,268	7,502
Malaysian Ringgit	210	414	–	–
Total short-term borrowings	22,506	9,934	12,768	7,502

All the short-term borrowings are interest bearing. The carrying values approximate fair values. The borrowings are measured using the effective interest method.

Revolving loan facility of $12,768,000 (2005: $7,502,000) bears floating interest at rates ranging from 5.11% to 6.96% (2005: 4.13% to 5.69%) per annum and are secured by corporate guarantee from certain company's subsidiaries and compliance to certain financial covenants. This amount was a partially drawdown from the total revolving loan facility of US$9 million and S$4 million obtained in November 2006.

The bills payable of $8,302,000 (2005: 414,000) was obtained from bank, in relation to the Chu Bei Project in Taiwan. It bears fixed floating interest at rates ranging from 1.45% to 1.71% (2005: Fixed interest rates of 3%) and was covered by corporate guarantees by the company (Note 25) and pledging of certain fixed deposits of subsidiaries (Note 4).

The bank overdrafts are covered by corporate guarantees by the company (Note 25) and negative pledges on the assets of a subsidiary.

The finance company loans of $932,000 (2005: $1,536,000) bear floating interest at rates ranging from 6.35% to 8.8% (2005: 3.5% to 6.3%) per annum and were secured by way of the pledging of certain fixed deposits of subsidiaries (Note 4).

12. TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	2005	2005
	$'000	$'000	$'000	$'000
Trade payables:				
Outside parties	9,296	11,894	6	–
Accrued liabilities	1,193	975	167	309
Due to construction contract customers (Note 7)	3,029	3,900	–	–
	13,518	16,769	173	309
Other payables:				
Director (Note 3)	133	65	65	65
Related party (Note 3)	2,908	3,571	2,808	3,430
Subsidiaries (Note 3 and 8)	–	–	23	115
Sundry payables	2,561	636	–	–
	5,602	4,272	2,896	3,610
Total trade and other payables	19,120	21,041	3,069	3,919
Analysis of above amount by currencies:				
Singapore Dollars	4,886	5,928	3,069	3,919
New Taiwan Dollars	10,284	4,343	–	–
Malaysian Ringgit	1,659	5,186	–	–
Philippines Pesos	192	120	–	–
Chinese Renminbi	977	1,417	–	–
Indonesia Rupiah	172	94	–	–
Hong Kong Dollars	–	4	–	–
United States Dollars	824	3,067	–	–
Euro	112	288	–	–
Great British Pound Sterling	14	184	–	–
Japanese Yen	–	410	–	–
	19,120	21,041	3,069	3,919

The general credit period granted to the group to settle payables ranged from 60 to 90 (2005 : 60 to 90) days. The other payables are with short-term durations. The notional amount is deemed to reflect the fair value.

13. LONG-TERM BORROWINGS

	Group		Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Term loan and revolving credit	18,403	6,251	18,403	6,251
Bill payable	3,068	–	–	–
Finance company loan	–	219	–	–
Total borrowings	21,471	6,470	18,403	6,251

13. LONG-TERM BORROWINGS (Cont'd)

	Group		Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
The borrowings are repayable as follows:				
Amount due within a year:				
Term loan and revolving credit	2,208	1,667	2,208	1,667
Bill payable	–	–	–	–
Finance company loan	–	219	–	–
Total current portion	2,208	1,886	2,208	1,667
Non-current portion	19,263	4,584	16,195	4,584
The non-current portion is repayable as follows :				
Due within 2 to 5 years	19,263	4,584	16,195	4,584
Total non-current portion	19,263	4,584	16,195	4,584
Analysis of above amount by currencies :				
United States Dollars	18,403	6,251	18,403	6,251
New Taiwan Dollars	3,068	219	–	–
	21,471	6,470	18,403	6,251

All the borrowings are interest bearing. The carrying values approximate fair values. The borrowings are measured using the effective interest method.

In the financial year 2006, the term loan bears interest at floating rate ranging from 5.15% to 6.86% per annum and is secured by corporate guarantee from certain company's subsidiaries and compliance to certain financial covenants. This loan is repayable by 16 quarterly instalments over 4 years commencing from March 2007.

In the financial year 2005, the term loan bears interest at floating rate ranging from 4.06% to 5.58% per annum and is secured in the same manner as the revolving loan facility as disclosed in Note 11. The loan is repayable by 10 equal quarterly instalments of $409,750 (US$ 250,000) with effect from 1 October 2004 and 5 equal quarterly instalments of $819,500 (US$ 500,000) commencing from 1 April 2007.

In the financial year 2005, finance company loan of $219,000 bear floating interest at rates 8.76% to 9.12% per annum and is secured by way of the pledging of certain fixed deposits of a subsidiary. The loan is repayable by 10 equal monthly instalments of $20,646 (NTD$ 415,000) with effect from 1 October 2004 and 12 equal monthly instalments of $25,273 (NTD$ 510,000) commencing from 1 October 2005. The loan was fully repaid during the year.

14 OBLIGATIONS UNDER FINANCE LEASES

2006	Minimum payments $'000	Finance charges $'000	Present Value $'000
Minimum lease payments payable:			
Due within one year	478	(32)	446
Due within 2 to 5 years	376	(29)	347
Due after 5 years	11	(2)	9
	865	(63)	802
Net book value of plant and equipment under finance leases			861

It is a policy to lease certain of its plant and equipment under finance leases. The lease term is range from 2 to 7 years. The rate of interest for finance leases is ranging from 3.63% to 10.80% per year. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The obligations under finance leases are secured by the lessor's charge over the group's leased assets.

The fair value of the lease liabilities approximates the carrying amounts.

There are no obligations under finance leases in 2005.

15. SHARE CAPITAL

	Number of shares	Issued share capital $'000
Ordinary shares:		
Balance at end of year 31 December 2004	181,189,517	9,060
Issue of shares at $0.25each	1,059,664	53
Issue of shares at $0.36each	2,207,631	111
Balance at end of year 31 December 2005	184,456,812	9,224
Transfer from Share premium	-	17,838
Balance at end of year 31 December 2006	184,456,812	27,062

During the financial year 2005, 1,059,664 and 2,207,631 ordinary shares were issued for cash at premium of $0.20 and $0.31 respectively. The proceeds were used for additional investment in a subsidiary, PV Vacuum Engineering Pte Ltd.

With the changes to the Companies Act, Cap 50, effective from 30 January 2006, there is the removal of the concept of par value and authorised capital and there is no share premium account. The company had a share premium account balance of $17,838,000 during the year ended 31 December 2006. This amount is included in the share capital as at 31 December 2006 as required by the changes to the Companies Act in 2006.

The ordinary shares carry no right to fixed income.

16. OTHER RESERVES

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Share premium	17,838	17,838	17,838	17,838
Foreign currency translation reserve	(1,560)	(392)	–	–
	16,278	17,446	17,838	17,838
Transfer of share premium to share capital (Note 15)	(17,838)	-	(17,838)	–
	(1,560)	17,446	–	17,838

The movements in the reserves are disclosed in the statement of changes in equity.

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the foreign subsidiaries.

17. REVENUE

	Group 2006 $'000	Group 2005 $'000
Amount recognised from long-term contracts	54,686	43,830
Rendering of services	11,370	9,149
Sales of goods	2,849	2,272
	68,905	55,251

18. OTHER INCOME

	Group 2006 $'000	Group 2005 $'000
Rental income	4	3
Trade creditors no longer payable	249	-
Miscellaneous income	418	139
	671	142

19. FINANCIAL INCOME AND (EXPENSE)

	Group 2006 $'000	Group 2005 $'000
Interest income	115	49
Provision for impairment on trade receivables	(29)	(3)
Provision for impairment on other receivables	(343)	(424)
Bad debts written off trade receivables	(46)	(55)
Bad debts written off other receivables	–	(60)
Foreign exchange transaction (losses)/gains	830	(414)
Interest expense	(1,775)	(1,160)
	(1,248)	(2,067)
Presented in the income statement as:		
Financial income	115	49
Financial expense	(1,363)	(2,116)
Financial income and (expense) net	(1,248)	(2,067)

20. OTHER (CREDITS) / CHARGES

	Group 2006 $'000	Group 2005 $'000
Loss / (Gain) on disposal of plant and equipment	253	(4)

21. INCOME TAX EXPENSES

	Group 2006 $'000	Group 2005 $'000
Current tax expense	1,165	547
Deferred tax expense	27	15
Total tax expense	1,192	562

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 20.0% (2005: 20.0%) to profit before income tax as a result of the following differences:

	Group 2006 $'000	Group 2005 $'000
Profit before tax	3,274	6,282
Income tax expense at statutory rate	655	1,256
Non-(taxable)/allowable items	309	(913)
(Over)/underprovision in prior years	57	(108)
Differential in tax rate of foreign subsidiaries	888	984
Tax exemptions	(30)	(17)
Pioneer income untaxable from foreign subsidiaries (a)	(728)	(498)
Deferred tax asset/ (liability) not recognised due to temporary differences	-	(102)
Other items less than 3% each	41	(40)
Total income tax expense	1,192	562

(a) Refers to non-taxable pioneer income of a Malaysian subsidiary which has been granted "pioneer status", with effect from year 2002 to 2007.

21. INCOME TAX EXPENSES (Cont'd)

The deferred tax amounts are as follows:

	Balance sheet		Net change In income statement	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Deferred tax liabilities:				
Excess of net book value of plant and equipment	129	132	(3)	17
Foreign exchange adjustments	70	20	50	20
Total deferred tax liabilities	199	152	47	37
Deferred tax assets:				
Foreign exchange adjustments	3	3	–	3
Unabsorbed wear and tear allowances	12	12	–	5
Tax losses carryforwards	–	–	–	(95)
Deferred tax assets valuation allowance	–	–	-	102
Allowance for doubtful debts	27	7	20	7
Total deferred tax assets	42	22	20	22
Net total of deferred tax liabilities	157	130	27	15
Presented in balance sheet as follows:				
Deferred tax liabilities	(157)	(130)		
Deferred tax assets	–	–		
Net total deferred tax liabilities	(157)	(130)		

The above deferred tax liabilities are not expected to be settled within one year.

An allowance is made to the extent that it is not probable that taxable profit will be available against which the unused tax loss carryforwards can be utilised. The realisation of the future income tax benefits from tax loss carryforwards and temporary differences from capital allowances is available for an unlimited future period subject to the conditions imposed by law including the retention of majority shareholders as defined. Where provision for deferred tax arising from temporary differences has been offset against the above tax loss carryforwards, such provision for deferred tax will be required to be set up when the tax losses are utilised in the future.

At the balance sheet date, no deferred tax liability has been recognised on certain amount of temporary differences associated with investments in subsidiaries because the group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

There is no income tax consequences of dividends to shareholders of the company.

22. EMPLOYEE BENEFITS EXPENSE

	Group	
	2006	2005
	$'000	$'000
Employee benefits expense including directors	8,919	7,818
Contribution to defined contribution plans	578	402
Contribution to defined benefit plans	500	271
Termination benefits	–	87
Total employee benefits expense	9,997	8,578

23. ITEMS IN THE INCOME STATEMENT

In addition to the charges and credits disclosed elsewhere in the notes to the financial statements, the income statement includes the following charges/(credits):-

	Group	
	2006	2005
	$'000	$'000
Other fees to auditors	5	5

24. EARNINGS PER SHARE

The earnings per share is calculated by dividing the group's profit attributable to shareholders by the weighted number of ordinary shares in issue during the financial year.

	2006	2005
	$'000	$'000
The calculation of the earnings per share is based on the following:		
Net profit for the year attributable to the equity holders of the Company	2,377	5,650
Earnings for the purpose of diluted earnings per share	2,377	5,650
Number of shares		
Weighted average number of ordinary shares for the Purpose of basic earnings of share	184,456,812	184,456,812

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

There were no options and warrants granted during the financial year and outstanding as at year end, hence, there was no potential dilution of Earning Per Shares as at the end of the financial year.

25. CONTINGENT LIABILITIES

	Group		Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Guarantees of purchase of goods in favour of subsidiaries	–	–	–	333
Corporate guarantees in favour of subsidiaries (a)	–	–	19,700	13,386
	–	–	19,700	13,719

(a) The corporate guarantees are given to certain banks for credit facilities granted to certain subsidiaries.

26. CAPITAL EXPENDITURE COMMITMENTS

	Group 2006 $'000	Group 2005 $'000
Approved but not yet contracted for (a)	3,838	4,168

(a) As disclosed in Note 5 to the financial statement, the group is committed to acquire 10% interest in PT Air Bintan Biru for a consideration of $4,605,000 (2005: $5,100,000) (or US$3,000,000). As at 31 December 2006, a refundable deposit of $767,500 (2005: $833,500) (or US$500,000) has been paid with the remaining $3,837,500 (2005: $4,167,500) (or US$2,500,000) payable upon fulfilment of certain conditions set out in the sale and purchase agreement.

27. OPERATING LEASE PAYMENT COMMITMENTS

At the balance sheet date the total of future minimum lease payments under non-cancellable operating leases are as follows:

	Group 2006 $'000	Group 2005 $'000
Not later than one year	60	107
Later than one year and not later than five years	159	194
Later than five years	768	806
	987	1,107
Rental expense for the year	58	163

Operating lease payments represent rentals payable by the group for its leasehold property. The lease rental terms are for 30 years. The terms are negotiated for an average term of 3 years and rentals are subject to an escalation clause but the amount of the rent increase is not to exceed a certain percentage. Such increases are not included in the above amounts.

28. FINANCIAL INFORMATION BY SEGMENTS

For management purposes, the group is currently organised into three operating divisions – EW Systems, WM Services and trading. These divisions are the basis on which the group reports its primary segment information.

Principal activities are as follows:-

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

(ii) WM Services – Services and maintains product water and wastewater systems ("WM Services"); and

(iii) Trading – Trades and supplies chemicals, electrical controls and related instruments used in water treatment systems.

28. FINANCIAL INFORMATION BY SEGMENTS (Cont'd)

Segment information about the business is presented below:

Group	EW Systems 2006 $'000	WM Services 2006 $'000	Trading 2006 $'000	Consolidated 2006 $'000
REVENUE				
External sales	54,686	11,370	2,849	68,905
RESULTS				
Segment results	915	2,330	29	3,274
Income tax expenses				(1,192)
Profit after income tax				2,082
OTHER INFORMATION				
Capital expenditure	1,739	362	91	2,192
Depreciation and amortisation	973	202	51	1,226
BALANCE SHEET				
ASSETS				
Segment assets	46,699	2,200	870	49,769
Unallocated corporate Assets				57,700
Consolidated total assets				107,469
LIABILITIES				
Segment liabilities	32,656	319	500	33,475
Unallocated corporate Liabilities				31,435
Consolidated total liabilities				64,910

Group	EW Systems 2005 $'000	WM Services 2005 $'000	Trading 2005 $'000	Consolidated 2005 $'000
REVENUE				
External sales	43,830	9,149	2,272	55,251
RESULTS				
Segment results	5,398	793	91	6,282
Income tax expenses				(562)
Profit after income tax				5,720
OTHER INFORMATION				
Capital expenditure	3,453	721	179	4,353
Depreciation and amortisation	793	166	41	1,000
BALANCE SHEET				
ASSETS				
Segment assets	37,050	3,419	943	41,412
Unallocated corporate Assets				37,438
Consolidated total assets				78,850
LIABILITIES				
Segment liabilities	20,085	419	822	21,326
Unallocated corporate Liabilities				16,558
Consolidated total liabilities				37,884

28. FINANCIAL INFORMATION BY SEGMENTS (Cont'd)

The group operates in three principal geographical areas, Singapore, Malaysia, The People's Republic of China and Taiwan. The other geographical segments refer mainly to Philippines and Indonesia.

The following table provides an analysis of the group's sales by geographical market irrespective of the origin of the goods/services: -

	Sales revenue by Geographical market	
	2006	2005
	$'000	$'000
Taiwan	40,644	21,951
Malaysia	17,650	18,169
China	5,353	8,625
Singapore	4,378	5,723
Others	880	783
	68,905	55,251

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2006	2005	2006	2005
	$000	$000	$000	$000
Taiwan	47,953	27,726	883	102
China	29,397	21,218	889	4,091
Malaysia	15,162	18,207	338	124
Singapore	11,695	8,164	80	28
Others	3,262	3,535	2	8
	107,469	78,850	2,192	4,353

29. CHANGES AND ADOPTION OF ACCOUNTING STANDARDS

In the current financial year, the Group and the Company has adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") issued by the Council on Corporate Disclosure and Governance (CCDG) that are relevant to their operations and effective for accounting periods beginning on or after 1 January 2006.

The new and revised accounting standards adopted are as follows:

FRS 1	Presentation of Financial Statements
FRS 16	Property, Plant and Equipment
FRS 19	Employee Benefits
FRS 21	The Effects of Changes in Foreign Exchange Rates
FRS 24	Related Party Disclosures
FRS 32	Financial Instruments: Disclosure and Presentation
FRS 37	Provisions, Contingent Liabilities and Contingent Assets
FRS 38	Intangible Assets
FRS 39	Financial Instruments: Recognition and Measurement

30. FUTURE CHANGES IN ACCOUNTING STANDARDS

The Group and the Company have not applied the following FRS and INT FRS that have been issued but are not yet effective.

FRS 1	Presentation of Financial Statements – Amendments relating to capital disclosures, effective from 1.1.2007
FRS 10	Events after the Balance Sheet Date, effective from 1.1.2007
FRS 12	Income Taxes, effective from 1.1.2007
FRS 14	Segment Reporting, effective from 1.1.2007
FRS 17	Leases, effective from 1.1.2007
FRS 19	Employee Benefits, effective from 1.1.2007
FRS 32	Financial Instruments: Presentation, effective from 1.1.2007
FRS 33	Earnings per Share, effective from 1.1.2007
FRS 39	Implementation Guidance, effective from 1.1.2007
FRS 40	Investment Property, effective from 1.1.2007
FRS 101	First-time Adoption of Financial Reporting Standards, effective from 1.1.2007
FRS 102	Share-based Payment, effective from 1.1.2007
FRS 103	Business Combinations, effective from 1.1.2007
FRS 104	Insurance Contracts, effective from 1.1.2007
FRS 107	Financial Instruments: Disclosure, effective from 1.1.2007
INT FRS 105	Rights to interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds, effective from 1.1.2007

The directors anticipate that the adoption of the FRSs, INT FRSs and amendments to the FRSs that were issued but not yet effective until future periods will have no material impact on the consolidated financial statements of the Group and the Company.

31. COMPARATIVE FIGURES

The financial statements for last year were reported on by an auditor other than LTC & Associates whose report dated 15 March 2006 expressed an unqualified opinion on those financial statements but included the following emphasis of matter paragraph:-

"Without qualifying our opinion, we draw attention to Note 5(a) and 5(c) to the financial statements.

Note 5(a):

Included in the trade receivables of the group is an amount of $6,318,000 (2004: $6,236,000) relating to sub-contract works due from a customer based in Taiwan. The outstanding amount of $6,318,000 (2004: $6,236,000) (or US$3,790,000) is overdue under the terms of the contract and it remains unpaid. An amount of $5,303,000 (2004: $5,234,000) (or US$3,181,000) out of the total outstanding amount of $6,318,000 (2004: $6,236,000) is covered by way of a credit insurance underwritten with a credit insurance company in Singapore. The delay in payment is the result of a delay in the completion of the main contract which the customer is involved in. The uninsured amount of $1,002,000 (2004: $1,002,000) (or US$589,000) has been fully provided for during the year 2004.

31. COMPARATIVE FIGURES (Cont'd)

Note 5(c):

Management has submitted a claim of $4,268,000 (US$2,678,000) to the credit insurance company concerned in 2004 and appointed a legal counsel in Taiwan in 2005 for the recovery of debt. Management has also appointed a legal counsel in Singapore in 2005 to deal with the credit insurance company in order to expedite the claim process. To date, management has not submitted a claim to the credit insurance company for the retention monies of $1,035,000 billed in 2005. It is management's intention to submit the claim for the retention monies of $1,035,000 once the initial claim of $4,268,000 has been satisfactorily settled. The directors are satisfied that management has taken the necessary steps to ensure that the group has met its obligations under the credit insurance policy to date and are of the view that the full insured amount is recoverable under the insurance policy.

Based on the above, the directors are of the opinion that the above amount of $5,303,000 is fully recoverable and no further provision for impairment is needed.

Included in deposits of the group is an amount of $833,500 (2004: $820,020) (or US$500,000) which relates to a refundable deposit paid to a third party vendor for the group's acquisition of 10% interest, comprising 150,000 ordinary shares of Rupiah 1 each, in PT Air Bintan Biru ("PT ABB"), a company incorporated in the Republic of Indonesia. The total consideration is $5,001,000 (2004: $4,920,000) (or US$3,000,000). The remaining consideration $4,167,500 (2004: $4,100,000) (or US$2,500,000) is payable upon the fulfilment of certain conditions in the sale and purchase agreement, dated 24 May 2003.

PT ABB is a special purpose vehicle mandated for the purpose of holding the concession of the water resources in Bintan. It is also responsible for the development of such water resources and is the designated representative of the Indonesian Government in its negotiations to sell water to the Singapore Government.

Due to the volatility and uncertainty of the present economic situation in the Indonesia region, the conditions have yet to be fulfilled by the vendor (see also Note 26(b)) and the project has been put on hold for the past two years.

Management has obtained a personal guarantee from a director of PT Air Bintan Biru in 2004 to indemnify the group for the recovery of the said deposit. In a letter dated February 2006, the guarantor affirmed his commitment to the project and requested for an extension of the validity of the agreement for a further period of one year and also to hold his personal guarantee issued in 2004 for one more year. Management has agreed to this request and has agreed to an extension to 31 March 2007, after which the group reserves its right to seek repayment of the outstanding amount of US$500,000.

On the above basis, management is of the opinion that a provision of $400,000 is adequate to cover the probable impairment of the said deposit and a full provision for impairment is not necessary. "

Statistics of Shareholdings

As at 15 March 2007

Number of Shares		184,456,812
Class of Shares	-	Ordinary shares
Voting Rights of Ordinary Shareholders	-	On show of hands : 1 vote for each member On a poll : 1 vote for each ordinary share

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	9	0.37	2,248	0.00
1,000 - 10,000	1,480	61.08	8,505,187	4.61
10,001 - 1,000,000	915	37.76	41,726,109	22.62
1,000,001 and above	19	0.79	134,223,268	72.77
Total:	2,423	100.00	184,456,812	100.00

SHAREHOLDING HELD IN HANDS OF PUBLIC

As at 15 March 2007, approximately 41.86% of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual is complied with.

TWENTY LARGEST SHAREHOLDERS AS AT 15 MARCH 2007

Name	No. of Shares	%
THYE KIM MENG	36,295,711	19.68
LIM & TAN SECURITIES PTE LTD	25,221,000	13.67
MAYBAN NOMINEES (S) PTE LTD	20,056,000	10.87
HONG LEONG FINANCE NOMINEES PTE LTD	8,970,000	4.86
DBS NOMINEES PTE LTD	8,313,000	4.51
LEE SUE LIN	7,092,800	3.85
TEH SWEE HENG	5,644,820	3.06
THYE KIM FAH	3,893,140	2.11
CITIBANK NOMINEES S'PORE PTE LTD	3,091,000	1.68
KHOO KAH HOE	2,059,925	1.12
OCBC SECURITIES PRIVATE LTD	1,887,000	1.02
HSBC (SINGAPORE) NOMINEES PTE LTD	1,660,000	0.90
UNITED OVERSEAS BANK NOMINEES PTE LTD	1,648,000	0.89
THYE KIM LOY	1,564,840	0.85
CITIBANK CONSUMER NOMINEES PTE LTD	1,529,000	0.83
KHOO KAH LEONG	1,444,925	0.78
HENG TANG CHING	1,347,948	0.73
ALAN WEE KUANG (ALAN RUAN GUANG)	1,337,826	0.73
CIMB-GK SECURITIES PTE. LTD.	1,166,333	0.63
PHILLIP SECURITIES PTE LTD	951,000	0.52
TOTAL	**135,174,268**	**73.29**

SUBSTANTIAL SHAREHOLDERS AS AT 15 MARCH 2007
as recorded in the Register of Substantial Shareholders

Name of Substantial Shareholder	Number of shares (Direct Interest)	Number of shares (Deemed Interest)	Total	%
THYE KIM MENG	36,295,711	27,500,000	63,795,711	34.59
LIM & TAN SECURITIES PTE LTD	23,878,000	-	23,878,000	12.95

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the members of the Company will be held at 18 Cross Street 8th Floor Marsh & McLennan Centre Singapore 048423 on Wednesday, 25 April 2007 at 2:30 p.m. to transact the following businesses:

ORDINARY BUSINESS:

1.	To receive and consider the Directors' Report and Audited Accounts for the financial year ended 31 December 2006 and the Auditors' Report thereon.	Resolution 1
2.	To declare a First and Final exempt (one-tier) dividend of 1 cent per ordinary share for the financial year ended 31 December 2006.	Resolution 2
3.	To re-elect Ms Heather Tan Chern Ling who is retiring by rotation in accordance with Article 117 of the Company's Article of Association, as Director of the Company.	Resolution 3
4.	To re-elect Mr Lee Sue Lin is retiring by rotation in accordance with Article 107 of the Company's Article of Association, as Director of the Company.	Resolution 4
5.	To re-elect Mr Teh Swee Heng who is retiring by rotation in accordance with Article 107 of the Company's Article of Association, as Director of the Company.	Resolution 5
6.	To approve the Directors' fees of S$135,000 for the financial year ended 31 December 2006. [2005: S$55,000]	Resolution 6
7.	To re-appoint Messrs LTC & Associates as Auditors and to authorise the Directors to fix their remuneration.	Resolution 7

SPECIAL BUSINESS :

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

8. **Ordinary Resolution : Authority to allot and issue shares up to fifty per centum (50%) of the issued shares in the capital of the Company** — Resolution 8

"That pursuant to Section 161 of the Companies Act, Cap. 50. and subject to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be and is hereby given to the Directors of the Company to allot and issue shares and convertible securities in the capital of the Company (whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit provided always that the aggregate number of shares and convertible securities to be issued pursuant to this Resolution does not exceed 50% of the issued shares of the Company, of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to existing shareholders does not exceed 20% of the issued shares of the Company (the percentage of issued shares being based on the issued 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 any convertible securities or share options or vesting of share awards which are outstanding at the time this Resolution is passed and any subsequent consolidation or sub-division of shares) and unless revoked or varied by the Company in general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier."[Explanatory Note (i)]

9. To transact any other business which may be properly transacted at an Annual General Meeting.

Explanatory Notes:

(i) Resolution 8 if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue shares and convertible securities in the Company. The number of shares, which the Directors may allot and issue under this Resolution would not exceed 50% of the issued shares of the Company at the time of passing this Resolution. For allotment and issue of shares and convertible securities other than on a pro-rata basis to all shareholders of the Company, the aggregate number of shares to be allotted and issued shall not exceed 20% of the issued shares of the Company. This authority will, unless previously revoked or varied at a general meeting, expire at the next Annual General Meeting.

NOTICE OF BOOKS CLOSURE

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of the Company will be closed on 14 May 2007, for the purpose of determining members' entitlements to the First and Final exempt (one- tier) dividend (the "First and Final Dividend") to be proposed at the Annual General Meeting of the Company to be held on 25 April 2007.

Duly completed registrable transfers in respect of the shares in the Company received up to the close of business at 5:00 p.m. on 11 May 2007 by the Company's Share Registrar, Lim Associates (Pte) Ltd, 3 Church Street #08-01 Samsung Hub Singapore 049483 will be registered to determine members' entitlements to First and Final Dividend. Members whose Securities Accounts with The Central Depository (Pte) Ltd are credited with shares in the Company as at 5:00 p.m. on 11 May 2007 will be entitled to such proposed First and Final Dividend.

The proposed First and Final Dividend, if approved at the Annual General Meeting will be paid on 24 May 2007.

BY ORDER OF THE BOARD

Low Mei Mei Maureen
Company Secretary
Singapore : 9 April 2007

Proxies:

A member entitled to attend and vote at the Annual General Meeting may appoint not more than two proxies to attend and vote on his behalf and where a member appoints more than one proxy, he shall specify the proportion of his shareholding to be represented by each proxy. A proxy need not be a member of the Company. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 41 Loyang Drive Singapore 508952 not less than 48 hours before the time set for the Annual General Meeting.

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

PROXY FORM

IMPORTANT

1. For investors who have used their CPF monies to buy the Company's shares, this Annual Report is forwarded to them at the request of their 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.

I/We ____

of ____
being a member/members of Darco Water Technologies Limited (the "Company") hereby appoint

Name	Address	NRIC/Passport Number	Porportion of Shareholdings

and/or (delete as appropriate)

Name	Address	NRIC/Passport Number	Porportion of Shareholdings

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf and, if necessary, to demand a poll at the Annual General Meeting of the Company to be held at 18 Cross Street 8th Floor Marsh & McLennan Centre Singapore 048423 on Wednesday, 25 April 2007 at 2:30 p.m. and at any adjournment thereof.

(Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be cast for or against the resolutions as set out in the notice of Annual General Meeting. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit, as he/they will on any other matter arising at the Annual General Meeting.)

No.	Resolutions	For	Against
ORDINARY BUSINESS			
1	To receive and consider the Directors' and Auditors' Reports and Audited Accounts for the financial year ended 31 December 2006		
2	To approve payment of a First and Final exempt (one-tier) dividend of 1 cent per ordinary share		
3	To re-elect Ms Heather Tan Chern Ling as director (Article 117)		
4	To re-elect Mr Lee Sue Lin as director (Article 107)		
5	To re-elect Mr Teh Swee Heng as director (Article 107)		
6	To approve the Directors' fees of S$135,000		
7	To re-appoint Messrs LTC & Associates as Auditors		
SPECIAL BUSINESS			
8	To authorise directors to allot and issue shares and convertible securities pursuant to Section 161 of the Companies Act, Chapter 50		

Total number of Shares held

Dated this______________ day of ________________ 2007

____
Signature(s) of member(s) or common seal
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), 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. If no number is inserted, this form of proxy will 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 on his behalf. A proxy need not be a member of the Company.

3. Where a member appoints more than one proxy, he shall specify the proportion of his shareholding to be represented by each proxy.

4. The instrument appointing a proxy or proxies must be under the hand of the appointor or 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 common seal or under the hand of its attorney or duly authorised officer.

5. A corporation which is a member of the Company may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with its Articles of Association and Section 179 of the Companies Act, Chapter 50.

6. The instrument appointing a proxy or proxies, together with the power of attorney or other authority (if any) under which it is signed, or notarially certified copy thereof, must be deposited at the registered office of the Company at 41 Loyang Drive Singapore 508952 not less than 48 hours before the time set for the Annual General Meeting.

7. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of members of the Company whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have shares entered against their names in the Depository Register as at 48 hours before the time appointed for holding the Annual General Meeting as certified by The Central Depository (Pte) Limited to the Company.