DARCO

SOLUTIONS TO WATER & WASTE

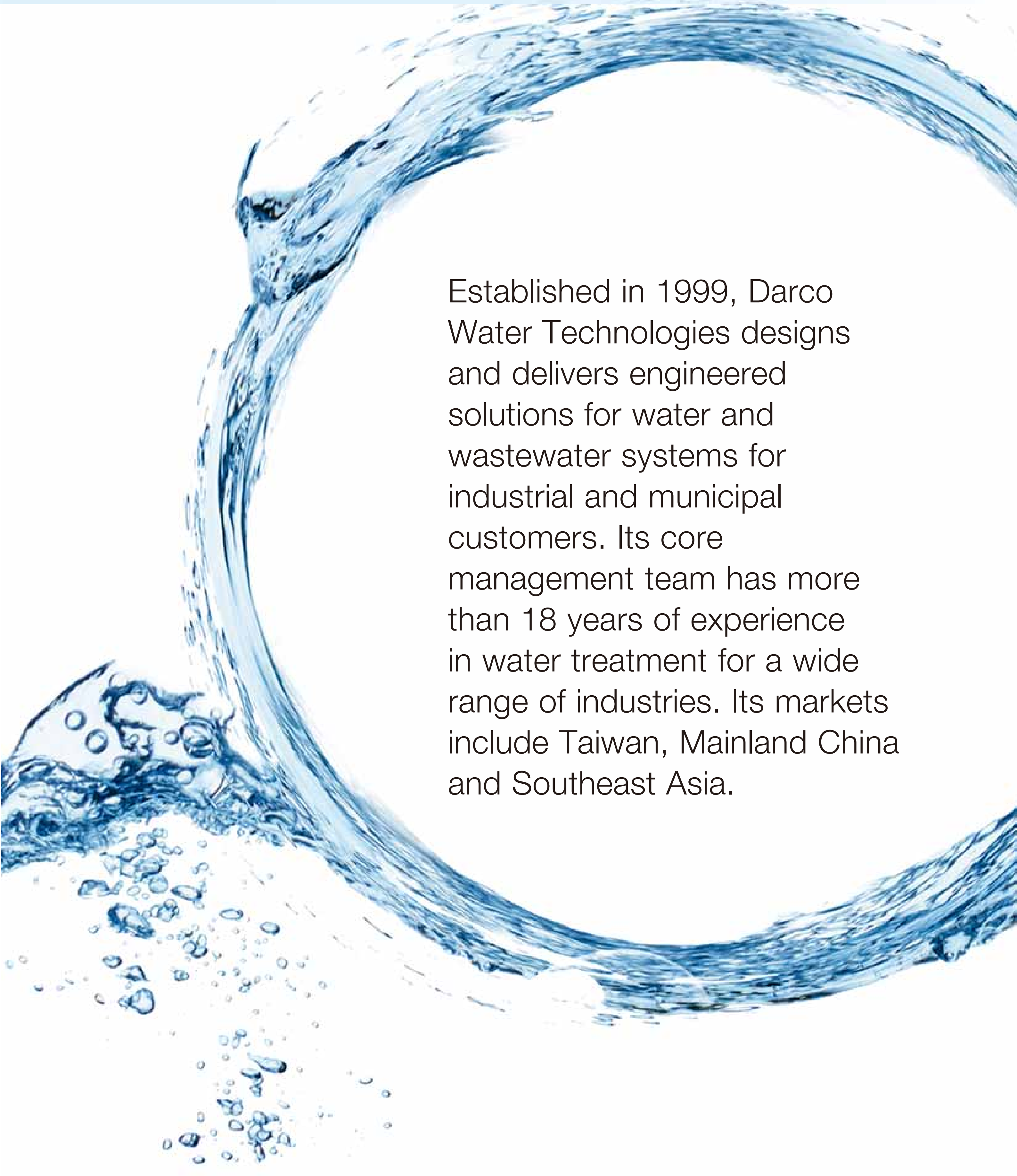
DARCO WATER TECHNOLOGIES LIMITED

COMMITTED TO DELIVERING RESULTS

ANNUAL REPORT 2012

CONTENTS

CORPORATE **PROFILE**



Established in 1999, Darco Water Technologies designs and delivers engineered solutions for water and wastewater systems for industrial and municipal customers. Its core management team has more than 18 years of experience in water treatment for a wide range of industries. Its markets include Taiwan, Mainland China and Southeast Asia.

CORPORATE **PROFILE**

Darco Water Technologies works as a systems integrator – designing, building, operating and maintaining water management processes based on membrane, ion exchange and thermal technologies. To do that, it sources generic components from global suppliers to meet its design requirements.

However, the company's success is not just because of its strong technology. It owes a lot to its business model, the service and the solutions it offers, and the in-house knowledge of its staff.

Darco Water Technologies' Chief Executive Officer, Thye Kim Meng believes that efficiency is one of the company's core strengths. The company excels in operating, energy and business efficiency. It designs, manufactures and services water and wastewater systems for a wide range of industries, including electronics, petrochemicals, pharmaceuticals and food and beverage.

The company's business efficiency can be seen in its quality maintenance services. It derives 10 – 15 per cent of its income from long-term maintenance services through the service centres that it has established. These service centres are supported by its trading division, which supplies essential chemicals and other products. The focus on providing exceptional service has helped Darco Water Technologies maintain an excellent record of customer retention – 90 per cent of its customers are repeat customers.

The company aims to provide complete solutions to customers' water problems so that those customers – whether industrial or municipal – can focus on their core business. In order to achieve that, the company has a wide range of capabilities. It has plants in Singapore, Malaysia and China that are capable of fabrication, assembly and integration of systems for water purification, wastewater treatment and water recycling.

To produce water systems at the lowest cost per unit of water delivered, Darco Water Technologies pays great attention to the efficiency of its designs. This means energy and pump efficiency, and using control systems that focus on minimising the number of people needed to operate the plant.

The company has a strong track record for both industrial solutions and municipal applications. In the industrial sector, many of the contracts won by Darco Water Technologies have been secured on a 'best-offer' basis. In this case there is no tender and the company that wins the contract is the one that offers the best complete solution. This was how Darco Water Technologies won two contracts in Taiwan reaching a total value of S$80 million. For its contracts with municipal customers, its preferred partnership model is the 'BOOT' model – to Build, Own, Operate, and then Transfer the projects to the customer at the end of 25 – 30 years.

CORPORATE PROFILE

In Deqing County, Zhejiang Province, 21/2 hours from Shanghai, the commitment of Darco Water Technologies is to deliver water management solutions that will meet the needs of the community for the next 25 years. For this, it has developed two water treatment plants located at strategic sites in the province. With one producing 60,000 tonnes per day and the second producing 100,000 tonnes, this approximately US$30 million investment forms the first phase of a programme to replace 11 older treatment plants. A second phase is planned to increase the capacity to 320,000 tonnes per day.

Over the years, Darco Water Technologies has quickly grown its business capabilities, sales and expertise. Established in 1999, it became a listed company just 21/2 years later and saw its sales increase from S$18 million to S$88 million by the year 2007. Its starting point was in providing water solutions for Singapore-based companies in the PCB, electro-plating, and electronics sectors. As the economy develops, the company has kept pace with the changing demands of different industries and cultivated new customers around the region. It has designed and built a number of water treatment plants, with a value of about US$10 million for electronic and semi-conductor plants that require ultra-filtration and a very large amount of water at a high level of purity.

The company's long-term business plan also includes attracting investors by building up Build-Own-Operate (BOO) assets, in the form of Real Estate Investment Trusts (REITs).

Darco employs an active business model to respond to the growth of its business. For instance, when demand increased, the company added more office and factory space, and made sure that its staff was operationally ready so that there would be minimal disruption to operations. The company's maintenance service guarantees consistent revenues, retains key staff and ensures the continuous development of product

CORPORATE **PROFILE**

knowledge. It also provides a pool of talent that the company can call upon when time is short.
The result of this is a business model that is well-placed to manage the business cycle.

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

The company plans to consolidate its operations in the markets it is already established in and develop new markets and new BOT agreements. Darco Water Technologies is exploring markets such as Vietnam and India, especially where its established customers are setting up new operations. The company is well-positioned to undertake BOO projects and is looking to take on much larger projects. Whether customers are industrial or municipal, the company aims to be seen as its customers' best partner in managing all aspects of their water needs.

CHAIRMAN'S STATEMENT

Dear Shareholders,

Recent developments have tested our Group's resolve and commitment. Despite the challenges we faced, we are making continued progress in consolidating our business activities, reflecting our pragmatic approach going forward.

Overall, we generated total revenue of S$41.4 million with Engineered Water Systems maintaining its position as our core revenue contributor, contributing S$25.8 million. Country wise, Malaysia and Taiwan remained key revenue drivers for the Group, contributing 46.0% and 31.5% of FY2012 revenue respectively.

We intend to make a formal application to Singapore Exchange Securities Trading Limited (SGX-ST) to resume trading of our securities, after the Company's FY2012 audited results has been released to the shareholders and the FY2012 Annual Report is reviewed by SGX-ST, which is likely to be before June 2013. We would also re-file the FY2009 and FY2010 Audited Financial Statements with the restatements to replace and expunge the FY2009 and FY2010 audited reports performed by LTC LLP which has been previously lodged with Accounting and Corporate Regulatory Authority of Singapore.

China

With the sale of a 60% stake in Darco Environmental Pte Ltd ("DNV") to Salcon Berhad ("Salcon") for RMB95.8 million in July 2012, the Group used the sales proceeds to repay existing bank borrowings. In March 2013, the Group received and accepted a Letter of Offer at a proposed sale price of RMB63 million from Salcon to acquire the remaining 40% legal and beneficial interest of Darco Water Technologies Ltd. ("DWT") in Salcon Darco Environmental Pte. Ltd ("SDNV"). SNDV holds the direct interests of the 2 BOT drinking water projects in Deqing, China.

Taiwan

We had terminated our Puding BOT project in Taiwan at the end of last year due to uncertainty on site conditions to merit further sustained development. Despite this, our Taiwan subsidiary has increased activities on other fronts. The outlook in Taiwan is likely to improve with the successful completion and operation of our Medical Waste Plant in FY2011. This facility is expected to contribute a profit of approximately S$2 million per annum to the Group in future years.

The Group's subsidiary, Darco Engineering (Taiwan) Co., Ltd ("DET") reached an arrangement in January 2013 to dispose of its entire shareholding in WLF Industrial Co., Ltd ("WLF"), a manufacturer of Sludge Scrapper Systems for Sedimentation Tanks commonly used in drinking water and sewage treatment plants in the Taiwan market. Due to the Group's current financial position, the Group has decided to dispose of the business since it is unlikely to be able to systematically inject the necessary human resources and capital to expand the business quickly. WLF is no longer part of the Group.

Malaysia

The Group's wholly owned subsidiary, Darco Water Systems Sdn Bhd ("DWS") acquired 490,000 ordinary shares from Envidan International A/S, representing 49% shareholding in Darco-Envidan Sdn Bhd ("Darco-Envidan") in October 2012. DWS holds 1,000,000 Darco-Envidan shares, an increase from 51% to 100% of the total issued share capital of Darco-Envidan. Darco-Envidan is principally involved in designing, fabricating and constructing pure and waste water treatment plants and trading in related industrial products. The Group intends to expand and develop its business in Malaysia, and the acquisition of Darco-Envidan would facilitate this expansion. In addition, Darco-Envidan would complement and strengthen the Group's existing capability in providing a more complete range of services.

CHAIRMAN'S STATEMENT

Singapore

The Group disposed a factory in Loyang during FY2012 and recorded a gain on disposal of S$2.3 million. Comparatively, the prior year gain on disposal of disposal group classified as held-for-sale was only S$28,000. Following the re-location of the Group's manufacturing plant to Malaysia and China, the property was no longer needed. The net proceeds raised have been used to boost working capital and repay existing indebtedness.

OUTLOOK

Our outlook for the Municipal sector will depend on our ability to resume trading in order to issue corporate guarantee to secure performance and bid bond.

In the industrial sector, we have recently intensified its focus on providing better service for our customers by forging a partnership with the Division of Water Technology Research, Industrial Technology Research Institute of Taiwan ("ITRI") to provide more innovative solutions. Our industrial sector business will be our main short term focus, especially those entities with maintenance of service contracts which provide stable recurring income. With the strong technical backing, we will continue to actively pursue industrial wastewater projects in Malaysia and China.

The Group has been operating under economic constraints as the Group's annual reports in the recent years contained disclaimers and uncertainties as to the re-trading status of the Group continue to loom large. We have therefore and may have to continue to refrain from tendering for new projects or committing ourselves for new investment that would demand high working capital until our Group's financial statements are not heavily qualified and/or our shares can resume trading publicly.

We shall maintain our "asset-light" balance sheet, until our Group Financial Reporting issues are resolved. By having little or no financial assets, the Group's financial reporting issues, especially in relation to fair value assessment of its financial assets, shall no longer be a major issue in the next 12 months or the next reporting period.

IN APPRECIATION

I would like to welcome Mr Ngiam Zee Moey who joined us as an Independent Director in September 2012. With his prior experience as a director of listed companies such as Sunmart Holdings Limited, New Lakeside Holdings Limited and Hosen Group Ltd, Mr Ngiam will able to contribute his relevant expertise to the Group.

On behalf of the Board, I would like to thank the management team, employees, business partners, customers, suppliers and shareholders, for your trust and commitment that you have placed with us.

THYE KIM MENG
Chairman and Managing Director

BOARD OF **DIRECTORS**

MR THYE KIM MENG Malaysian, Aged 60

Managing Director and Chief Executive Officer

Mr Thye Kim Meng is responsible for the general management, overall strategic planning and direction of our Group. He was appointed to the Board of Directors of the Company on 13 October 2001. Mr Thye has more than 27 years of experience in design engineering applications in the field of water purification and wastewater treatment facilities, having served as Managing Director of Wheelabrator Engineered Systems (S) Pte Ltd, Vice-President (ASEAN, Business Development) of Wheelabrator Water Technologies (S) Pte Ltd and Senior Director/Technical Consultant with U.S. Filter (Asia) Pte Ltd and Darchet Engineering & Water Treatment Pte Ltd. Mr Thye graduated from the Polytechnic of Wolverhampton, England with a Bachelor of Science in Mechanical Engineering. He does not hold any directorships or chairmanships in other listed companies in Singapore.

MS HEATHER TAN CHERN LING Malaysian, Aged 32

Executive Director (Process Engineering and Design)

Ms Heather Tan was appointed as an Executive Director (Finance) of our Company on 25 May 2006 and is currently a member of the Audit Committee.

Apart from coordinating legal matters for the Company, Ms Tan undertakes a new portfolio as the Director of Finance and Corporate Affairs. She is responsible for fundraising related matters including strategic planning for the Company. She provides support for the development and implementation of the Company's governance practices, as well as audit related matters.

Ms Tan graduated from the University of Melbourne in Chemical Engineering. She has a Western Mining Corporation award for excellence in Process Engineering. Obtaining a place on the Dean's Honours role, she has a publication in her name in the Journal of Applied Polymer Science for her research efforts on polymerization kinetics. Prior to joining Darco she held a short-term position as a researcher with Orica Adhesives and Resins in Australia.

MS TEO SIN YNG Malaysian, Aged 31

Executive Director

Ms Teo Sin Yng was appointed as an Executive Director (Engineering and Design) of the Company on 4 May 2011 and is currently a member of Remuneration Committee.

Ms Teo leads Darco's application engineers. She is responsible for standardizing the Group's water treatment and engineering process of Engineered Environmental System (EE System) business segment. She coordinates technical and commercial matters between the process, engineering and project management departments.

Ms Teo graduated from University Technology Malaysia, with a Bachelor of Chemical Engineering. She joined the Group in 2006. Prior to joining the Company, she was a testing engineer in Bureau Veritas, Singapore.

BOARD OF DIRECTORS

MR THYE ZE PIN, ZACH Malaysian, Aged 32

Zach was appointed as an Executive Director of the Company on 31 August 2012 and is currently a member of the Nominating Committee.

Zach is the head of engineering operations in the Group for project management and water systems manufacturing. He has been with the Company for six years, working as an Application Engineer in the Group's water and wastewater plant construction. Zach is the son of Mr Thye Kim Fah, the brother of our Group C.E.O. He graduated from the University of New South Wales, Australia with B.Eng (1st Class Honours) in Mechanical Engineering and also obtained a M.Sc in Water and Wastewater Engineering from Loughborough University, U K.

MR JOSHUA SIOW CHEE KEONG Canadian, Aged 58
Non-Executive Independent Director

Mr Joshua Siow Chee Keong 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. He is a Certified Internal Auditor and a Certified Accountant. He is currently the managing director at JF Virtus Pte Ltd, responsible for directing all internal audit and risk management consultancy services to listed companies. Prior to this, he was the head of internal audit for the Singapore Exchange Limited. He has more than 30 years of internal and external auditing experience. He graduated with a MBA from the University of Warwick, England. He is a director of a number of listed companies in Singapore and is a member of the Singapore Institute of Directors.

MR NGIAM ZEE MOEY Singapore Citizen, Aged 57
Non-Executive Independent Director

Mr Ngiam Zee Moey was appointed as a Non-Executive Independent Director of our Company on 20 September 2012. He is a member of Audit Committee, the Chairman of the Nominating Committee and Remuneration Committee. He is a director of various companies including Hosen Group Ltd, Zhongxin Fruit and Juice Limited and a number of private limited.

KEY MANAGEMENT

MS JOAN YEOH Aged 37

Group Financial Controller

Joan Yeoh, aged 37, was the Company's Group Accountant since 2007 and has been appointed as the Group Financial Controller in October 2012. She is responsible for overseeing the financial functions and reporting of the Group as well as liaising with the external parties in respect of audit and accounting issues. She graduated from National ChengChi University, Taiwan.

MR THYE KIM FAH Aged 62

General Manager

Thye Kim Fah, aged 62 years, is the General Manager of Darco Systems (M) Sdn. Bhd ("DSM"), responsible for DSM's overall management and operations of DSM in relation to our business in the central and southern regions of Peninsula Malaysia. He is also a key player in formulating the corporate strategies and charting new directions and goals for DSM. He has over 20 years of experience in water purification treatment business. Mr Thye attained a Cambridge General Certificate of Education at the Ordinary Level. He is the elder brother of Mr Thye Kim Meng, who is the Managing Director and Chief Executive Officer of the Company.

OPERATIONS REVIEW

INCOME STATEMENT REVIEW

Revenue declined 22.7% year-on-year ("yoy") to S$41.4 million for FY2012.

SEGMENTAL CONTRIBUTION

Revenue from Engineered Environmental Systems ("EE Systems") declined 23.3% year-on-year ("yoy") to S$25.8 million for FY2012, due to a lack of new contracts tendered out by customers and the loss of some contracts as a result of low profitability. Revenue from Water Management Services ("WM Services") rose 15.4% yoy to S$9.5 million in FY2012, as a result of an increase in ad-hoc on-site services provided to our existing service contract customers. Sales from the trading segment also decreased by S$5.6 million, down from S$11.7 million in FY2011 to S$6.1 million in FY2012. The decrease is a reflection of the symbiotic relationship with our WM Services, where a reduction in the water treatment plant operation leads to a lower amount of trading consumables being used.

FY2012

(S$'000)

25,784
Engineered Water Systems

9,485
Water Management Services

6,123
Trading Sales

41,392
Consolidated

FY2011

(S$'000)

33,620
Engineered Water Systems

8,220
Water Management Services

11,714
Trading Sales

53,554
Consolidated

OPERATIONS REVIEW

GEOGRAPHICAL CONTRIBUTION

Country	Year ended 31 Dec 2012 (S$'000)	Year ended 31 Dec 2011 (S$'000)
Malaysia	19,029	19,635
Taiwan	13,056	17,892
China	1,078	1,463
Singapore	7,719	13,583
Other	510	981
Total	**41,392**	**53,554**

Malaysia contributed S$19.0 million or 46.0% of FY2012 revenue, a decrease of 3.1% from S$19.6 million for FY2011. The Group's wholly owned subsidiary, Darco Water Systems Sdn Bhd ("DWS"), owns 100% of the total issued share capital of Darco-Envidan, a private company principally involved in the designing, fabricating and constructing pure and waste water treatment plants and trading in related industrial products, after the acquisition of the remaining shares in Darco-Envidan in October 2012.

Taiwan generated S$13.1 million or 31.5% of FY2012 revenue, a decrease of 27.0% from S$17.9 million for FY2011. The Group terminated the Puding BOT project in Taiwan due to unacceptable delays.

China contributed S$1.1 million or 2.6% of FY2012 revenue, a 26.3% yoy decline from S$1.5 million for FY2011. The Group sold its 60% stake in Darco Environmental Pte Ltd ("DNV") for approximately S$19 million. DNV holds an indirect shareholding interest of 88.3% in the Wukang water treatment plant and a direct shareholding interest of 100% in the Qian Yuan water treatment plant.

The Group's overall gross profit margin fell to 12.4% in FY2012 from 22.8% in FY2011. The decrease in gross margin was mainly attributed to difficult economic conditions in the electronic and semiconductor sectors. The Group reported a net loss attributable to shareholders of S$6.9 million for FY2012.

BALANCE SHEET REVIEW

Current assets stood at S$45.6 million as at 31 December 2012, largely comprising of trade and other receivables of S$17.3 million, cash and cash equivalents of S$10.8 million and disposal group assets classified as held-for-sale of $15.9 million.

Non-current assets stood at S$9.3 million as at 31 December 2012, largely comprising of property, plant and equipment of S$8.1 million.

Total assets stood at S$55.0 million as at 31 December 2012 as compared to S$116.9 million as at 31 December 2011.

Current liabilities decreased from S$79.5 million as at 31 December 2011 to S$35.1 million as at 31 December 2012. The decrease is mainly attributable to the repayment of borrowings after the disposal of the 60% stake in DNV.

Non-current liabilities decreased to S$0.6 million as at 31 December 2012 from S$5.8 million as at 31 December 2011. The reduction in deferred income tax liabilities was the main reason for the decrease in non-current liabilities.

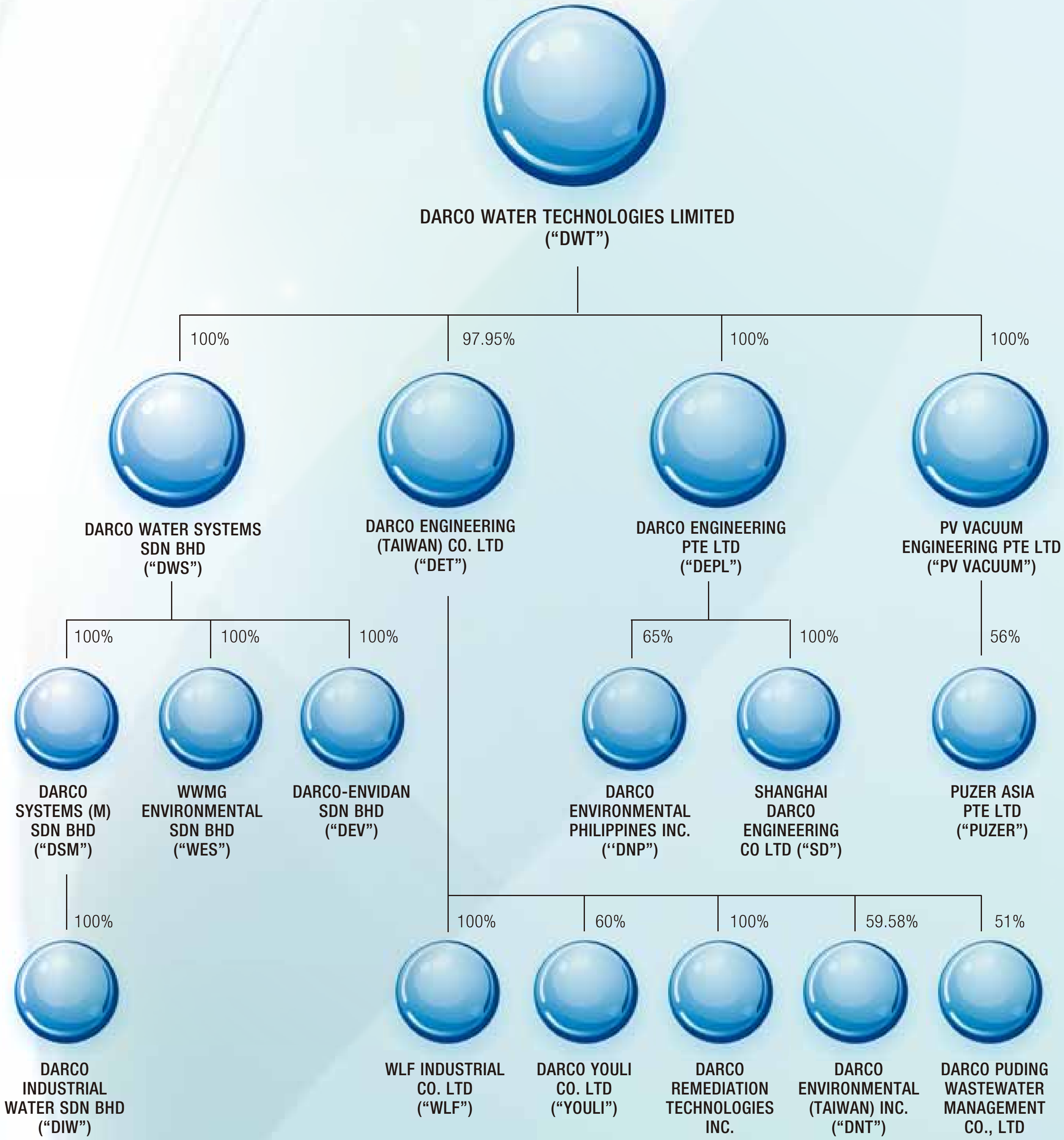
Total liabilities stood at S$35.7 million as at 31 December 2012 as compared to S$85.3 million as at 31 December 2011.

Shareholders' equity stood at S$16.2 million as at 31 December 2012.

CASH FLOW STATEMENT REVIEW

In FY2012, the Group reported net cash used in operating activities of S$6.4 million, net cash generated from investing activities of S$21.1 million and net cash used in financing activities of S$18.2 million. Overall, there was a net cash outflow of $3.5 million during the financial year.

GROUP STRUCTURE



CORPORATE INFORMATION

BOARD OF DIRECTORS

Thye Kim Meng
(Managing Director and Chief Executive Officer)

Heather Tan Chern Ling
(Executive Director)

Ms Teo Sin Yng
(Executive Director)

Mr Thye Ze Pin
(Executive Director)

Joshua Siow Chee Keong
(Non-Executive Independent Director)

Ngiam Zee Moey
(Non-Executive Independent Director)

AUDIT COMMITTEE

Joshua Siow Chee Keong (Chairman)
Ngiam Zee Moey
Heather Tan Chern Ling

NOMINATING COMMITTEE

Ngiam Zee Moey (Chairman)
Joshua Siow Chee Keong
Thye Ze Pin

REMUNERATION COMMITTEE

Ngiam Zee Moey (Chairman)
Joshua Siow Chee Keong
Teo Sin Yng

COMPANY SECRETARY

Fu Nee Fa, Chartered Secretary

REGISTERED OFFICE

123 Woodlands Industrial Park E5
Woodlands E-Terrace
Singapore 757498
Tel: (65) 6363 3886
Fax: (65) 6362 2355

REGISTRAR AND SHARE TRANSFER OFFICE

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

AUDITORS

Baker Tilly TFW LLP
Public Accountants and Certified Public Accountants
15 Beach Road
#03-10 Beach Centre
Singapore 189677

Partner-in-charge:
Joshua Ong Kian Guan
(appointment effective from financial year
ended 31 December 2011)

OUR REGIONAL **PRESENCE**

OUR MISSION

To be the water company of choice by providing customer driven multi-technology solutions.

To design and manufacture a wide range of high performance water and wastewater systems and provide services of highest quality at affordable prices.

CORPORATE GOVERNANCE **REPORT**

For the year ended 31 December 2012

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 2012, 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 and was upgraded to the SGX Mainboard on 7 May 2008. 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")
Heather Tan Chern Ling	Executive Director
Teo Sin Yng	Executive Director
Thye Ze Pin, Zach	Executive Director
Joshua Siow Chee Keong	Non-Executive Independent Director
Ngiam Zee Moey	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 protect shareholders' interests and enhancing long-term shareholders' 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

CORPORATE GOVERNANCE **REPORT**

For the year ended 31 December 2012

The Board has first adopted the Group Charter in FY2003 and it was currently under review by the Board. The Group Charter sets out the Group's internal guidelines for material contracts and investments exceeding a specified amount. This Group Charter also forms part of our Group's risk management process, which ensures that all contracts entered into, and investments made by the Group, of a material contract sum are approved by the appropriate level of management, up to the Board level.

The Board 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 attendances of the directors at these meetings during the financial year are as follows:–

		Board Committees		
Board/Committees	**Board**	**Audit**	**Remuneration**	**Nominating**
No. of meetings held	2	4	1	1
Directors				
Robert Wong Kwan Seng(1)	2	4	1	1
Joshua Siow Chee Keong	2	4	1	1
Ngiam Zee Moey(2)	–	–	–	–
Thye Kim Meng	1	2	1	1
Heather Tan Chern Ling	2	4	1	1
Teo Sin Yng	1	2	1	1
Thye Ze Pin, Zach(3)	–	–	–	–

(1) Mr Robert Wong has resigned with effect from 31 August 2012.
(2) Mr Ngiam was appointed with effect from 20 September 2012.
(3) Mr Thye Ze Pin, Zach was appointed with effect from 31 August 2012.

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.

CORPORATE GOVERNANCE **REPORT**

For the year ended 31 December 2012

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 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 Joshua Siow Chee Keong and Mr Ngiam Zee Moey 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 pages 8 and 9 of this Annual Report and their appointments on the Board and details of their roles in Board Committees are set out below:–

		Board Committees		
Directors	**Board Membership**	**Audit**	**Remuneration**	**Nominating**
Thye Kim Meng	Managing Director and CEO	–	–	–
Heather Tan Chern Ling	Executive Director	Member	–	–
Teo Sin Yng	Executive Director	–	Member	–
Thye Ze Pin, Zach	Executive Director	–	–	Member
Joshua Siow Chee Keong(1)	Non-Executive Independent Director	Chairman	Member	Member
Ngiam Zee Moey(2)	Non-Executive Independent Director	Member	Chairman	Chairman

(1) Mr Joshua Siow was appointed as Chairman of the Audit Committee with effect from 20 September 2012.

(2) Mr Ngiam was appointed as Chairman of the Remuneration Committee and Nominating Committee with effect from 20 September 2012.

CORPORATE GOVERNANCE **REPORT**

For the year ended 31 December 2012

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 holds the position of Managing Director.

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

The Chairman is guided by recommendations provided by our Company Secretary, the Chairman of the Audit Committee, Chairman of the Nominating and Chairman of the Remuneration Committee 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 Ngiam Zee Moey as Chairman and Mr Joshua Siow Chee Keong and Mr Thye Ze Pin as members, majority of whom including the chairman are Non-Executive Independent Directors and Executive Director.

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 item 3 of the Directors' Report.

CORPORATE GOVERNANCE **REPORT**

For the year ended 31 December 2012

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 2012 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, and 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 including the chairman are Non-Executive Independent Directors. The members are Mr Ngiam Zee Moey as Chairman, and Mr Joshua Siow Chee Keong and Ms Teo Sin Yng. 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.

CORPORATE GOVERNANCE **REPORT**

For the year ended 31 December 2012

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 2009. The remuneration package is also designed to align the Directors' 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 Mainboard 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 breakdown of each Director's annual remuneration is set out below:–

Remuneration Bands & Name of Directors	Salaries, including CPF	Variable Bonus	Director's Fees	Total
Below $250,000				
Thye Kim Meng	52%	–	48%	100%
Teo Sin Yng	69%	–	31%	100%
Heather Tan Chern Ling	58%	–	42%	100%
Thye Ze Pin, Zach (Appointed on 31 August 2012)	88%	–	12%	100%
Joshua Siow Chee Keong	–	–	100%	100%
Ngiam Zee Moey (Appointed on 20 September 2012)	–	–	100%	100%
Robert Wong Kwan Seng (Resigned on 31 August 2012)	–	–	100%	100%

CORPORATE GOVERNANCE **REPORT**

For the year ended 31 December 2012

The remuneration of the Directors and top three senior executives (who are not Directors of the Company) whose remuneration fell within the following ranges are as follows:–

Remuneration Bands & Name of Key Executive	Salaries, including CPF	Variable Bonus	Director's Fees	Total
Below $250,000				
Thye Kim Fah	100%	–	–	100%
Lim Boon Kuan	100%	–	–	100%
Joan Yeoh	100%	–	–	100%

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.

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 Joshua Siow Chee Keong as Chairman, Mr Ngiam Zee Moey and Ms Heather Tan Chern Ling 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 principal duties of the Audit Committee include reviewing:

1. the annual audit plan, including the nature and scope of the internal and external audits before the commencement of these audits;

2. the results of audit findings and Management's response;

3. the audited financial statements of the Company and the consolidated balance sheet and income statement of the Group, including announcements of financial results;

4. the adequacy of the Group's accounting and related controls; and

5. interested person transactions.

CORPORATE GOVERNANCE **REPORT**

For the year ended 31 December 2012

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 AC has reviewed all non-audit services provided by the external auditors to the Company and is satisfied that the extent of such services provided will not prejudice the independence and objectivity of the external auditors. The amount paid and payable to external auditors for audit and non-audit services fees were S$378,000 and S$5,000 respectively, for the financial period under review. The re-appointment of the external auditors will be subject to approval by way of ordinary resolution of shareholders at the Company's Annual General Meeting, to be held on 31 May 2013.

In appointing the audit firms for the Company, the Audit Committee is satisfied that the Company has complied with the requirements of Rules 712 and 715 of the Listing Manual of the SGX-ST.

Whistle-blowing Policy

The Company has in place a Whistle-Blowing Policy and Procedures for reporting impropriety in matters of Financial Reporting and other matter, by which, the staff may raise concerns about possible corporate improprieties in matters of financial reporting or other matters in confidence.

To ensure independent investigation of such matters and for appropriate follow up action, all whistle-blowing reports are to be sent to the CEO and the Chairman of Audit Committee. For independent follow-up or investigation, whistle-blowing report(s) will be communicated and directed to the Chairman of the Audit Committee. New staffs are briefed on these during the orientation programme.

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.

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

Currently, the Group has in place a system of internal controls that address financial, operational and compliance risks to safeguard shareholders' investment and the Group's assets. The internal controls maintained by the management are in place throughout the financial year to provide reasonable assurance against material financial misstatements or loss, and include the safeguarding of assets, the maintenance of proper accounting records, compliance with appropriate legislation, regulations and best practices, and the identification and containment of operational and business risks. The internal controls shall be subjected to an annual internal audit to ensure adequacy and effectiveness.

CORPORATE GOVERNANCE **REPORT**

For the year ended 31 December 2012

Internal Audit

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

The Board recognises that the internal control system provides reasonable, but not absolute, assurance to the integrity and reliability of the financial information and to safeguard the accountability of the assets of the Group. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The Board, having considered various factors, including the aforementioned system of internal controls currently in place, the number of offices and factories the Group has, the nature and complexity of its operations as well as cost-effectiveness, the Group currently has not set up a separate internal audit function. The AC will consider the assessment and monitoring of the adequacy and effectiveness of the Group's internal controls via Control Self-Assessment ("CSA") performed by management. Also, the AC shall continue to outsource the internal audit function, and have the internal auditor review the CSA, as and when the need arises, to enhance the system of internal controls.

The external auditors carry out, in the course of their statutory audit, a review of the effectiveness of the Group's material internal controls annually to the extent of their scope as laid out in their audit plan. Material non-compliance and internal control weaknesses were noted during their audit, and the auditors' recommendations, are reported to the AC. In addition, the AC will review the Group's internal controls and risk management practices annually, taking into consideration the risks to which the business is exposed to, the likelihood of the occurrence of such risks and the cost of implementing mitigating controls. Based on the internal controls established and maintained by the Group, work performed annually by the external auditors as well as risk self-assessment performed by management, the AC and the Board are of the opinion that the Group's internal controls, addressing financial, operational and compliance risks as well as risk management system, were adequate to meet the needs of the Group within the current scope of the Group's business operations.

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.

CORPORATE GOVERNANCE **REPORT**

For the year ended 31 December 2012

Material Contracts

During the financial year, there were no material contracts entered into by the Company or any of its subsidiary companies involving the interests of the CEO, any Director or the controlling shareholder of the Company.

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.

During the year under review, there have been no material interested person transactions requiring disclosure pursuant to the SGX Listing Manual.

Securities Transactions

The Company has adopted its own internal compliance code to provide guidance for both Directors and employees on their dealings in the Company's securities.

Directors and employees are not allowed to deal in the Company's shares during the period commencing one month before the announcement of the Company's half year and full year results. Additionally, they are not allowed to deal in the Company's shares while in possession of price sensitive information. The Directors are required to report to the Company Secretary whenever they deal in the Company's shares and the Company Secretary will make the necessary announcements.

DIRECTORS' REPORT

For the financial year ended 31 December 2012

The directors present their report to the members together with the audited consolidated financial statements of the Group for the financial year ended 31 December 2012 and the statement of financial position of the Company as at 31 December 2012.

1. DIRECTORS

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

Thye Kim Meng	(Managing Director and Chief Executive Officer)
Heather Tan Chern Ling	(Non-Independent Executive Director) [a]
Teo Sin Yng	(Non-Independent Executive Director) [b]
Thye Ze Pin	(Non-Independent Executive Director) (appointed on 31 August 2012) [c]
Joshua Siow Chee Keong	(Independent Director) [a][b][c]
Ngiam Zee Moey	(Independent Director) (appointed on 20 September 2012) [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 SHARES AND DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

3. DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

The directors of the Company holding office at the end of the financial year had no interests in the shares and debentures of the Company and/related corporations as recorded in the Register of Directors' Shareholdings kept by the Company under Section 164 of the Singapore Companies Act (the "Act"), except as follows:

	Number of ordinary shares					
	Shareholdings registered in their own names			Shareholdings in which director is deemed to have an interest		
Name of directors and companies in which interests are held	At 1.1.2012	At 31.12.2012	At 21.1.2013	At 1.1.2012	At 31.12.2012	At 21.1.2013
The Company						
Darco Water Technologies Limited						
Thye Kim Meng	36,795,711	63,795,711	63,795,711	27,000,000	–	–
Heather Tan Chern Ling	68,000	68,000	68,000	–	–	–
Teo Sin Yng	26,000	26,000	26,000	–	–	–

DIRECTORS' REPORT

For the financial year ended 31 December 2012

	Number of ordinary shares					
	Shareholdings registered in their own names			Shareholdings in which director is deemed to have an interest		
Name of directors and companies in which interests are held	At 1.1.2012	At 31.12.2012	At 21.1.2013	At 1.1.2012	At 31.12.2012	At 21.1.2013
Subsidiaries						
Darco Engineering (Taiwan) Co., Ltd.						
Thye Kim Meng	–	–	–	47,700,000	47,700,000	47,700,000
Darco Environmental (Philippines) Inc.						
Thye Kim Meng	–	–	–	65,000	65,000	65,000
Darco Environmental (Taiwan) Inc.						
Thye Kim Meng	–	–	–	715,000	715,000	715,000
Darco Puding Wastewater Management Co., Ltd.						
Thye Kim Meng	–	–	–	9,180,000	9,180,000	9,180,000
Darco Youli Co., Ltd.						
Thye Kim Meng	–	–	–	5,659,243	5,659,243	5,659,243
Puzer Asia Pte Ltd						
Thye Kim Meng	–	–	–	140,000	140,000	140,000

By virtue of Section 7 of the Act, Thye Kim Meng is deemed to have an interest in the shares held by the Company in its wholly-owned subsidiaries.

4. DIRECTORS' CONTRACTUAL BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit (other than disclosed in the financial statements and this report) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member or with a company in which the director has a substantial financial interest, and that certain directors have received remuneration from related corporations in their capacity as directors and/or executives of these related corporations.

5. SHARE OPTIONS

No option to take up unissued shares of the Company or its subsidiaries was granted during the financial year.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiaries whether granted before or during the financial year.

There were no unissued shares of the Company or its subsidiaries under option at the end of the financial year.

DIRECTORS' REPORT

For the financial year ended 31 December 2012

6. AUDIT COMMITTEE

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

Joshua Siow Chee Keong	–	Chairman of the Audit Committee and Independent Director
Ngiam Zee Moey	–	Independent Director
Heather Tan Chern Ling	–	Non-Independent Executive Director

The Audit Committee performs the functions specified by Section 201B (5) of the Act. Among others, it performed the following functions:

- Reviewed with the independent auditor the audit plan;
- Reviewed with the independent auditor their evaluation of the Company's material internal accounting control, and their report on the financial statements and the assistance given by the Company's management to the independent auditor;
- Reviewed the consolidated financial statements of the Group and the statement of financial position of the Company prior to their submission to the Board of Directors of the Company for adoption; and
- Reviewed the interested person transactions (as defined in Chapter 9 of the Listing Manual of SGX).

7. INDEPENDENT AUDITOR'S REMUNERATION

The directors have reviewed the quantum and nature of fees, expenses and emoluments paid to the independent auditor for non-audit services under Section 206 (1A) of the Act and are satisfied that the provision of such services does not affect their independence.

ON BEHALF OF THE BOARD OF DIRECTORS

Heather Tan Chern Ling
Non-Independent Executive Director

Teo Sin Yng
Non-Independent Executive Director

26 April 2013

STATEMENT BY **DIRECTORS**

For the financial year ended 31 December 2012

In the opinion of the directors:

(i) subject to the matters highlighted in the Independent Auditor's report, the consolidated financial statements of the Group and the statement of financial position of the Company as set out on pages 36 to 128 are properly drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2012, and the results, changes in equity and cash flows of the Group for the financial year then ended in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards; and

(ii) at the date of this statement, after considering the matters described in Note 2.1 to the financial statements with respect to the Group's and the Company's ability to continue as a going concern, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

ON BEHALF OF THE BOARD OF DIRECTORS

Heather Tan Chern Ling
Non-Independent Executive Director

Teo Sin Yng
Non-Independent Executive Director

26 April 2013

INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED
For the financial year ended 31 December 2012

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Darco Water Technologies Limited (the "Company") and its subsidiaries (the "Group") set out on pages 36 to 128 which comprise the statements of financial position of the Group and the Company as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards ("FRS"), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

1. Opening balances

Our independent auditor's report dated 14 August 2012 expressed a disclaimer of opinion on the financial statements for the financial year ended 31 December 2011. The basis for disclaimer of opinion on the financial statements for the financial year ended 31 December 2011 are disclosed in Note 35 to the financial statements.

INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED
For the financial year ended 31 December 2012

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Basis for Qualified Opinion (Continued)

1. Opening balances (Continued)

In view of the matters described in the basis for disclaimer of opinion on the financial statements for the financial year ended 31 December 2011, we are unable to determine whether the opening balances as at 1 January 2012 are fairly stated. Since the opening balances as at 1 January 2012 enter into the determination of the financial results and cash flows for the financial year ended 31 December 2012, we are unable to determine whether any adjustments might have been found necessary in respect of the financial statements for the financial year ended 31 December 2012.

Our opinion on the current financial year's financial statements is also modified because of the possible effect of these matters on the comparability of the current year's figures and the corresponding figures.

2. P.T. Darco Indonesia ("PT Darco")

As disclosed in Note 10(ii) to the financial statements, the Group diluted its effective equity interest in PT Darco in November 2012 and subsequently disposed of its remaining equity interest in PT Darco during the financial year.

The unaudited management accounts of PT Darco from 1 January 2012 to 30 November 2012 are used to prepare the Group's financial statements, as the audited financial statements of PT Darco are not available as of the date of this report.

We are unable to obtain sufficient information and explanations to enable us form an opinion as to whether the unaudited management accounts of PT Darco prepared, are in accordance with Singapore Financial Reporting Standards and in form and content appropriate and proper for the purpose of preparation of the Group's financial statements for the financial year ended 31 December 2012.

Consequently, we are unable to determine whether any adjustments might have been found necessary in respect of the following:

(i) the net loss of PT Darco from 1 January 2012 to 30 November 2012 and loss on disposal of the investment in PT Darco amounting to $0.37 million and $1.32 million respectively included in the loss from discontinued operations, and related information as disclosed in Note 10 to the financial statements;

(ii) the basic and diluted loss per share attributable to equity holders of the Company for loss from discontinued operations as disclosed in Note 11 to the financial statements; and

(iii) the effects of assets and liabilities disposed of and related classification of the line items of PT Darco on the consolidated statement of cash flows as disclosed in Note 16(e)(iii) to the financial statements.

INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED
For the financial year ended 31 December 2012

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Basis for Qualified Opinion (Continued)

3. *Salcon Darco Environmental Pte. Ltd. (formerly known as Darco Environmental Pte. Ltd.) ("DNV") and its subsidiaries ("DNV Group")*

The subsidiaries of DNV, Deqing Huanzhong Producing Water Co., Ltd. ("Deqing Huanzhong") and Deqing Darco Producing Water Co., Ltd. ("Deqing Darco") obtained service concession arrangements in The People's Republic of China to construct and operate water treatment plants. Under the service concession arrangements, Deqing Huanzhong and Deqing Darco constructed and operated the water treatment plants for the concession periods of 22 years and 25 years, respectively. Such arrangements fall within the scope of Interpretations of FRS 112 Service Concession Arrangements.

As disclosed in Note 10(i) to the financial statements, the Group completed the disposal of 60% effective equity interest in DNV in July 2012.

The unaudited management accounts of DNV Group from 1 January 2012 to 31 July 2012 are used to prepare the Group's financial statements, as the audited financial statements of DNV Group are not available as of the date of this report. The unaudited management accounts are prepared based on key assumptions as disclosed in Note 21 to the financial statements for computation of the fair values of considerations received and receivable of service concession arrangements.

We are unable to obtain sufficient information and explanations including the reasonableness of the key assumptions, construction costs and methods used in the determination of the revenue recognition, fair values of the financial assets on the initial recognition, and the amortised costs and corresponding finance income during the concession periods to enable us form an opinion as to whether the unaudited management accounts of DNV Group prepared, are in accordance with Singapore Financial Reporting Standards and in form and content appropriate and proper for the purpose of preparation of the Group's financial statements for the financial year ended 31 December 2012.

Consequently, we are unable to determine whether any adjustments might have been found necessary in respect of the following:

(i) the net profit of DNV Group from 1 January 2012 to 31 July 2012 and loss on disposal of the investment in DNV amounting to $2.08 million and $5.12 million respectively included in the loss from discontinued operations, and related information as disclosed in Note 10 to the financial statements;

(ii) the basic and diluted loss per share attributable to equity holders of the Company for loss from discontinued operations as disclosed in Note 11 to the financial statements; and

(iii) the effects of assets and liabilities disposed of and related classification of the line items of DNV Group on the consolidated statement of cash flows as disclosed in Note 16(e)(iii) to the financial statements.

INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED
For the financial year ended 31 December 2012

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Basis for Qualified Opinion (Continued)

4. Segment information

Segment information that enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the Group engages and the economic environments in which it operates as required by FRS 108 Operating Segments are disclosed in Note 30 to the financial statements. We are unable to perform necessary audit procedures to determine whether the segment information is fairly presented.

5. Financial instruments: Disclosures

Information that enable users of the financial statements to evaluate the significance of financial instruments for the Group's financial position and performance; and the nature and extent of risks arising from financial instruments to which the Group are exposed during the period and at the end of the reporting period, and how the Group manage those risks as required by FRS 107 Financial Instruments: Disclosures are disclosed in Note 31 and Note 32 to the financial statements, respectively. We are unable to perform necessary audit procedures to determine whether the information is fairly presented.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2012, and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Emphasis of Matter

We draw attention to Note 2.1 to the financial statements with respect to the Group's and the Company's ability to continue as a going concern. The Group incurred loss from continuing operations of $2.71 million for the financial year. The Company's current liabilities exceeded the current assets by $4.61 million as at 31 December 2012.

As disclosed in Note 27 to the financial statements, the Group have several on-going litigations as at 31 December 2012.

In addition, the Group and the Company breached certain financial covenants of borrowings from three banks as at 31 December 2012 as disclosed in Note 23 to the financial statements. As of the date of this report, one of the banks has granted waiver in relation to a breach of the financial covenant to maintain minimum consolidated tangible networth of $37.5 million. However, the other two banks have not granted any waiver nor requested immediate repayment of the outstanding loans.

INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED
For the financial year ended 31 December 2012

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Emphasis of Matter (Continued)

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

The financial statements have been prepared on the going concern basis as the directors are satisfied that:

(i) the continuing financial support from its bankers for its working capital requirements for the next twelve months will be available as and when required;

(ii) the disposal of the remaining 40% effective equity interest in DNV will be completed within the next twelve months; and

(iii) the Group and the Company will able to secure new profitable contracts and generate positive cash flows to the Group and the Company.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, and the Group and the Company are unable to discharge their liabilities in the normal course of business, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No such adjustments have been made to the financial statements. Our opinion is not modified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the accounting and other records required by the Act to be kept by the Company and by the subsidiary incorporated in Singapore of which we are the independent auditors, have been properly kept in accordance with the provisions of the Act.

Baker Tilly TFW LLP
Public Accountants and
Certified Public Accountants
Singapore

26 April 2013

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

For the financial year ended 31 December 2012

	Note	Group 2012 $'000	Group Restated (Note 10) 2011 $'000
Continuing operations			
Revenue	4	**41,392**	53,554
Cost of sales		**(36,238)**	(41,332)
Gross profit		**5,154**	12,222
Other income	5	**4,015**	484
Distribution expenses		**(711)**	(968)
Administrative expenses		**(9,608)**	(11,418)
Finance expenses	6	**(1,381)**	(1,232)
Share of loss of a joint venture		**–**	(104)
Loss before income tax	7	**(2,531)**	(1,016)
Income tax expense	9	**(176)**	(852)
Loss from continuing operations, net of tax		**(2,707)**	(1,868)
Discontinued operations			
(Loss)/profit from discontinued operations, net of tax	10	**(3,459)**	2,046
(Loss)/profit for the year		**(6,166)**	178
Other comprehensive (loss)/income:			
Currency translation differences arising from consolidation		**(2,039)**	1,564
Currency translation differences on disposal of subsidiaries reclassified to profit or loss		**(1,659)**	–
Other comprehensive (loss)/income for the year, net of tax		**(3,698)**	1,564
Total comprehensive (loss)/income for the year		**(9,864)**	1,742
(Loss)/profit attributable to:			
Equity holders of the Company		**(6,916)**	756
Non-controlling interests		**750**	(578)
(Loss)/profit for the year		**(6,166)**	178
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		**(10,540)**	2,282
Non-controlling interests		**676**	(540)
Total comprehensive (loss)/income for the year		**(9,864)**	1,742
(Loss)/earnings per share for (loss)/profit from continuing and discontinued operations attributable to the equity holders of the Company (expressed in cents per share)			
Basic and diluted (loss)/earnings per share			
From continuing operations	11	**(0.92)**	(0.50)
From discontinued operations	11	**(1.58)**	0.77

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF **FINANCIAL POSITION**

As at 31 December 2012

	Note	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
ASSETS					
Current assets					
Cash and cash equivalents	12	**10,781**	15,617	**116**	3,223
Trade and other receivables	13	**17,333**	27,023	**1,213**	26,416
Inventories	14	**1,616**	1,518	**–**	–
		29,730	44,158	**1,329**	29,639
Disposal group classified as held-for-sale	10	**15,879**	4,635	**12,424**	–
Total current assets		**45,609**	48,793	**13,753**	29,639
Non-current assets					
Investments in subsidiaries	16	**–**	–	**4,397**	4,597
Investment in a joint venture	17	**–**	59	**–**	–
Property, plant and equipment	18	**8,080**	8,350	**–**	–
Intangible assets	19	**905**	1,223	**–**	–
Land use rights	20	**264**	1,577	**–**	–
Financial receivables	21	**–**	56,844	**–**	–
Deferred income tax assets	22	**98**	23	**–**	–
Total non-current assets		**9,347**	68,076	**4,397**	4,597
Total assets		**54,956**	116,869	**18,150**	34,236
LIABILITIES					
Current liabilities					
Borrowings	23	**18,791**	47,491	**11,814**	28,899
Trade and other payables	24	**16,239**	30,069	**6,547**	11,214
Current income tax liabilities		**79**	712	**–**	–
		35,109	78,272	**18,361**	40,113
Liabilities directly associated with disposal group classified as held–for–sale	10	**–**	1,277	**–**	–
Total current liabilities		**35,109**	79,549	**18,361**	40,113
Non-current liabilities					
Deferred income tax liabilities	22	**68**	3,743	**–**	–
Borrowings	23	**503**	476	**–**	–
Other payables	24	**–**	1,562	**1,000**	–
Total non-current liabilities		**571**	5,781	**1,000**	–
Total liabilities		**35,680**	85,330	**19,361**	40,113
Net assets/(liabilities)		**19,276**	31,539	**(1,211)**	(5,877)
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	25	**36,985**	36,985	**36,985**	36,985
Other reserves	26	**(3,988)**	1,130	**–**	–
Accumulated losses		**(16,845)**	(11,420)	**(38,196)**	(42,862)
		16,152	26,695	**(1,211)**	(5,877)
Non-controlling interests		**3,124**	4,844	**–**	–
Total equity		**19,276**	31,539	**(1,211)**	(5,877)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

For the financial year ended 31 December 2012

	← Attributable to equity holders of the Company →					
	Share capital $'000	Other reserves $'000	Accumulated losses $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
2012						
Balance at 1 January 2012	36,985	1,130	(11,420)	26,695	4,844	31,539
(Loss)/profit for the year	–	–	(6,916)	(6,916)	750	(6,166)
Other comprehensive loss for the year, net of tax						
– Currency translation differences [Note 26(b)(i)]	–	(3,624)	–	(3,624)	(74)	(3,698)
Total comprehensive (loss)/income for the year	–	(3,624)	(6,916)	(10,540)	676	(9,864)
Transfer of legal reserve [Note 26(b)(ii)]	–	(1,494)	1,491	(3)	3	–
Disposal of subsidiaries [Note 16(e)(iii)]	–	–	–	–	(2,358)	(2,358)
Dividend paid to non-controlling interests	–	–	–	–	(41)	(41)
Balance at 31 December 2012	**36,985**	**(3,988)**	**(16,845)**	**16,152**	**3,124**	**19,276**
2011						
Balance at 1 January 2011	36,985	(661)	(11,959)	24,365	4,636	29,001
Profit/(loss) for the year	–	–	756	756	(578)	178
Other comprehensive income for the year, net of tax						
– Currency translation differences [Note 26(b)(i)]	–	1,526	–	1,526	38	1,564
Total comprehensive income/(loss) for the year	–	1,526	756	2,282	(540)	1,742
Transfer of legal reserve [Note 26(b)(ii)]	–	265	(277)	(12)	12	–
Changes in ownership interest in a subsidiary without loss of control [Note 16(g)]	–	–	60	60	799	859
Dividend paid to non-controlling interests	–	–	–	–	(63)	(63)
Balance at 31 December 2011	36,985	1,130	(11,420)	26,695	4,844	31,539

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF **CASH FLOWS**

For the financial year ended 31 December 2012

	Group	
		Restated
	2012	2011
	$'000	$'000
Cash flows from operating activities		
Loss before income tax from continuing operations	**(2,531)**	(1,016)
(Loss)/profit before income tax from discontinued operations	**(2,396)**	3,089
(Loss)/profit before income tax, total	**(4,927)**	2,073
Adjustments for:		
Amortisation of intangible assets – franchise	**7**	58
Amortisation of land use rights	**41**	65
Amortisation of deferred expenditure	**1**	–
Depreciation of property, plant and equipment	**1,311**	1,375
Finance income from service concession arrangements	**(3,219)**	(3,064)
Gain on disposal of disposal group classified as held-for-sale	**(2,312)**	(28)
Gain on disposal of property, plant and equipment	**(14)**	(14)
Gain on liquidation of subsidiaries	**(1,271)**	–
Loss on disposal of subsidiaries	**6,441**	–
Property, plant and equipment written off	**111**	–
Write back of impairment loss of property, plant and equipment	**(887)**	–
Impairment loss of goodwill	**4**	–
Impairment loss of property, plant and equipment	**47**	159
Interest expense	**1,905**	1,666
Interest income	**(65)**	(32)
Share of loss of a joint venture	**–**	104
Operating cash flow before working capital changes	**(2,827)**	2,362
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Inventories	**(185)**	625
Construction work-in-progress	**5,645**	2,498
Trade and other receivables	**(6,974)**	(2,168)
Trade and other payables	**(717)**	7,004
Cash (used in)/generated from operations	**(5,058)**	10,321
Income tax paid	**(1,287)**	(1,225)
Net cash (used in)/generated from operating activities	**(6,345)**	9,096

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF **CASH FLOWS**

For the financial year ended 31 December 2012

	Group	
		Restated
	2012	2011
	$'000	$'000
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired [Note 16(c)]	**(166)**	–
Additional investment in an existing joint venture	**–**	(84)
Additions of intangible assets	**–**	(64)
Additions to property, plant and equipment (Note A)	**(494)**	(2,729)
Disposal of subsidiaries, net of cash disposed of [Note 16(e) and 16(g)]	**18,253**	859
Interest received	**65**	32
Liquidation of subsidiaries, net cash flow [Note 16(f)]	**(2)**	–
Proceed from disposal of disposal group classified as held-for-sale	**3,400**	269
Proceed from disposal of property, plant and equipment	**92**	51
Net cash generated from/(used in) investing activities	**21,148**	(1,666)
Cash flows from financing activities		
Proceeds from borrowings	**1,050**	1,689
Increase/(decrease) in pledged short-term deposits	**1,554**	(1,887)
Redemption of convertible notes, net	**(189)**	–
Repayment of borrowings	**(18,637)**	(7,447)
Repayment of finance lease liabilities	**(114)**	(234)
Interest paid	**(1,905)**	(1,666)
Dividend paid to non-controlling interests	**(41)**	(63)
Net cash used in financing activities	**(18,282)**	(9,608)
Net decrease in cash and cash equivalents	**(3,479)**	(2,178)
Cash and cash equivalents		
Beginning of financial year	**8,991**	11,290
Effect of currency translations on cash and cash equivalents	**217**	(121)
End of financial year	**5,729**	8,991

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at the end of the reporting period:

	$'000	$'000
Cash at bank and on hand, and short-term deposits:		
– Continuing operations (Note 12)	**10,781**	15,617
– Discontinued operations (Note 10)	**–**	2
	10,781	15,619
Bank overdrafts (Note 23)	**(2,489)**	(2,511)
Pledged short-term deposits (Note 12)	**(2,563)**	(4,117)
	5,729	8,991

Note A

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of $636,000 (2011: $2,729,000) of which $142,000 (2011: $Nil) was financed by means of finance lease. Cash payment of $494,000 (2011: $2,729,000) was made to purchase property, plant and equipment.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL INFORMATION

Darco Water Technologies Limited (the "Company") is listed on the Singapore Stock Exchange and incorporated and domiciled in Singapore. The registered office and principal place of business of the Company is located at 123 Woodlands Industrial Park E5, E-Terrace, Singapore 757498.

The principal activities of the Company are those of investment holding and acting as corporate manager and adviser and administrative centre to support businesses of the Company's subsidiaries. The principal activities of the subsidiaries are described in Note 16.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Going concern

The Group incurred loss from continuing operations of $2.71 million for the financial year. The Company's current liabilities exceeded the current assets by $4.61 million as at 31 December 2012.

As disclosed in Note 27, the Group have several on-going litigations as at 31 December 2012.

In addition, the Group and the Company breached certain financial covenants of borrowings from three banks as at 31 December 2012 as disclosed in Note 23. As of the date of this report, one of the banks has granted waiver in relation to a breach of the financial covenant to maintain minimum consolidated tangible networth of $37.5 million. However, the other two banks have not granted any waiver nor requested immediate repayment of the outstanding loans.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

The financial statements have been prepared on the going concern basis as the directors are satisfied that:

(i) the continuing financial support from its bankers for its working capital requirements for the next twelve months will be available as and when required;

(ii) the disposal of the remaining 40% effective equity interest in DNV will be completed within the next twelve months; and

(iii) the Group and the Company will able to secure new profitable contracts and generate positive cash flows to the Group and the Company.

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

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation

The financial statements have been prepared in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("FRS") under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgment in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

On 1 January 2012, the Group and the Company adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the Group's and the Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

New standards, amendments to standards and interpretations that have been issued at the end of the reporting period but are not yet effective for the financial year ended 31 December 2012 have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group and the statement of financial position of the Company.

2.3 Group accounting

(i) Subsidiaries

Consolidation

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Group accounting (Continued)

(i) Subsidiaries (Continued)

Consolidation (Continued)

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and statements of financial position. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

Acquisitions

The acquisition method of accounting is used to account for business combinations by the Group.

The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred.

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

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of (i) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (ii) the fair value of the net identifiable assets acquired is recorded as goodwill. Please refer to Note 2.6(i) for the subsequent accounting policy on goodwill.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Group accounting (Continued)

(i) Subsidiaries (Continued)

Disposals

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

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to Note 2.4 for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

(ii) Transactions with non-controlling interests

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

(iii) Joint ventures

The Group's joint ventures are entities over which the Group has contractual arrangements to jointly share the control over the economic activity of the entities with one or more parties. The Group's interest in joint ventures is accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

Acquisitions

Investments in joint ventures are initially recognised at cost. The cost of the acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Goodwill on joint ventures represents the excess of the cost of acquisition of the joint venture over the Group's share of the fair value of the identifiable net assets of the joint venture and is included in the carrying amounts of the investments.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Group accounting (Continued)

(iii) Joint ventures (Continued)

Equity method of accounting

In applying the equity method of accounting, the Group's share of its joint venture's post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. These post-acquisition movements and distributions received from the joint ventures are adjusted against the carrying amount of the investments. When the Group's share of losses in joint ventures equals or exceeds its interest in the joint ventures, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of joint ventures have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Disposals

Investments in joint ventures are derecognised when the Group loses the joint control over the joint venture. Any retained investment in the joint venture is remeasured at its fair value.

The difference between the carrying amount of the former jointly controlled entity upon loss of joint control and the aggregate of the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Please refer to Note 2.4 for the accounting policy on investments in joint ventures in the separate financial statements of the Company.

2.4 Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are carried at cost and less accumulated impairment losses in the Company's statement of financial position. On disposal of such investments, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment

(i) Measurement

Land and buildings

Land and buildings are initially recognised at cost. Freehold land is subsequently carried at cost less accumulated impairment losses. Freehold buildings and leasehold properties are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Other property, plant and equipment

All other items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Components of costs

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(ii) Depreciation

Freehold land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	Useful lives
Freehold buildings	50 years
Leasehold properties	30 to 50 years
Renovation	5 years
Motor vehicles	5 years
Plant and equipment	3 to 10 years

Assets under construction are not depreciated as these assets are not yet available for use.

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at the end of each reporting period. The effects of any revision are recognised in profit or loss when the changes arise.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (Continued)

(iii) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(iv) Disposal

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is taken to profit or loss.

2.6 Intangible assets

(i) Goodwill on acquisitions

Goodwill on acquisitions of subsidiaries or businesses represents the excess of (i) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (ii) the fair value of the net identifiable assets acquired.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Goodwill on joint ventures is included in the carrying amount of the investments.

Gains and losses on the disposal of subsidiaries and joint ventures include the carrying amount of goodwill relating to the entity sold.

(ii) Franchise

Franchise is initially recognised at cost and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. It is amortised on a straight-line basis over the estimated useful life of 6 years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at the end of each reporting period. The effects of any revision are recognised in profit or loss when the changes arise.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Land use rights

Land use rights are initially recognised at cost and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Land use rights are amortised on a straight line basis over the remaining years of rights allocated to use the land of 25 and 50 years, respectively.

The amortisation period and amortisation method are reviewed at the end of each reporting period.

2.8 Impairment of non-financial assets

(i) Goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Goodwill included in the carrying amount of an investment in a joint venture is tested for impairment as part of the investment, rather than separately.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units ("CGU") expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised as an expense and is not reversed in a subsequent period.

(ii) Intangible assets
Property, plant and equipment
Investments in subsidiaries and joint ventures
Land use rights

Intangible assets, property, plant and equipment, investments in subsidiaries and joint ventures and land use rights are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of non-financial assets (Continued)

(ii) Intangible assets (Continued)

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss.

2.9 Service concession arrangements

(i) Financial receivables

The Group recognises financial receivable arising from service concession arrangement when it has an unconditional right to receive cash or another financial assets during the concession period. The financial receivable is measured at fair value upon initial recognition. Subsequent to initial recognition, the financial receivable is measured at amortised cost using the effective interest method.

When the Group receives a payment during the concession period, it will apportion such payment between (i) a repayment of the financial receivable (if any), which will be used to reduce the carrying amount of the financial receivable on its statement of financial position, (ii) interest income, which will be recognised as finance income in profit or loss, and (iii) revenue from operation and maintaining the plants to be recognised in profit or loss.

(ii) Construction services

Revenue relating to construction services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts as stated in Note 2.10.

Where the Group performs more than one service in a service concession arrangement, consideration received or receivable are allocated to the components by reference to their relative fair values of the services delivered, when the amounts are separately identifiable.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Service concession arrangements (Continued)

(iii) Operation and maintenance services

Revenue derived from the provision of operating and maintenance services under a service concession arrangement is recognised in the period in which the services are performed by the Group.

(iv) Finance income

Interest income on the financial receivables is recognised in profit or loss using the effective interest method.

2.10 Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period ("percentage-of-completion method"). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in the contract work and claims that can be measured reliably. A variation or a claim is recognised as contract revenue when it is probable that the customer will approve the variation or negotiations have reached an advanced stage such that it is probable that the customer will accept the claim.

The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total costs for the contract. Costs incurred during the financial year in connection with future activity on a contract are excluded from the costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract work-in-progress under trade and other receivables on the statement of financial position unless it is not probable that such contract costs are recoverable from the customers, in which case, such costs are recognised as an expense immediately.

At the end of the reporting period, the cumulative costs incurred plus recognised profits (less recognised losses) on each contract is compared against the progress billings. Where the cumulative costs incurred plus the recognised profits (less recognised losses) exceed the progress billings, the balance is presented as due from customers on construction contracts within "trade and other receivables". Where progress billings exceed the cumulative costs incurred plus recognised profits (less recognised losses), the balance is presented as due to customers on construction contracts within "trade and other payables".

Progress billings not yet paid by customers and retentions by customers are included within "trade and other receivables". Advances received are included within "trade and other payables".

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted-average method. Cost of inventories includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

2.12 Financial assets

(i) Classification

The Group classifies its financial assets according to the nature of the assets and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group's only financial assets are loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the end of the reporting period which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables (excluding prepayments, due from customers on construction contracts, advance payments to suppliers and tax recoverable)" and "cash and cash equivalents" on the statements of financial position.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss.

(iii) Initial measurement

Loans and receivables are initially recognised at fair value plus transaction costs.

(iv) Subsequent measurement

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Interest income on financial assets are recognised separately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial assets (Continued)

(v) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The impairment allowance is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost, had no impairment been recognised in prior periods.

2.13 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Borrowings

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

(i) Borrowings

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(ii) Convertible bonds

The total proceeds from convertible bonds issued are allocated to the liability component and the equity component, which are separately presented on the statements of financial position.

The liability component is recognised initially at its fair value, determined using a market interest rate for equivalent non-convertible bonds. It is subsequently carried at amortised cost using the effective interest method until the liability is extinguished on conversion or redemption of the bonds.

The difference between the total proceeds and the liability component is allocated to the conversion option (equity component), which is presented in equity net of deferred tax effect. The carrying amount of the conversion option is not adjusted in subsequent periods. When the conversion option is exercised, its carrying amount is transferred to the share capital account. When the conversion option lapses, its carrying amount is transferred to retained earnings.

2.15 Fair value estimation of financial assets and liabilities

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts due to the short-term maturity of these instruments.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognised in profit or loss as finance expense.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Provisions (Continued)

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

2.17 Financial guarantees

The Company has issued corporate guarantees to banks for borrowings of its subsidiaries. These guarantees are financial guarantees as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantees are initially recognised at their fair values plus transaction costs in the Company's statement of financial position.

Financial guarantees are subsequently amortised to profit or loss over the period of the subsidiaries' borrowings, unless it is probable that the Company will reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantees shall be carried at the expected amount payable to the bank in the Company's statement of financial position.

Intra-group transactions are eliminated on consolidation.

2.18 Share capital

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

2.19 Legal reserve

In accordance with the relevant laws and regulations of The People's Republic of China ("PRC"), the subsidiaries of the Company established in the PRC is required to transfer 10% of its profit after income tax prepared in accordance with the accounting regulations in the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Revenue recognition

Sales comprise the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Sales are presented net of value-added tax, goods and services tax, rebates and discounts, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

(i) Revenue from sales of goods

Revenue from sales of goods is recognised when a Group entity has delivered the products to the customer, the customers have accepted the products and collectability of the related receivables is reasonably assured.

(ii) Revenue from service concession arrangements

Revenue from service concession arrangements for water treatment services is recognised in accordance with Note 2.9.

(iii) Revenue from rendering of service

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

(iv) Revenue from construction contracts

Revenue from construction contracts is recognised in accordance with Note 2.10.

(v) Interest income

Interest income is recognised using the effective interest method.

(vi) Rental income

Rental income from operating leases (net of any incentives given to the lessees) is recognised on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

When the grant relates to an expense item, it is recognised in profit or loss over the period necessary to match them on a systematic basis to the costs that it is intended to compensate.

2.22 Leases

(i) When the Group is the lessee

The Group leases certain motor vehicles under finance leases and offices, staff hostels, factories and warehouses under operating leases from non-related parties.

Lessee – Finance leases

Leases where the Group assumes substantially all risks and rewards incidental to ownership of the leased assets are classified as finance leases.

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the statement of financial position as property, plant and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognised in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

Lessee – Operating leases

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Leases (Continued)

(ii) When the Group is the lessor

The Group leases investment properties under operating leases to non-related parties.

Lessor – Operating leases

Leases of investment properties where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in profit or loss on a straight-line basis over the lease term.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

2.23 Employee benefits

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(i) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

(ii) Employee leave entitlements

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

2.24 Borrowing costs

Borrowing costs, which comprise interest and other costs incurred in connection with the borrowing of funds, are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are recognised in profit or loss using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period; and

(ii) based on the tax consequence that will follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

2.26 Currency translation

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“functional currency”). The financial statements are presented in Singapore Dollars, which is the Company’s functional and presentation currency.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Currency translation (Continued)

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the end of the reporting period are recognised in profit or loss. However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

When a foreign operation is disposed of or any borrowings forming part of the net investment of the foreign operation are repaid, a proportionate share of the accumulated translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

(iii) Translation of Group entities' financial statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities are translated at the closing exchange rates at the end of the reporting period;

(b) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated using the exchange rates at the dates of the transactions); and

(c) All resulting currency translation differences are recognised in other comprehensive income and accumulated in the currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Dividends to the Company's shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

2.28 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, short-term deposits with financial institutions which are subject to an insignificant risk of change in value, bank overdrafts and excludes pledged short-term deposits. Bank overdrafts are presented as current borrowings on the statements of financial position.

2.29 Non-current assets (or disposal groups) held-for-sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held-for-sale and carried at the lower of carrying amount and fair value less costs to sell if their carrying amounts are recovered principally through a sale transaction rather than through continuing use. The assets are not depreciated or amortised while they are classified as held-for-sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held-for-sale and:

(a) represents a separate major line of business or geographical area of operations; or

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

(c) is a subsidiary acquired exclusively with a view to resale.

2.30 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee whose members are responsible for allocating resources and assessing performance of the operating segments.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.31 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustments to the carrying amount of the asset or liability affected in the future.

(a) Judgments made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

Revenue recognition of the Group involves the application of judgment to the following:

(i) the identification and determination of percentage of completion of construction contracts; and

(ii) the identification and determination of service concession arrangements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

(a) Judgments made in applying accounting policies (Continued)

Revenue recognition (Continued)

The Group has recognised revenue from construction contracts amounting to $25,784,000 (2011: $33,620,000) and $80,000 (2011: $Nil) from continuing operations and discontinued operations, respectively.

The Group has also recognised revenue from service concession arrangements amounting to $2,581,000 (2011: $8,467,000) from discontinued operations.

Deferred income tax assets

The Group recognises deferred income tax assets on carried forward tax losses to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised and that the Group is able to satisfy the continuing ownership test.

The carrying amounts of the Group's deferred income tax assets at the end of the reporting period are disclosed in Note 22.

(b) Key source of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, 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:

Estimated impairment of non-financial assets

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Intangible assets, property, plant and equipment, investments in subsidiaries and joint ventures, and land use rights are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

The recoverable amounts of these assets and where applicable, cash-generating units, have been determined based on value-in-use calculations.

The carrying amounts of the Group's investment in a joint venture, property, plant and equipment, intangible assets and land use rights at the end of the reporting period are disclosed in Notes 17, 18, 19 and 20 respectively.

The carrying amounts of the Company's investments in subsidiaries are disclosed in Note 16.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

(b) Key source of estimation uncertainty (Continued)

Uncertain tax positions

Uncertainties exist with respect to the interpretation of complex tax regulations, the amount and timing of future taxable income and deductibility of certain expenditure. Accordingly, there are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the tax outcome of these matters is concluded and is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The carrying amounts of the Group's and the Company's tax recoverable at the end of the reporting period were $383,000 (2011: $223,000) and $133,000 (2011: $6,000) respectively.

The carrying amounts of the Group's current income tax liabilities were $79,000 (2011: $712,000).

The carrying amounts of the Group's deferred income tax assets and deferred income tax liabilities are disclosed in Note 22.

Construction contract

The Group uses the percentage of completion method to account for its contract revenue. The stage of completion is measured by reference to the contract costs incurred to date compared to the estimated total costs for the contract.

Significant assumptions are required to estimate the total contract costs and the recoverable variation works that will affect the stage of completion and the contract revenue respectively. In making these estimates, management has relied on past experience and the work of specialists.

The stage of completion of each construction contract is assessed on a cumulative basis at the end of each reporting period. Changes in estimates of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract could impact the amount of revenue and expenses recognised in the profit or loss in the years in which the change is made and in subsequent years. Such impact could potentially be significant.

The carrying amounts of assets and liabilities arising from construction contracts at the end of the reporting period are disclosed in Note 15.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

(b) Key source of estimation uncertainty (Continued)

Service concession arrangements

The consideration for the services provided under the service concession arrangements is allocated to the components by reference to their relative fair values. Revenue for construction services provided under the service concession arrangements and the corresponding financial receivables arising are recognised based on the percentage of completion method during the construction phase.

The percentage of completion method during the construction phase is measured by reference to the proportion that construction costs incurred to date bear to the estimated total construction costs. Significant judgment is required in determining the stage of completion, the extent of the construction costs incurred and the estimated total construction costs.

Significant judgment is also exercised in determining the fair values of the financial receivables. Discount rates, estimates of future cash flows and other factors are used in the determination of the fair value of financial assets on initial recognition, as well as the amortised cost and corresponding financial income during the operation phase of financial asset. The residual consideration is recognised as operating income. The assumptions used and estimates may result in different fair value estimates.

The carrying amounts of financial receivables from service concession arrangements are disclosed in Note 13 and Note 21 respectively.

Impairment of receivables

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

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

The carrying amounts of the Group's and the Company's receivables at the end of the reporting period are $13,868,000 and $1,080,000 (2011: $13,897,000 and $26,408,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

4. REVENUE

	Group	
		Restated
	2012	2011
	$'000	$'000
Revenue from construction contracts	**25,784**	33,620
Rendering of services	**9,485**	8,220
Sales of goods	**6,123**	11,714
	41,392	53,554

5. OTHER INCOME

	Group	
		Restated
	2012	2011
	$'000	$'000
Interest income	**63**	28
Rental income	**20**	–
Government grant	**5**	5
Gain on disposal of disposal group classified as held-for-sale	**2,312**	28
Gain on disposal of property, plant and equipment	**14**	14
Gain on foreign exchange	**510**	–
Reversal of inventories written down (Note 14)	**88**	–
Write back of long outstanding trade payables	**918**	237
Miscellaneous income	**85**	172
	4,015	484

6. FINANCE EXPENSES

	Group	
		Restated
	2012	2011
	$'000	$'000
Interest expense on:		
– bank borrowings	**1,363**	1,213
– convertible notes [Note 23(p)]	**11**	–
– finance lease liabilities	**7**	19
	1,381	1,232

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

7. LOSS BEFORE INCOME TAX FROM CONTINUING OPERATIONS

	Group	
		Restated
	2012	2011
	$'000	$'000
Loss before income tax from continuing operations is arrived at after charging/(crediting):		
Allowance for impairment of receivables (Note 13)	**1,594**	117
Amortisation of intangible assets – franchise [Note 19(b)]	**7**	58
Amortisation of deferred expenditure	**1**	–
Amortisation of land use rights	**7**	7
Auditors' remuneration paid/payable to:		
– auditor of the Company	**230**	220
– other auditors	**148**	68
Depreciation of property, plant and equipment	**1,293**	1,332
Employee compensation (Note 8)	**11,322**	12,196
Fee for non-audit services paid/payable to:		
– auditor of the Company	**–**	–
– other auditors	**5**	7
Impairment loss of goodwill [Note 19(a)]	**4**	–
Impairment loss of property, plant and equipment (Note 18)	**47**	159
Inventories written down (Note 14)	**–**	46
Loss on foreign exchange	**–**	519
Rental expense for operating leases	**225**	255
Property, plant and equipment written off	**111**	–
Write back of allowance for impairment of receivables (Note 13)	**(69)**	(161)
Write back of impairment loss of property, plant and equipment (Note 18)	**(887)**	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

8. EMPLOYEE COMPENSATION

	Group	
		Restated
	2012	2011
	$'000	$'000
Directors of the Company:		
– Directors' fees	**232**	204
– Directors' remuneration and related costs	**227**	263
– Defined contribution benefits	**11**	6
Directors of the subsidiary companies:		
– Directors' fees	**99**	50
– Directors' remuneration and related costs	**758**	678
– Defined contribution benefits	**72**	74
Key management personnel (non-directors):		
– Salaries and related costs	**162**	–
– Defined contribution benefits	**13**	–
Other personnel:		
– Salaries and related costs	**9,085**	10,599
– Defined contribution benefits	**855**	864
	11,514	12,738
Less: Amounts attributable to discontinued operations [Note 10(v)(d)]	**(192)**	(542)
Amounts attributable to continuing operations (Note 7)	**11,322**	12,196

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

9. INCOME TAX EXPENSE

	Group	
		Restated
	2012	2011
	$'000	$'000
Income tax expense attributable to (loss)/profit is made up of:		
(Loss)/profit from current financial year:		
From continuing operations		
Current income tax		
– Singapore	**78**	209
– Foreign	**366**	802
Deferred income tax	**(80)**	41
From discontinued operations		
Current income tax		
– Foreign	**229**	504
Deferred income tax	**792**	538
	1,385	2,094
(Over)/under provision of taxation in prior financial years:		
From continuing operations		
Current income tax	**(172)**	(158)
Deferred income tax	**(16)**	(42)
From discontinued operations		
Current income tax	**42**	1
	(146)	(199)
	1,239	1,895
Income tax expense is attributable to:		
– continuing operations	**176**	852
– discontinued operations [Note 10(v)]	**1,063**	1,043
	1,239	1,895

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

9. INCOME TAX EXPENSE (CONTINUED)

The income tax expense on the results of the financial year differs from the amount of income tax determined by applying the domestic rates applicable to (loss)/profit in the countries where the Group operates due to the following factors:

	Group	
		Restated
	2012	2011
	$'000	$'000
(Loss)/profit before tax from:		
– continuing operations	**(2,531)**	(1,016)
– discontinued operations	**(2,396)**	3,089
	(4,927)	2,073
Share of loss of a joint venture, net of tax	**–**	104
(Loss)/profit before tax excluded share of loss of a joint venture	**(4,927)**	2,177
Tax at the domestic rates applicable to (loss)/profit in the countries where the Group operates	**(600)**	813
Expenses not deductible for tax purposes	**1,843**	712
Over provision of taxation in prior financial years	**(146)**	(199)
Income not subject to tax	**(1,058)**	(173)
Deferred tax benefits not recognised	**1,647**	964
Income tax exemption	**(53)**	(77)
Utilisation of previously unrecognised tax losses	**(387)**	(203)
Others	**(7)**	58
	1,239	1,895

10. DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE

Details of assets directly associated with disposal group classified as held-for-sale are as follows:

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Property, plant and equipment	**–**	1,088	**–**	–
Investment in unquoted shares	**3,455**	3,538	**–**	–
Investment in associated company	**12,424**	–	**12,424**	–
Trade and other receivables	**–**	7	**–**	–
Cash and cash equivalents	**–**	2	**–**	–
	15,879	4,635	**12,424**	–

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

10. DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

Details of liabilities directly associated with disposal group classified as held-for-sale are as follows:

	Group	
	2012	**2011**
	$'000	**$'000**
Trade and other payables	–	1,264
Deferred income tax liabilities	–	13
	–	1,277

(i) On 21 May 2012, the Company entered into a conditional sale and purchase agreement with Salcon Berhad for the disposal of 60% effective equity interest in Salcon Darco Environmental Pte. Ltd. (formerly known as Darco Environmental Pte. Ltd.) ("DNV") and its subsidiaries (collectively "DNV Group") for a total cash consideration of approximately $18,920,000 (RMB95,831,000). The disposal of 60% effective equity interest in DNV was completed in July 2012.

As disclosed in Note 34(b), the Group has received and accepted the letter of offer from Salcon Berhad to acquire the remaining 40% effective equity interest in DNV. Accordingly, the Group's and the Company's investment in DNV, associated company amounting to approximately $12.42 million (RMB63.00 million) were classified as a disposal group held-for-sale in the statements of financial position, and the entire results from DNV Group were presented separately on the consolidated statement of comprehensive income of the Group as "Discontinued Operations". The comparative figures have been restated accordingly.

(ii) In November 2012, P.T. Darco Indonesia ("PT Darco") increased its paid up share capital by issuing 343,090 new ordinary shares to an existing non-controlling party. As a result, the Group's effective equity interest was diluted to 38.75% from 51.00% upon issuance of new ordinary shares. Subsequently, the Group had disposed an additional 18.85% of its effective equity interest in PT Darco to the non-controlling party for a total cash consideration of $97,000 (equivalent to US$83,000), resulting in the decrease of the Group's effective equity interest in PT Darco to 19.90%.

On 21 December 2012, the Group disposed of its remaining 19.90% effective equity interest in PT Darco to the non-controlling party for a total cash consideration of $106,000 (equivalent to US$87,000).

Following the disposal, the results of PT Darco were presented separately on the consolidated statement of comprehensive income of the Group as "Discontinued Operations" and the comparative figures have been restated accordingly.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

10. DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

(iii) On 16 November 2009, Taoyuan County Government asked Northern Union Assortment Recycling Co., Ltd. ("Northern Union") to stop its operation and also stop sending recyclable items from six townships in northern Taoyuan to Northern Union's plant. The Group filed a claim on 12 February 2010 to recover the franchise and concession fees paid, as well as compensation for the cost of investment and expected profit totalling to approximately $5.62 million (NTD$128 million).

On 20 December 2011, Northern Union's immediate holding company, Darco Wan Yuan Develop Co., Ltd. ("Darco Wan Yuan") discontinued its operations. The entire assets and liabilities related to Northern Union and Darco Wan Yuan were classified as a disposal group classified as held-for-sale in the statement of financial position, and the entire results from Northern Union and Darco Wan Yuan were presented separately in the consolidated statement of comprehensive income as "Discontinued operations" since financial year 2011.

On 30 November 2012, Darco Wan Yuan and Northern Union filed for members' voluntary winding up and the effects of the members' voluntary winding up are disclosed in Note 16(f).

(iv) On 2 December 2011, Darco Engineering Pte. Ltd. entered into an agreement to sell the leasehold property located at 41 Loyang Drive, Singapore 508952 with carrying amount of $1,088,000 for a cash consideration of $3,400,000. Accordingly, this leasehold property was classified as a disposal group classified as held-for-sale in the statement of financial position in 2011. This transaction was completed in current financial year.

(v) The effects of the (loss)/profit from discontinued operations are as follows:

	Group	
		Restated
	2012	**2011**
	$'000	**$'000**
Revenue	**2,661**	8,467
Cost of sales	**(1,666)**	(6,363)
Gross profit	**995**	2,104
Other income	**3,221**	3,161
Distribution expenses	**–**	(11)
Administrative expenses	**(918)**	(1,731)
Finance expenses	**(524)**	(434)
Profit before income tax from discontinued operations	**2,774**	3,089
Income tax expense (Note 9)	**(1,063)**	(1,043)
Profit after discontinued operations	**1,711**	2,046
Loss on disposal of subsidiaries [Note 16(e)(iii)]	**(6,441)**	–
Gain on liquidation of subsidiaries [Note 16(f)]	**1,271**	–
Total (loss)/profit from discontinued operations, net of tax	**(3,459)**	2,046

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

10. DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

(v) The effects of the (loss)/profit from discontinued operations are as follows (Continued):

(a) Revenue

	Group 2012 $'000	Restated 2011 $'000
Revenue from construction contracts	**80**	–
Revenue from service concession arrangements	**2,581**	8,467
	2,661	8,467

(b) Other income

	Group 2012 $'000	Restated 2011 $'000
Finance income from service concession arrangements	**3,219**	3,064
Interest income	**2**	4
Government grant	**–**	13
Miscellaneous income	**–**	80
	3,221	3,161

(c) Finance expenses

	Group 2012 $'000	Restated 2011 $'000
Interest expense on bank borrowings	**524**	434

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

10. DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

(v) The effects of the (loss)/profit from discontinued operations are as follows (Continued):

(d) Profit before income tax from discontinued operations

	Group 2012 $'000	Group Restated 2011 $'000
Profit before income tax from discontinued operations is arrived after charging:		
Amortisation of land use rights	**34**	58
Auditors' remuneration paid/payable to:		
– auditor of the Company	**–**	10
– other auditors	**–**	25
Free for non-audit services paid/payable to auditor of the Company	**–**	–
Depreciation of property, plant and equipment	**18**	43
Employee compensation (Note 8)	**192**	542
Loss on foreign exchange	**195**	104

(vi) The impact of the discontinued operations on the cash flows of the Group are as follows:

	Group 2012 $'000	Group Restated 2011 $'000
Operating cash flows	**1,919**	1,145
Investing cash flows	**2**	131
Financing cash flows	**(1,767)**	(1,903)
Total cash flows	**154**	(627)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

11. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

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

Group	Continuing operations 2012	Continuing operations Restated 2011	Discontinued operations 2012	Discontinued operations Restated 2011	Total 2012	Total 2011
Net (loss)/profit attributable to equity holders of the Company ($'000)	**(2,535)**	(1,389)	**(4,381)**	2,145	**(6,916)**	756
Weighted average number of ordinary shares outstanding for basic (loss)/earnings per share ('000)	**276,685**	276,685	**276,685**	276,685	**276,685**	276,685
Basic (loss)/earnings per share (cents per share)	**(0.92)**	(0.50)	**(1.58)**	0.77	**(2.50)**	0.27

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is same as basic (loss)/earnings per share as there were no potential dilutive ordinary shares for the financial year.

12. CASH AND CASH EQUIVALENTS

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Cash at bank and on hand	**7,385**	10,414	**116**	3,223
Short-term bank deposits	**3,396**	5,203	**–**	–
	10,781	15,617	**116**	3,223

Short-term bank deposits of the Group have maturity periods ranging from 1 to 12 months from the end of financial year and bear interests ranging from 0.35% to 3.10% (2011: 0.35% to 3.10%) per annum.

Short-term bank deposits include an amount of $2,563,000 (2011: $4,117,000) which have been pledged to banks as collateral for banking facilities granted to the subsidiaries (Note 23).

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Trade receivables – Non-related parties	**10,195**	14,366	**–**	–
Less: Allowance for impairment	**(3,848)**	(4,729)	**–**	–
Trade receivables – net	**6,347**	9,637	**–**	–
Construction contracts:				
– Due from customers (Note 15)	**2,974**	9,817	**–**	–
Financial receivables from service concession arrangements	**–**	57,835	**–**	–
Less: Non-current portion (Note 21)	**–**	(56,844)	**–**	–
	–	991	**–**	–
Other receivables:				
– Subsidiaries (a)	**–**	–	**14,454**	61,121
– Joint venture (a)	**–**	277	**–**	–
– Associated companies (a)	**2,341**	–	**968**	–
– Non-related parties	**4,477**	2,061	**13**	7
	6,818	2,338	**15,435**	61,128
Less: Allowance for impairment				
– subsidiaries	**–**	–	**(14,355)**	(34,720)
– non-related parties	**(1,528)**	(1,501)	**–**	–
	5,290	837	**1,080**	26,408
Deposits	**2,200**	4,839	**–**	–
Staff loans (b)	**31**	106	**–**	–
Prepayments	**108**	573	**–**	2
Tax recoverable	**383**	223	**133**	6
	17,333	27,023	**1,213**	26,416

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Beginning of financial year	**6,230**	7,458	**34,720**	32,622
Allowance made (Note 7)	**1,594**	117	**103**	6,181
Allowance written off	**(2,229)**	(1,091)	**–**	–
Write back of allowance (Note 7)	**(69)**	(161)	**(20,468)**	(4,083)
Currency translation differences	**(150)**	(93)	**–**	–
End of financial year	**5,376**	6,230	**14,355**	34,720

(a) Amounts owing by subsidiaries, joint venture and associated companies are non-trade in nature, unsecured, interest-free and repayable on demand.

(b) Staff loans include a loan amounting to $15,000 (2011: $Nil) made to a member of key management personnel of the Group. The loan is unsecured, interest free and repayable on demand.

14. INVENTORIES

	Group	
	2012	**2011**
	$'000	**$'000**
Raw materials	**1,373**	1,268
Trading goods	**243**	250
	1,616	1,518
Consolidated Statement of Comprehensive Income		
Inventories recognised as an expense in cost of sales	**4,648**	8,819
Inclusive of inventories written down (Note 7)	**–**	46

During the financial year, the Group had recognised a reversal of $88,000 being part of inventory write down made in prior years, as the inventories were sold above the carrying amounts. The reversal was included in other income (Note 5).

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

15. CONSTRUCTION CONTRACTS

	Group	
	2012	**2011**
	$'000	**$'000**
Aggregate costs incurred and profits recognised (less losses recognised) to date on uncompleted construction contracts	**49,420**	34,752
Less: Progress billings	**(50,916)**	(30,603)
	(1,496)	4,149
Presented as:		
Due from customers on construction contracts (Note 13)	**2,974**	9,817
Due to customers on construction contracts (Note 24)	**(4,470)**	(5,668)
	(1,496)	4,149

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	**2011**
	$'000	**$'000**
Equity investments at cost		
Beginning of financial year	**7,276**	7,276
Acquisition	**20,215**	–
Disposal	**(200)**	–
End of financial year	**27,291**	7,276
Less: Accumulated impairment losses	**(22,894)**	(2,679)
	4,397	4,597

Movements in impairment losses on investment during the financial year are as follows:

	$'000	**$'000**
Beginning of financial year	**2,679**	2,679
Impairment made and recognised in profit or loss	**20,215**	–
End of financial year	**22,894**	2,679

During the financial year, management performed an impairment test for investments in certain subsidiaries as these subsidiaries have been incurring losses in the current and past financial years. An impairment loss of $20,215,000 was recognised to impair the full cost of investment in a subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) Listing of subsidiaries in the Group are as follows:

Name of companies/Country of business/incorporation	Principal activities	Effective equity holding 2012 %	Effective equity holding 2011 %
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	**100**	100
Salcon Darco Environmental Pte. Ltd. ^^ (formerly known as Darco Environmental Pte. Ltd.) Singapore	Investment holding	**–**	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 and trading in related industrial products	**100**	100
PV Vacuum Engineering Pte. Ltd. @@ Singapore	Design and supply of environmental related equipment, centralised vacuum systems, refuse conveying system and any other engineering systems making use of vacuum technologies	**100**	100
Darco Engineering (Taiwan) Co., Ltd. # 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	**97.95**	97.95

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) Listing of subsidiaries in the Group are as follows (Continued):

Name of companies/Country of business/incorporation	Principal activities	Effective equity holding 2012 %	Effective equity holding 2011 %
Held by subsidiaries			
P.T. Darco Indonesia * Indonesia	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	**–**	51
Darco Environmental (Philippines) Inc. ^ The Philippines	Designing, installation and commissioning of treatment systems for water purification, treatment of waste water and other waste discharge for industrial use, providing services and supplying chemicals and components used in manufacturing and maintenance water treatment systems	**65**	65
Globe Industrial Technology Co., Ltd. @@@ Hong Kong	Investment holding	**–**	91
Deqing Darco Producing Water Co., Ltd. @@@ The People's Republic of China	Building, operation and transfer ("BOT") of a waste water treatment plant and the production and supply of tap water	**–**	100
Shanghai Darco Engineering Co., Ltd. ### The People's Republic of China	Design and fabrication of water treatment systems and provision of consultancy services in relation to such business	**100**	100
Darco Systems (M) Sdn. Bhd. ## Malaysia	Ceased operations	**100**	100

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) Listing of subsidiaries in the Group are as follows (Continued):

Name of companies/Country of business/incorporation	Principal activities	Effective equity holding 2012 %	Effective equity holding 2011 %
Held by subsidiaries (Continued)			
Darco Industrial Water 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	**100**	100
WWMG Environmental Sdn. Bhd. ## Malaysia	Dormant	**100**	100
Deqing Huanzhong Producing Water Co., Ltd. @@@ The People's Republic of China	Building, operation and transfer ("BOT") of a waste water treatment plant and the production and supply of tap water	**–**	91
Darco Environmental (Taiwan) Inc. # Taiwan	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	**59.58**	59.58
Darco Wan Yuan Develop Co., Ltd. # Taiwan	Under members' voluntary winding up	**–**	100
Northern Union Assortment Recycling Co., Ltd. # Taiwan	Under members' voluntary winding up	**–**	100
Darco Puding Wastewater Management Co., Ltd. # Taiwan	Supply of potable water	**51**	51

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) Listing of subsidiaries in the Group are as follows (Continued):

Name of companies/Country of business/incorporation	Principal activities	Effective equity holding 2012 %	Effective equity holding 2011 %
Held by subsidiaries (Continued)			
Darco Remediation Technologies Inc. # Taiwan	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	**100**	100
WLF Industrial Co., Ltd. # Taiwan	Sludge scrapper systems for sedimentation tanks	**100**	100
Darco Youli Co., Ltd. # Taiwan	Recycling of medical waste	**60**	60
Puzer Asia Pte Ltd @@ Singapore	Trading in vacuum cleaning systems and provision of related services	**56**	56
Darco-Envidan Sdn. Bhd. ## Malaysia	Designing, fabricating and construction pure and waste water treatment plants and trading in related industrial products	**100**	–

@ Audited by Baker Tilly TFW LLP, Singapore.

@@ Audited by Tan, Teo & Partners Pac, Singapore.

@@@ Audited financial statements are not available as of the date of this report. Audited by Er & Co., Singapore in 2011 for the purpose of preparation of the consolidated financial statements of the Group.

Audited by Sun Rise CPAs & Company, Taiwan.

Audited by Baker Tilly Monteiro Heng, Malaysia in 2012 and Peter Chong & Co., Malaysia in 2011.

Audited by Lixin International, Singapore in 2012 and Er & Co., Singapore in 2011 for the purpose of preparation of the consolidated financial statements of the Group.

^ Audited by Fernandez, Santos & Lopez, The Philippines.

^^ Audited by SP Tan & Co, Singapore in 2012 and Baker Tilly TFW LLP, Singapore in 2011.

* Audited financial statements are not available as of the date of this report.

In accordance to Rule 716 of The Singapore Exchange Securities Trading Limited – Listing Rules, the Audit Committee and Board of Directors of the Company confirmed that they are satisfied that the appointment of different auditors for its subsidiaries would not compromise the standard and effectiveness of the audit of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(b) Increase in paid up share capital of DNV

On 16 March 2012, DNV issued 20,600,000 new ordinary shares to the Company, by way of capitalisation of an amount of $20,624,000 due by DNV to the Company.

On 16 May 2012, DNV assumes the liabilities amounting to $4,968,000 due from its subsidiary, Globe Industrial Technology Co., Ltd. ("Globe") to the Company in consideration for the allotment of 115,233 ordinary shares in Globe to DNV. The amount due by DNV to the Company of $4,968,000 is settled by the allotment of additional 4,968,000 new ordinary shares in DNV to the Company.

(c) Acquisition of additional equity interest in Darco-Envidan Sdn. Bhd. ("Darco-Envidan")

During the financial year, the Group acquired remaining 49% effective equity interest in a joint venture, Darco-Envidan, a company incorporated in Malaysia for a total cash consideration of approximately $60,000 (RM146,000). Following the acquisition, Darco-Envidan became a wholly-owned subsidiary.

The Group intends to expand and develop its business in Malaysia, and the acquisition of Darco-Envidan would facilitate this expansion. In addition, Darco-Envidan would complement and strengthen the Company's existing capability in providing a more complete range of services.

The acquisition of Darco-Envidan has contributed revenue of $2,246,000 and net loss of $17,000 to the Group since the date of acquisition to 31 December 2012.

Fair values of identifiable assets and liabilities of Darco-Envidan at the acquisition date are as follows:

	Group 2012 $'000
Property, plant and equipment	23
Trade and other receivables	500
Borrowings and bank overdraft, unsecured	(126)
Trade and other payables	(282)
Net identifiable assets acquired	115
Goodwill [Note 19(a)]	4
Less: Fair value of previously held interest (Note 17)	(59)
Total cash paid	60
Bank overdraft assumed	106
Net cash outflow on acquisition of subsidiary	166

NOTES TO THE **FINANCIAL STATEMENTS**

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16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(d) Restructuring of group's shareholding interest

On 1 February 2012, the Company acquired DET (indirect subsidiary) from Darco Engineering Pte. Ltd. ("DEPL") (direct wholly-owned subsidiary) for a consideration of $20,215,000 (NTD$477.00 million) by way of offsetting against amount due by DEPL to the Company. The amount due by DEPL was fully impaired in prior years. Therefore, a reversal of allowance for impairment of receivables of $20,215,000 was recognised in profit or loss during the financial year.

The Company recognised a corresponding impairment loss on the cost of investment in DET of $20,215,000 (Note 16) as DET reported a net liabilities position at 31 December 2012 and has been incurring losses in the current and past financial years.

(e) Disposal of subsidiaries

(i) As referred to in Note 10(i), the Company completed the disposal of 60% effective equity interest in DNV to Salcon Berhad for a total cash consideration of approximately $18,920,000 (RMB95,831,000) in July 2012.

(ii) As referred to in Note 10(ii), the Group had diluted its effective equity interest in PT Darco in November 2012 and subsequently disposed of its remaining effective equity interest in PT Darco during the financial year.

(iii) The effects of the disposal of PT Darco and DNV Group on the cash flows of the Group were:

	Group 2012 $'000
Carrying amounts of assets and liabilities disposed of:	
Cash and cash equivalents	870
Trade and other receivables	10,818
Financial receivables from service concession arrangements	56,559
Goodwill [Note 19(a)]	311
Land use rights	1,232
Other non-current assets	19
Other current assets	64
Total assets	69,873
Trade and other payables	(13,086)
Deferred tax liabilities	(4,330)
Borrowings	(10,412)
Other current liabilities	(40)
Total liabilities	(27,868)
Net assets derecognised	42,005
Less: Non-controlling interests	(2,358)
Net assets disposed of	39,647
Loss on disposal of subsidiaries [Note 10(v)]	(6,441)
Reclassification from currency translation reserve [Note 26(b)(i)]	(1,659)
Fair value of remaining 40% effective equity interest	(12,424)
Total cash consideration	19,123
Less: Cash and cash equivalents in subsidiaries disposed of	(870)
Net cash inflow on disposal of subsidiaries	18,253

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(e) Disposal of subsidiaries (Continued)

(iii) The effects of the disposal of PT Darco and DNV Group on the cash flows of the Group were: (Continued)

The loss on disposal of subsidiaries was form part of loss from discontinued operations, net of tax in the consolidated statement of comprehensive income of the Group for the financial year ended 31 December 2012.

(f) Liquidation of subsidiaries

As referred to in Note 10(iii), Darco Wan Yuan and Northern Union filed for members' voluntary winding up on 30 November 2012.

The effects of the members' voluntary winding up on the cash flows of the Group are as follows:

	Group 2012 $'000
Cash and cash equivalents	2
Other current assets	6
Total assets	8
Trade and other payables	(1,264)
Other current liabilities	(15)
Total liabilities	(1,279)
Net identifiable liabilities derecognised of	(1,271)
Gain on liquidation of subsidiaries [Note 10(v)]	1,271
Total cash consideration	–
Less: Cash and cash equivalents of subsidiaries	(2)
Net cash outflow from liquidation of subsidiaries	(2)

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(g) Incorporation of a subsidiary

In 2011, the Group incorporated a new subsidiary, Darco Youli Co., Ltd. ("Darco Youli") through injection of the property, plant and equipment and deferred expenditure totalling $4.14 million (NTD$96.04 million). Subsequently, the Group disposed of 40% effective equity interest in Darco Youli to a third party for a cash consideration of $859,000 (NTD$20.00 million). The following summarises the effect of the change in the Group's ownership interest in Darco Youli on the equity attributable to equity holders of the Company:

	Group 2011 $'000
Carrying amount of non-controlling interests acquired	799
Consideration received from non-controlling interests, net of transaction costs	859
Increase in equity attributable to equity holders of the Company	60

17. INVESTMENT IN A JOINT VENTURE

For the financial year ended 31 December 2011, the Group has 51% effective equity interest in Darco-Envidan, which provides designing, fabricating and constructing pure and waste water treatment plants, and trading in related industrial products in Malaysia. Darco-Envidan is deemed to be a joint venture of the Group as the appointment of its directors and the allocation of voting rights for key business decisions require the unanimous approval of its venturers.

	Group	
	2012 $'000	**2011 $'000**
Equity investment at cost	–	209
Share of post acquisition reserves	–	(150)
	–	59

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

17. INVESTMENT IN A JOINT VENTURE (CONTINUED)

The summarised financial information of the joint venture, not adjusted for the proportion of ownership interest held by the Group, is as follows:

	Group 2011 $'000
Current assets	504
Non-current assets	24
Total assets	528
Current liabilities	(402)
Non-current liabilities	(11)
Total liabilities	(413)
Net assets	115
Revenue	1,794
Cost of sales	(1,863)
Gross loss	(69)
Distribution expenses	(18)
Administrative expenses	(113)
Finance expenses	(3)
Loss before income tax	(203)
Income tax expense	(1)
Loss and total comprehensive loss for the year	(204)

At 31 December 2011, the Group had provided corporate guarantee of $1,516,000 to financial institution for the banking facilities granted to Darco-Envidan.

There are no capital commitments relating to the Group's investment in a joint venture at 31 December 2011.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

17. INVESTMENT IN A JOINT VENTURE (CONTINUED)

Details of the joint venture are as follows:

Name of joint venture/Country of business/incorporation	Principal activities	Effective equity holding 2012 %	2011 %
Held by subsidiary			
Darco-Envidan Sdn. Bhd. ## Malaysia	Designing, fabricating and constructing pure and waste water treatment plants and trading in related industrial products	–	51

Audited by Peter Chong & Co., Malaysia in 2011.

On 9 May 2012, the Group acquired the remaining 49% effective equity interest in Darco-Envidan for a total cash consideration of approximately $60,000 (RM146,000). Following the acquisition, Darco-Envidan became a wholly-owned subsidiary.

The fair value of the net assets of Darco-Envidan at the acquisition date which approximated the carrying amount of the investment of $59,000 (RM143,000) have been transferred to cost of investment in subsidiaries [Note 16(c)].

The financial results of Darco-Envidan were consolidated with effect from 1 January 2012, as management has assessed that the impact on profit or loss between 1 January 2012 to 8 May 2012 is not significant.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

18. PROPERTY, PLANT AND EQUIPMENT

Group 2012	Freehold land $'000	Freehold buildings $'000	Leasehold properties $'000	Renovation $'000	Assets under construction $'000	Motor vehicles $'000	Plant and equipment $'000	Total $'000
Cost								
Beginning of financial year	2,185	1,396	1,799	123	39	1,164	10,925	17,631
Additions	–	63	–	–	148	197	228	636
Disposals	–	–	–	–	–	(141)	(381)	(522)
Write-off	–	–	–	–	(94)	(3)	(129)	(226)
Acquisition of a subsidiary	–	–	–	–	–	49	2	51
Liquidation of subsidiaries	–	–	–	–	–	(21)	–	(21)
Disposal of subsidiaries	–	–	–	–	–	(195)	(100)	(295)
Currency translation differences	(51)	(35)	(75)	–	(2)	(28)	(224)	(415)
End of financial year	2,134	1,424	1,724	123	91	1,022	10,321	16,839
Accumulated depreciation								
Beginning of financial year	–	200	242	123	–	856	5,304	6,725
Depreciation charge for the year	–	75	46	–	–	116	1,074	1,311
Disposals	–	–	–	–	–	(107)	(120)	(227)
Write-off	–	–	–	–	–	(3)	(112)	(115)
Acquisition of a subsidiary	–	–	–	–	–	27	1	28
Liquidation of subsidiaries	–	–	–	–	–	(13)	–	(13)
Disposal of subsidiaries	–	–	–	–	–	(172)	(85)	(257)
Currency translation differences	–	(7)	(13)	–	–	(19)	(91)	(130)
End of financial year	–	268	275	123	–	685	5,971	7,322
Accumulated impairment losses								
Beginning of financial year	1,461	–	–	–	–	43	1,052	2,556
Additions	–	–	–	–	–	–	47	47
Disposals	–	–	–	–	–	–	(217)	(217)
Liquidation of subsidiaries	–	–	–	–	–	(8)	–	(8)
Write back	(388)	–	–	–	–	–	(499)	(887)
Currency translation differences	(32)	–	–	–	–	(1)	(21)	(54)
End of financial year	1,041	–	–	–	–	34	362	1,437
Net carrying value								
End of financial year	1,093	1,156	1,449	–	91	303	3,988	8,080

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group 2011	Freehold land $'000	Freehold buildings $'000	Leasehold properties $'000	Renovation $'000	Assets under construction $'000	Motor vehicles $'000	Plant and equipment $'000	Total $'000
Cost								
Beginning of financial year	2,224	1,005	2,663	123	1,472	1,252	8,187	16,926
Additions	–	68	677	–	270	46	1,668	2,729
Disposals	–	–	–	–	–	(107)	(56)	(163)
Write-off	–	–	–	–	–	(27)	(163)	(190)
Reclassification	–	344	–	–	(1,677)	–	1,333	–
Reclassified to disposal group classified as held-for-sale (Note 10)	–	–	(1,592)	–	–	–	–	(1,592)
Currency translation differences	(39)	(21)	51	–	(26)	–	(44)	(79)
End of financial year	2,185	1,396	1,799	123	39	1,164	10,925	17,631
Accumulated depreciation								
Beginning of financial year	–	164	644	123	–	786	4,443	6,160
Depreciation charge for the year	–	39	91	–	–	165	1,080	1,375
Disposals	–	–	–	–	–	(71)	(55)	(126)
Write-off	–	–	–	–	–	(27)	(163)	(190)
Reclassified to disposal group classified as held-for-sale (Note 10)	–	–	(504)	–	–	–	–	(504)
Currency translation differences	–	(3)	11	–	–	3	(1)	10
End of financial year	–	200	242	123	–	856	5,304	6,725
Accumulated impairment losses								
Beginning of financial year	1,549	–	–	–	–	–	952	2,501
Additions	–	–	–	–	–	43	116	159
Currency translation differences	(88)	–	–	–	–	–	(16)	(104)
End of financial year	1,461	–	–	–	–	43	1,052	2,556
Net carrying value								
End of financial year	724	1,196	1,557	–	39	265	4,569	8,350

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) During the financial year, a subsidiary carried out a review of the recoverable amounts of its freehold land and plant and equipment because of the higher market value of the freehold land and expected economic benefits to be generated from the plant and equipment. As a result of the review, a reversal of $887,000 (2011: $Nil) was recognised in profit or loss (Note 7).

(b) At the end of the reporting period, the carrying amounts of motor vehicles held under finance leases (Note 23) are $195,000 (2011: $133,000).

(c) At the end of the reporting period, freehold land with carrying amount of $84,000 (2011: $86,000) have yet to be registered in the name of the Group. Freehold land and building with carrying amount of $1,247,000 (2011: $873,000) are mortgaged to a related party who granted credit facilities to a subsidiary's supplier.

(d) At the end of the reporting period, leasehold properties with carrying amount of $640,000 (2011: $670,000) are mortgaged to bank to secure banking facilities of the Group [Note 23(i)].

(e) At the end of the reporting period, the Group owns the following properties:

Location	Description and tenure	Gross land area (sqm)	Gross built-in area (sqm)	Use of property
Lot 10645, Jalan Permata 1/6, Arab Malaysian Industrial Park, 71800 Nilai, Negeri Sembilan Darul Khusus, Malaysia	Freehold land	4,572	1,512	Office, factory and warehouse
No. 5, Wurih Township, Town Urban, Qing Guan Road, 65-1 Tong An Segment, 341-2, Taiwan	Freehold land and building	76,445	1,248	Office, factory and warehouse
Wurih Towship, Town Urban, Tong An Segment 253-1, Taiwan	Freehold land	17,199	–	Office, factory and warehouse
Lot No. 6546, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang Malaysia	Leasehold land and building	1,009	984	Office, factory and warehouse
Lot No. 6547, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang Malaysia	Leasehold land and building	1,009	984	Office, factory and warehouse

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

19. INTANGIBLE ASSETS

	Group 2012 $'000	Group 2011 $'000
Goodwill arising on consolidation [Note (a)]	**905**	1,216
Franchise [Note (b)]	**–**	7
	905	1,223

(a) Goodwill arising on consolidation

	Group 2012 $'000	Group 2011 $'000
Cost		
Beginning of financial year	**1,266**	1,266
Acquisition of a subsidiary [Note 16(c)]	**4**	–
Disposal of subsidiaries [Note 16(e)(iii)]	**(311)**	–
End of financial year	**959**	1,266
Accumulated impairment losses		
Beginning of financial year	**50**	50
Impairment charge (Note 7)	**4**	–
End of financial year	**54**	50
Net carrying amount		
End of financial year	**905**	1,216

Impairment test for goodwill arising on consolidation

Goodwill acquired in a business combination is allocated to the Group's cash generating units ("CGUs") that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated to a segment-level as follows:

	Engineered Environmental Systems Group 2012 $'000	Engineered Environmental Systems Group 2011 $'000
Singapore	**905**	905
Hong Kong	**–**	311
Malaysia	**4**	–
Taiwan	**35**	35
The People's Republic of China	**15**	15
	959	1,266

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

19. INTANGIBLE ASSETS (CONTINUED)

(a) Goodwill arising on consolidation (Continued)

Impairment test for goodwill arising on consolidation (Continued)

The recoverable amounts of the CGUs are determined based on value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs. The discount rates used are pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates used are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts based on the most recent financial budgets approved by the management for the next five financial years and extrapolates cash flows for the following five financial years based on the following key assumptions:

	Group	
	2012	**2011**
	%	**%**
Gross margin[1]	**49**	49
Growth rate[2]	**6**	6
Discount rate[3]	**4**	4

(1) Budgeted gross margin
(2) Weighted average growth rate used to extrapolate cash flows for the next five financial years
(3) Pre-tax discount rate applied to the pre-tax cash flow projections

At 31 December 2012, before impairment testing, goodwill of $909,000 was allocated to the Engineered Environmental Systems division in Singapore and Malaysia. Due to the unfavourable business performance of a CGU, an impairment loss against goodwill of $4,000 was made to reduce its recoverable amount. The impairment charge is included within 'Administrative expenses' in the consolidated statement of comprehensive income of the Group.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

19. INTANGIBLE ASSETS (CONTINUED)

(b) Franchise

	Group	
	2012	**2011**
	$'000	**$'000**
Cost		
Beginning of financial year	**345**	285
Additions	**–**	64
Currency translation differences	**(8)**	(4)
End of financial year	**337**	345
Accumulated amortisation		
Beginning of financial year	**101**	44
Amortisation charge (Note 7)	**7**	58
Currency translation differences	**(2)**	(1)
End of financial year	**106**	101
Accumulated impairment losses		
Beginning of financial year	**237**	241
Currency translation differences	**(6)**	(4)
End of financial year	**231**	237
Net carrying amount		
End of financial year	**–**	7

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

20. LAND USE RIGHTS

	Group 2012 $'000	Group 2011 $'000
Cost		
Beginning of financial year	**1,863**	1,778
Disposal of subsidiaries	**(1,496)**	–
Currency translation differences	**(47)**	85
End of financial year	**320**	1,863
Accumulated amortisation		
Beginning of financial year	**286**	209
Amortisation charge	**41**	65
Disposal of subsidiaries	**(264)**	–
Currency translation differences	**(7)**	12
End of financial year	**56**	286
Net carrying amount		
End of financial year	**264**	1,577
Amount to be amortised:		
– Not later than one financial year	**6**	68
– Between two and five financial years	**26**	271
– Later than five financial years	**232**	1,238
	264	1,577

In 2011, the land use rights of $1,291,000 have been pledged to bank as collateral for banking facilities granted to the subsidiary (Note 23).

The details of the land use rights as at 31 December 2012 are as follows:

Location	Description and tenure	Gross land area (sqm)	Gross built-in area (sqm)	Use of property
No. 200, Lane 1276 NanLe Road, Songjiang District, Shanghai, The People's Republic of China	50 years land use rights with effect from 30 April 2002	6,960	3,391	Office, factory and warehouse

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

21. FINANCIAL RECEIVABLES

	Group	
	2012	**2011**
	$'000	**$'000**
Financial receivables from service concession arrangements (Note 13)	**–**	56,844

The subsidiaries of DNV, Deqing Huanzhong Producing Water Co., Ltd. ("Deqing Huanzhong") and Deqing Darco Producing Water Co., Ltd. ("Deqing Darco") obtained service concession arrangements in The People's Republic of China to construct and operate water treatment plants. Under the service concession arrangements, Deqing Huanzhong and Deqing Darco constructed and operated the water treatment plants for the concession periods of 22 years and 25 years, respectively. Such arrangements fall within the scope of Interpretations of FRS 112 Service Concession Arrangements.

The Group recognised the considerations received or receivable as a financial asset to the extent that it has an unconditional right to receive cash or another financial asset during the concession period. Such financial assets are measured at their fair values upon initial recognition. Subsequent to initial recognition, the financial assets are measured at amortised costs.

The key assumptions used for computation of the fair values of considerations received and receivable are as follows:

	Deqing Huanzhong		Deqing Darco	
	1.1.2012 to 31.7.2012	**1.1.2011 to 31.12.2011**	**1.1.2012 to 31.7.2012**	**1.1.2011 to 31.12.2011**
Construction services	**Forecast cost+ 7.5%**	Forecast cost+ 7.5%	**Forecast cost+ 15.0%**	Forecast cost+ 15.0%
Operation services	**Forecast cost+ 102.6%**	Forecast cost+ 102.6%	**Forecast cost+ 35.6%**	Forecast cost+ 35.6%
Effective interest rate	**6.00% per annum**	6.00% per annum	**6.00% per annum**	6.00% per annum

Deqing Huanzhong completed the construction of the water treatment plant in 2006 and is in the operating phase of the service concession arrangement.

Deqing Darco completed the construction of the water treatment plant in 2011 and is in the operating phase of the service concession arrangement.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

22. DEFERRED INCOME TAXES

The movements in the deferred income taxes are as follows:

	Group	
	2012	**2011**
	$'000	**$'000**
Beginning of financial year	**(3,720)**	(3,040)
Tax charged to profit or loss	**(696)**	(537)
Disposal of subsidiaries	**4,326**	–
Currency translation differences	**120**	(143)
End of financial year	**30**	(3,720)
Presented on statements of financial position as:		
Deferred income tax assets	**98**	23
Deferred income tax liabilities	**(68)**	(3,743)
	30	(3,720)

The deferred income tax assets on temporary differences recognised in the financial statements are in respect of tax effects arising from:

	Group	
	2012	**2011**
	$'000	**$'000**
Unrealised foreign exchange	**13**	(7)
Others	**85**	30
	98	23

At the end of the reporting period, the Group and the Company have potential tax benefits arising from unabsorbed tax losses of approximately $25,336,000 (2011: $16,430,000) and $1,470,000 (2011: $583,000) respectively, and unabsorbed capital allowances of approximately $85,000 (2011: $76,000) and $Nil (2011: $Nil) respectively, that are available for carry-forward to offset against future taxable income of the companies in which the tax losses and capital allowances arose, subject to the agreement by the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

The Taiwan subsidiaries have unabsorbed tax losses approximately $22,647,000 (2011: $14,234,000), that are available for carry-forward for a maximum of 10 years to offset against future taxable income of the Taiwan subsidiaries in which the tax losses arose, subject to the agreement by the tax authorities and compliance with certain provisions of the tax legislation.

The potential deferred tax assets arising from the unabsorbed tax losses and unabsorbed capital allowances have not been recognised in the financial statements as it is not probable that the future taxable income in these companies will be sufficient to allow the unabsorbed tax losses and unabsorbed capital allowances to be realised in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

22. DEFERRED INCOME TAXES (CONTINUED)

The deferred income tax liabilities on temporary differences recognised in the financial statements are in respect of tax effects arising from:

	Group	
	2012 $'000	2011 $'000
Excess of carrying amount over tax written down value of property, plant and equipment	**68**	88
Financial receivables from service concession arrangements	**–**	3,150
Withholding taxes arising from PRC subsidiaries' undistributed profits	**–**	505
	68	3,743

23. BORROWINGS

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
<u>Current</u>				
Revolving loan and term loan facilities (a)	**10,514**	25,700	**10,514**	25,700
Bank overdrafts (b)	**2,489**	2,511	**280**	283
Banker's acceptance (c)	**256**	45	**–**	–
Finance lease liabilities (d)	**47**	95	**–**	–
Term loan I (e)	**1,020**	2,727	**1,020**	2,727
Term loan II (f)	**–**	12,047	**–**	–
Term loan III (g)	**3,455**	3,537	**–**	–
Term loan IV (h)	**–**	171	**–**	–
Term loan V (i)	**42**	38	**–**	–
Personal loan I (j)	**–**	129	**–**	–
Personal loan II (k)	**465**	86	**–**	–
Personal loan III (l)	**–**	216	**–**	–
Personal loan IV (m)	**232**	–	**–**	–
Personal loan V (n)	**211**	–	**–**	–
Trust receipt (o)	**60**	–	**–**	–
Convertible notes (p)	**–**	189	**–**	189
	18,791	47,491	**11,814**	28,899
<u>Non-current</u>				
Finance lease liabilities (d)	**87**	11	**–**	–
Term loan V (i)	**416**	465	**–**	–
	503	476	**–**	–
Total borrowings	**19,294**	47,967	**11,814**	28,899

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23. BORROWINGS (CONTINUED)

(a) Revolving loan and term loan facilities bear interests at floating rates ranging from 2.55% to 3.99% (2011: 2.55% to 3.61%) per annum and are secured by corporate guarantees from certain subsidiaries, the Company's present and future shares in certain subsidiaries and subject to compliance with certain financial covenants.

On 29 October 2012, the Company has successfully restructured the existing revolving loan and term loan facilities of US$24.00 million and $5.00 million to term loan facilities consisting of US$6.41 million and $2.67 million.

(b) The bank overdrafts are secured by corporate guarantee from the Company and freehold land of a subsidiary and bear effective interest rates ranging from 7.85% to 8.10% (2011: 7.55% to 8.35%) per annum and fixed rate of 5.50% per annum.

(c) The banker's acceptance is secured by corporate guarantee from the Company and bears interest at 4.81% (2011: 3.87%) per annum.

(d) **Finance lease liabilities**

The Group leases certain motor vehicles from non-related parties under finance leases. The lease agreements do not have renewal clauses but provide the Group with options to purchase the leased assets at nominal values at the end of the lease term.

	Group	
	2012	**2011**
	$'000	**$'000**
Minimum lease payments due:		
– Not later than one financial year	**51**	102
– Between two and five financial years	**96**	11
	147	113
Less: Future finance charges	**(13)**	(7)
Present value of finance lease liabilities	**134**	106

The present values of finance lease liabilities are analysed as follows:

	Group	
	2012	**2011**
	$'000	**$'000**
Not later than one financial year	**47**	95
Between two and five financial years	**87**	11
Present value of finance lease liabilities	**134**	106

Finance lease liabilities of the Group are effectively secured over the leased motor vehicles (Note 18) as the legal titles are retained by the lessors and will be transferred to the Group upon full settlement of the finance lease liabilities.

The finance lease liabilities bear interests ranging from 4.65% to 9.08% (2011: 5.19% to 7.54%) per annum.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

23. BORROWINGS (CONTINUED)

(e) The term loan I bears interests at floating rate ranging from 5.18% to 5.83% (2011: 5.18% to 5.83%) per annum and is secured by corporate guarantees from certain subsidiaries and subject to compliance with certain financial covenants.

(f) The term loan II represents a 5 years term loan obtained from a bank for the financing of a subsidiary's project. It bears interest at 110% of the PBOC Base Rate per annum of 5.76% for a tenor of 3 to 5 years, or at an interest rate to be determined by the bank from time to time as permitted by the applicable laws. The loan is repayable by 9 quarterly instalments with the first instalment due on 29 August 2011. The amount repayable for the first 6 instalments shall be 5% of the principal amount, the next 2 instalments shall be 8% of the principal amount and the last instalment shall be 54% of the principal amount.

It is secured by:

(1) a stand-by letter of credit of not less than 110% of the facility amount in favour of the bank;

(2) a first legal mortgage over the subsidiary's land use right;

(3) an assignment of a political risk insurance coverage of US$10,683,000 on the subsidiary's capital; and

(4) an assignment over its accounts receivables upon commencement of operations.

The term loan was fully settled during the financial year by way of securing a 8-years term loan facility from another financial institution.

(g) The term loan III represents a loan obtained from a third party for the 20% investment in Forest Environmental Engineering Co., Ltd. ("Forest Environmental"). This loan will be settled by transferring the 20% investment in Forest Environmental to the third party. The loan is interest-free and secured by the 20% investment in Forest Environmental.

(h) The term loan IV was secured by personal guarantee from a non-controlling interest of a subsidiary and pledging of certain fixed deposits of the subsidiary (Note 12). The term loan borne interest at 2.41% per annum and due for payment on 10 February 2012. The term loan was fully settled during the financial year.

(i) The term loan V is secured by the subsidiary's leasehold properties with carrying amount of $640,000 (2011: $670,000) [Note 18(d)] and corporate guarantee from the Company. The term loan bears interest at 4.60% (2011: 4.60%) above the bank's base lending rate per annum.

(j) The personal loan I represents a loan from a subsidiary's staff. The personal loan was unsecured, borne interest at 2.00% per annum and was fully settled during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

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23. BORROWINGS (CONTINUED)

(k) The personal loan II represents a loan from a non-controlling interest of a subsidiary. The personal loan is unsecured, interest-free and payable on demand. The personal loan as at 31 December 2011 amounting to $86,000 was fully settled during the financial year.

(l) The personal loan III represents a loan from a third party. The personal loan was unsecured, borne interest at 2.40% per month and due for payment on 20 December 2012. The personal loan was fully settled during the financial year.

(m) The personal loan IV represents a loan from a third party. The personal loan is unsecured, bears interest at 2.20% per month and payable on demand.

(n) The personal loan V represents a loan from a subsidiary's staff. The personal loan is unsecured, bears interest at 3.30% per month and payable on demand.

(o) The trust receipt is secured by the corporate guarantee from the Company and bears interest at 8.10% per annum.

(p) Convertible notes

In 2007, the Company issued non-interest bearing convertible notes to Pacific Capital Investment Management Limited ("PCIM") to fund the Group's build-own-transfer municipal potable water project in The People's Republic of China and for the Group's working capital. In accordance with the agreement signed between the Company and PCIM, these notes are to be exercised and converted at the option of PCIM into ordinary shares at 90% of the average of the closing trading price of the Company's ordinary share on the Singapore Stock Exchange for five market days immediately preceding the date of conversion.

The fair value of the liability component included in borrowings is calculated using a market interest rate for an equivalent non-convertible bond at the date of issue. The residual amount, representing the value of the equity conversion component is included in shareholders' equity in other reserves.

The remaining convertible notes were paid to PCIM in 2012 and its conversion options had lapsed as PCIM has exercised the conversion rights up to 50% of the Company's issued share capital as agreed and no further conversion is allowed. Therefore, the carrying amount of equity conversion component has been transferred to retained earnings.

NOTES TO THE **FINANCIAL STATEMENTS**
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23. BORROWINGS (CONTINUED)

(p) Convertible notes (Continued)

The details of the convertible notes are as follows:

	Group and Company	
	2012	2011
	$'000	$'000
Beginning of financial year	**189**	189
Interest expense charged to profit or loss (Note 6)	**11**	–
Redemption of convertible notes	**(200)**	–
End of financial year	**–**	189

The carrying amount of the liability component of the convertible notes at the end of the reporting period is derived as follows:

	Group and Company	
	2012	2011
	$'000	$'000
Face value of convertible notes	**200**	200
Equity conversion component	**(42)**	(42)
Liability component on initial recognition	**158**	158
Accumulated interest expense	**42**	31
Redemption of convertible notes	**(200)**	–
Liability component at the end of the reporting period	**–**	189

The details of the accumulated interest expense charged to date are as follows:

	Group and Company	
	2012	2011
	$'000	$'000
Beginning of financial year	**31**	31
Interest expense charged to profit or loss (Note 6)	**11**	–
End of financial year	**42**	31

Fair value of the non-current borrowings

The fair value of the non-current borrowings approximates their carrying value.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

23. BORROWINGS (CONTINUED)

Breached of loan covenants

(i) Term loan I and term loan facilities

The Company's loan agreements for term loan I and term loan facilities are subject to covenant clauses, whereby the Company is required to meet certain key financial ratios. The Company breached one of the financial covenants as required in the agreements for a credit line of US$6.4 million and $2.6 million (2011: US$27 million and $5 million) in relation to maintain minimum consolidated tangible networth of $37.5 million for term loan I and $16.5 million for term loan facilities.

At the end of the reporting period, the Company has drawndown the amounts totalling $11,534,000 (2011: $28,427,000).

(ii) Bank overdraft

The Company's bank overdraft is also subject to covenant clauses, whereby the Company is required to meet certain key financial ratios. The Company breached one of the financial covenants as required in the agreement in relation to maintain minimum consolidated tangible networth of $40 million.

At the end of the reporting period, the Company has drawndown the amount of $280,000 (2011: $283,000).

Due to these breaches of the covenants clauses from three banks, the banks are contractually entitled to request for immediate repayment of the outstanding loans. The outstanding loans are presented as current liabilities as at 31 December 2012.

One of the banks has granted waiver in relation to a breach of the financial covenant to maintain minimum consolidated tangible networth of $37.5 million. However, the other two banks have not granted any waiver nor requested immediate repayment of the outstanding loans as of the date when these financial statements were approved by the Board of Directors. Management is in the process of renegotiating the terms of the loan agreements with the banks.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

24. TRADE AND OTHER PAYABLES

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Current				
Trade payables to:				
– Non-related parties	**6,657**	10,683	**–**	–
Construction contracts:				
– Due to customers (Note 15)	**4,470**	5,668	**–**	–
Other payables and accruals for operating expenses to:				
– Subsidiaries	**–**	–	**5,996**	4,484
– Related parties	**2,113**	5,191	**–**	2,015
– Non-related parties	**2,999**	8,527	**551**	4,715
	5,112	13,718	**6,547**	11,214
	16,239	30,069	**6,547**	11,214
Non-current				
Amount due to a subsidiary	**–**	–	**1,000**	–
Amounts due to directors of a subsidiary	**–**	1,562	**–**	–
	–	1,562	**1,000**	–

Amounts due to subsidiaries are non-trade in nature, unsecured, interest free and repayable on demand except for an amount of $2,500,000 (2011: $Nil) which bears interest at 3.00% (2011: Nil%) per annum and repayable over 5 equal quarterly instalments, commencing from May 2013.

Amounts due to related parties are non-trade in nature, unsecured, interest free and repayable on demand except for an amount of $500,000 (2011: $3,655,000) which bears interest at 3.00% (2011: 3.50% to 6.00%) per annum and repayable on 31 March 2013.

Amounts due to directors of a subsidiary are non-trade in nature, unsecured, interest free and not payable within twelve months from the end of the reporting period.

25. SHARE CAPITAL

	Number of ordinary shares	Issued share capital $'000
Group and Company		
2012 and 2011		
Beginning and end of the financial year	276,684,812	36,985

All issued ordinary shares are fully paid. There is no par value for these ordinary shares. The newly issued shares rank pari passu in all respects with the previously issued shares. The holder of the ordinary shares is entitled to receive dividends as and when declared by the Company.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

26. OTHER RESERVES

(a) Composition

	Group 2012 $'000	Group 2011 $'000
Currency translation reserve (b)(i)	**(3,988)**	(364)
Legal reserves (b)(ii)	**–**	1,494
	(3,988)	1,130

(b) Movements:

(i) Currency translation reserve

	Group 2012 $'000	Group 2011 $'000
Beginning of financial year	**(364)**	(1,890)
Net currency translation differences of financial statements of foreign subsidiaries and a joint venture	**(2,039)**	1,564
Reclassification of currency translation reserve upon disposal of subsidiaries [Note 16(e)(iii)]	**(1,659)**	–
Less: Non-controlling interests	**74**	(38)
	(3,624)	1,526
End of financial year	**(3,988)**	(364)

Currency translation reserve arises from the translation of foreign subsidiaries and a joint venture's financial statements whose functional currencies are different from the presentation currency of the Group.

(ii) In accordance with the relevant laws and regulations of The People's Republic of China ("PRC"), the subsidiaries of the Company established in the PRC is required to transfer 10% of its profit after income tax prepared in accordance with the accounting regulations in the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital.

	Group 2012 $'000	Group 2011 $'000
Beginning of financial year	**1,494**	1,229
Additions	**200**	265
Reclassification of legal reserve upon disposal of subsidiaries	**(1,694)**	–
	(1,494)	265
End of financial year	**–**	1,494

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

27. CONTINGENCIES

(a) Contingent liabilities

Contingent liabilities, excluding those relating to the investment in a joint venture (Note 17), of which the probability of settlement is not remote at the end of the reporting period, are as follows:

Group

(i) Several sub-contractors are making claims against DET for additional compensations totalling approximately NTD$105.96 million (2011: NTD$90.49 million). These cases are as follows:

- Claim against DET by Zhan Ji on Kerya project of NTD$38.43 million. DET had won the first trial on 9 October 2012 and Zhan Ji had filed an appeal on 25 December 2012. The legal case is currently ongoing.
- Claim against DET by Zhan Ji on Chubei project of NTD$30.24 million. DET had lost the legal case on 24 January 2013 and DET had filed an appeal on 18 February 2013. The legal case is currently ongoing.
- Claim against DET on Ruyi contract of NTD$37.29 million. DET had won the first and second trial on 30 March 2012 and 30 January 2013 respectively. The sub-contractor, Ruyi had filed an appeal in March 2013. The legal case is currently ongoing.

The legal advisers of DET advised that there are reasonable grounds of defence but subject to decision by the court.

(ii) DET set up a subsidiary, Darco Puding Wastewater Management Co., Ltd. ("Darco Puding") to enter into a build-operate-transfer ("BOT") contract with Taoyuan County Government ("TCG") on 16 March 2010. Under the BOT contract, Darco Puding was granted a 35 years concessionary period to construct and operate the water treatment plant. The construction of the water treatment plant was to be completed in 4 years period from 16 March 2010.

In 2010, the Group found hazardous material in the ground during the construction phase and has informed TCG of this finding. The construction of the water treatment plant has been put on hold since then.

In 2011, Darco Puding was penalised by TCG for non-compliance with the schedule and other obligations as stated in the BOT contract. Total penalty levied and accrued as at 31 December 2011 amounted to $0.43 million (NTD$9.87 million). The construction costs incurred for BOT contract for the financial year ended 31 December 2012 amounted to $0.09 million (NTD$2.20 million) (2011: $0.19 million (NTD$4.33 million)) were written off in view of uncertainty of its recoverability.

Due to unacceptable delays in the BOT project in Taiwan, the Group decided that it was in the best interest of Darco Puding and terminated the BOT contract with TCG on 26 December 2012. Darco Puding has requested for refund of the deposit guarantee of $2.5 million (NTD$60.00 million).

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

27. CONTINGENCIES (CONTINUED)

(a) Contingent liabilities (Continued)

Group (Continued)

(ii) *(Continued)*

Darco Puding was penalised by TCG for non-compliance with the schedule and other obligations as stated in the BOT contract and the cumulated penalties levied demand by TCG as at 6 December 2012 amounted to $6.95 million (NTD$164.98 million). Total penalties levied and accrued for in the financial statements as at 31 December 2012 by Darco Puding amounted to $0.43 million (NTD$9.87 million). The remaining penalties levied of $6.52 million (NTD$155.11 million) has not been accrued for as at 31 December 2012.

Management represented that the case is currently ongoing and the Group is still in the midst of discussion with TCG and also has ask for waiver of the penalty levied as of the date of this report. The legal adviser of Darco Puding advised that there are reasonable grounds of defence but subject to decision by the court.

(iii) During the financial year, a main contractor made a claim against DET for compensation amounted to approximately NTD$22,950,000. The legal case is currently ongoing. The legal adviser of DET advised that there are reasonable grounds of defence but subject to decision by the court.

The management is of the view that no provision is necessary for any of the legal cases described above having considered the status of the legal cases and the opinions obtained from the legal advisers of the respective subsidiaries.

(iv) Guarantees

	Group		Company	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Corporate guarantees provided to banks and financial institutions for credit facilities granted to:				
– Subsidiaries	**–**	–	**14,118**	20,843
– Joint venture	**–**	1,516	**–**	–
Mortgaged of freehold land to a related party who granted credit facilities to a subsidiary's supplier	**404**	414	**–**	–
Performance guarantee provided to customers for performance of the contracts during the contract and warranty periods	**17,658**	7,185	**–**	–

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

27. CONTINGENCIES (CONTINUED)

(a) Contingent liabilities (Continued)

Group (Continued)

(iv) Guarantees *(Continued)*

The Company has also given undertakings to continue providing financial support to certain subsidiaries as and when required to allow them to meet their obligations.

The directors have assessed the fair values of these financial guarantees to have no material financial impact on the results for the financial years ended 31 December 2012 and 31 December 2011.

(b) Contingent assets

Group

(i) In March 2010, the Company reported to the Singapore Stock Exchange that the Group was concerned with the manner in which DET accounts had been managed. On 20 May 2010, KPMG Singapore was appointed to conduct an investigation of the affairs of DET. Based on investigation report issued by KPMG Singapore on 27 May 2011, the total amount of possibly misappropriated monies amounted approximately to $7.18 million (NTD$163.41 million).

The Group filed police reports in Taiwan against its former employees and third parties facilitators or conspirators, claiming a total misappropriated amounts of $9.80 million (NTD$223.06 million) as of the date of this report.

The misappropriated amounts were recorded either as alleged administration expenses or project costs and recognised in the consolidated statement of comprehensive income for the financial years ended 31 December 2009 and before.

As of the date of this report, the case is still under police investigation and a refundable deposits of $0.65 million (NTD$15.11 million) has been paid to Taiwan court as guarantee for withhold defendant's assets. The legal case is still ongoing.

(ii) In 2009, DET filed a claim of NTD$8.16 million against RPTI International Ltd for certain repair and maintenance expenses. The court has awarded DET for a lesser amount of NTD$6.48 million. Both parties have appealed against the amount. The case is outstanding as at year end.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

28. COMMITMENTS

(a) Capital commitments

Capital expenditures contracted for at the end of the reporting period but not recognised in the financial statements are as follows:

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Approved and contracted for purchase of property, plant and equipment	**226**	–	**–**	–

(b) Operating lease commitments – where the Group is a lessee

The Group leases leasehold land, staff hostels, offices, factories and warehouses from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the end of the reporting period but not recognised as liabilities, are as follows:

	Group	
	2012 $'000	Restated 2011 $'000
Not later than one financial year	**337**	344
Between two and five financial years	**111**	302
	448	646

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

29. RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and the related parties at terms agreed between the parties:

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Sales to joint venture	–	1,303	–	–
Purchases from joint venture	–	1,390	–	–
Sales to associated companies	80	–	–	–
Loan to associated companies	1,066	–	872	–
Payment on behalf of associated companies	97	–	97	–
Loan to joint venture	–	206	–	–
Professional fees paid to a director-related corporation	36	23	30	23
Interest paid to a director-related company	64	66	33	41
Loan from a director-related company	500	3,265	–	1,645
Loan from a non-controlling interest of a subsidiary	467	86	–	–
Service fee charged to associated companies	55	–	–	–

Related parties comprise mainly companies which are controlled or significantly influenced by the Group's key management personnel and their close family members.

30. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the executive directors ("Exco") that are used to make strategic decisions.

For management purposes, the Group is currently organised into three operating divisions – Engineered Environmental Systems ("EE Systems"), Water Management Services ("WM Services") and trading. The principal activities of the Group are summarised as follows:

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

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

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

The Exco considers the business from both a geographic and business segment perspective. Geographically, management manages and monitors the business in the four primary geographic areas: Singapore, Taiwan, Malaysia, and The People's Republic of China. All geographic locations are engaged in the EE Systems and WM Services. In addition, the segments in Indonesia and Philippines also derive revenues from EE Systems and WM Services respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

30. SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Exco for the reportable segments for the financial year ended 31 December 2012 is as follows:

	EE Systems $'000	WM Services $'000	Trading $'000	Unallocated $'000	Total $'000
Group					
Sales	25,784	9,485	6,620	–	41,889
Inter-segment sales	–	–	(497)	–	(497)
Sales to external parties	25,784	9,485	6,123	–	41,392
Adjusted EBITDA	(3,403)	468	655	–	(2,280)
Depreciation of property, plant and equipment	(88)	(20)	(983)	(202)	(1,293)
Allowance for impairment of receivables	(993)	(365)	(236)	–	(1,594)
Amortisation of intangible assets – franchise	(6)	(1)	–	–	(7)
Amortisation of deferred expenditure	(1)	–	–	–	(1)
Amortisation of land use rights	(6)	(1)	–	–	(7)
Impairment loss of property, plant and equipment	–	–	(47)	–	(47)
Impairment loss of goodwill	–	–	–	(4)	(4)
Write back of impairment loss of property, plant and equipment	887	–	–	–	887
Write back of long outstanding trade payables	918	–	–	–	918
Property, plant and equipment written off	(111)	–	–	–	(111)
Segment assets	41,164	4,212	6,086	3,494	54,956
Segment liabilities	14,966	650	623	19,441	35,680
Other information:					
Additions to property, plant and equipment	106	5	420	105	636

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

30. SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Exco for the reportable segments for the financial year ended 31 December 2011 is as follows:

	EE Systems $'000	WM Services $'000	Trading $'000	Unallocated $'000	Total $'000
Group					
Sales	33,770	8,220	11,714	–	53,704
Inter-segment sales	(150)	–	–	–	(150)
Sales to external parties	33,620	8,220	11,714	–	53,554
Adjusted EBITDA	1,176	333	223	–	1,732
Depreciation of property, plant and equipment	(44)	(157)	(916)	(215)	(1,332)
Allowance for impairment of receivables	(66)	(29)	(22)	–	(117)
Amortisation of intangible assets – franchise	–	(58)	–	–	(58)
Amortisation of land use rights	(4)	–	(3)	–	(7)
Impairment loss of property, plant and equipment	–	–	(159)	–	(159)
Write back of impairment loss of property, plant and equipment	237	–	–	–	237
Inventories written down	(46)	–	–	–	(46)
Segment assets	73,969	18,318	19,356	5,226	116,869
Segment liabilities	30,470	1,426	1,012	52,422	85,330
Other information:					
Additions to property, plant and equipment	83	1	2,565	80	2,729

Sales between operating segments are on terms agreed by the group of companies concerned. The revenue from external parties reported to the Exco is measured in a manner consistent with that in the consolidated statement of comprehensive income.

The Exco assesses the performance of the operating segments based on a measure of Earnings before interest, tax, depreciation, impairment loss and amortisation ("adjusted EBITDA").

This measurement basis excludes the effects of expenditure from the operating segments such as restructuring costs and impairment loss of goodwill that are not expected to recur regularly in every period. Interest income and finance expenses are not allocated to segments, as this type of activity is driven by the Board of Directors, which manages the cash position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

30. SEGMENT INFORMATION (CONTINUED)

(a) Reconciliation

(i) Segment profits

A reconciliation of adjusted EBITDA to loss before income tax and discontinued operations is as follows:

	Group	
	2012	**2011**
	$'000	**$'000**
Adjusted EBITDA for reportable segments	**(2,280)**	1,732
Depreciation of property, plant and equipment	**(1,293)**	(1,332)
Allowance for impairment of receivables	**(1,594)**	(117)
Amortisation of deferred expenditure	**(1)**	–
Amortisation of intangible assets – franchise	**(7)**	(58)
Amortisation of land use rights	**(7)**	(7)
Impairment loss of property, plant and equipment	**(47)**	(159)
Impairment loss of goodwill	**(4)**	–
Finance expense	**(1,381)**	(1,232)
Interest income	**63**	28
Property, plant and equipment written off	**(111)**	–
Share of loss of a joint venture	**–**	(104)
Gain on disposal of property, plant and equipment	**14**	14
Gain on disposal of disposal group classified as held-for-sale	**2,312**	28
Write back of impairment loss of property, plant and equipment	**887**	–
Write back of long outstanding trade payables	**918**	237
Inventories written down	**–**	(46)
Loss before income tax and discontinued operations	**(2,531)**	(1,016)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

30. SEGMENT INFORMATION (CONTINUED)

(a) Reconciliation (Continued)

(ii) Segment assets

The amounts provided to the Exco with respect to total assets are measured in a manner consistent with that of the financial statements. For the purposes of monitoring segment performance and allocating resources between segments, the Exco monitors the property, plant and equipment, intangible assets, land used rights, inventories, receivables, and operating cash attributable to each segment. All assets are allocated to reportable segments other than deferred income tax assets and short-term bank deposits.

Segment assets are reconciled to total assets as follows:

	Group	
	2012	**2011**
	$'000	**$'000**
Segment assets for reportable segments	**51,462**	111,643
Unallocated:		
– Deferred income tax assets	**98**	23
– Short-term bank deposits	**3,396**	5,203
Total assets	**54,956**	116,869

(iii) Segment liabilities

The amounts provided to the Exco with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment. All liabilities are allocated to the reportable segments other than current income tax liabilities, deferred income tax liabilities and borrowings.

Segments liabilities are reconciled to total liabilities as follows:

	Group	
	2012	**2011**
	$'000	**$'000**
Segment liabilities for reportable segments	**16,239**	32,908
Unallocated:		
– Current income tax liabilities	**79**	712
– Deferred income tax liabilities	**68**	3,743
– Borrowings	**19,294**	47,967
Total liabilities	**35,680**	85,330

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

30. SEGMENT INFORMATION (CONTINUED)

(b) Geographical information

The Group's two business segments operated in five main geographical areas:

(i) Singapore – the Company is headquartered and has operations in Singapore. The operations in this area are principally the investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business.

(ii) The People's Republic of China – the operations in this area are principally the supply of potable water, design, fabrication, installation and commissioning of environmental engineering system and providing consultancy services in relation to such business.

(iii) Taiwan – the operations in this areas are principally the design, fabrication, installation of water and waste water pollution control engineering; air pollution control engineering; solid waste disposal treatment and incineration; noise and vibration prevention engineering, soil pollution control engineering; environmental monitoring system.

(iv) Malaysia – the operations in this area are principally the designing, installing, setting up and maintaining of industrial waste treatment plant ultra pure system, testing of waste water and processed water, rendering of other related waste treatment plant services and trading in industrial water treatment equipment, spare parts and chemicals.

(v) Other countries – the operations include the design, installation and commissioning of treatment systems for water purification, treatment of wastewater and other waste discharge for industrial use in Philippines.

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

	Sales for continuing operations		Non-current assets	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Taiwan	**13,056**	17,892	**4,678**	5,053
Malaysia	**19,029**	19,635	**2,192**	2,196
The People's Republic of China	**1,078**	1,463	**1,369**	59,419
Singapore	**7,719**	13,583	**999**	1,363
Other countries	**510**	981	**11**	22
	41,392	53,554	**9,249**	68,053

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

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

31. CATEGORIES OF FINANCIAL INSTRUMENTS

Financial instruments at their carrying amounts at the end of the reporting period are as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Cash and cash equivalents	**10,781**	15,617	**116**	3,223
Trade and other receivables	**13,868**	13,897	**1,080**	26,408
Financial receivables	**–**	57,835	**–**	–
Loans and receivables	**24,649**	87,349	**1,196**	29,631
Financial liabilities				
Borrowings	**19,294**	47,967	**11,814**	28,899
Trade and other payables	**11,769**	22,725	**7,547**	8,153
Financial liabilities at amortised costs	**31,063**	70,692	**19,361**	37,052

32. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to market risk (including currency risk, and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The management then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits and hedging strategies, in accordance with the objectives and underlying principles approved by the Board of Directors.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(a) Market risk

Currency risk

The Group operates in Asia with dominant operations in Singapore, The People's Republic of China, Taiwan, Malaysia, Indonesia and Philippines, Entities in the Group regularly transact in currencies other than their respective functional currencies ("foreign currencies").

Currency risk arises within entities in the Group when transactions are denominated in foreign currencies such as the Singapore Dollar ("SGD"), United State Dollar ("USD"), Malaysia Ringgit ("MYR"), New Taiwan Dollar ("NTD") and Renminbi ("RMB"). Currency risk arises when transactions are denominated in foreign currencies. This risk is mitigated to certain extent by the natural hedge between sales receipts and purchases, and operating expenses disbursement.

In addition, the Group is exposed to currency translation risk on the net assets in foreign operations. Currency exposure to the net assets of the Group's foreign operations in Malaysia and Taiwan are managed primarily through borrowings denominated in the relevant foreign currencies.

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

	SGD $'000	USD $'000	MYR $'000	NTD $'000	RMB $'000	Others $'000	Total $'000
Group							
2012							
Financial assets							
Cash and cash equivalents	2,173	965	770	5,778	564	531	10,781
Trade and other receivables	582	333	4,001	6,673	2,204	75	13,868
	2,755	1,298	4,771	12,451	2,768	606	24,649
Financial liabilities							
Borrowings	2,963	8,864	3,104	4,363	–	–	19,294
Trade and other payables	3,231	91	1,745	6,303	343	56	11,769
	6,194	8,955	4,849	10,666	343	56	31,063
Net financial (liabilities)/assets	(3,439)	(7,657)	(78)	1,785	2,425	550	(6,414)
Less: Net financial liabilities denominated in the respective entities' functional currencies	3,439	–	–	–	–	–	
Currency exposure	–	(7,657)	(78)	1,785	2,425	550	

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For the financial year ended 31 December 2012

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(a) Market risk (Continued)

Currency risk (Continued)

	SGD $'000	USD $'000	MYR $'000	NTD $'000	RMB $'000	Others $'000	Total $'000
Group							
2011							
Financial assets							
Cash and cash equivalents	1,916	1,534	351	7,041	3,812	963	15,617
Trade and other receivables	1,520	230	5,534	5,813	58,514	121	71,732
	3,436	1,764	5,885	12,854	62,326	1,084	87,349
Financial liabilities							
Borrowings	5,555	23,427	2,797	4,141	12,047	–	47,967
Trade and other payables	8,519	183	2,110	5,872	3,980	2,061	22,725
	14,074	23,610	4,907	10,013	16,027	2,061	70,692
Net financial (liabilities)/assets	(10,638)	(21,846)	978	2,841	46,299	(977)	16,657
Less: Net financial liabilities denominated in the respective entities' functional currencies	10,638	–	–	–	–	–	
Currency exposure	–	(21,846)	978	2,841	46,299	(977)	

	SGD $'000	USD $'000	RMB $'000	Total $'000
Company				
2012				
Financial assets				
Cash and cash equivalents	**–**	**113**	**3**	**116**
Trade and other receivables	**127**	**82**	**871**	**1,080**
	127	**195**	**874**	**1,196**
Financial liabilities				
Borrowings	**2,952**	**8,862**	**–**	**11,814**
Trade and other payables	**7,547**	**–**	**–**	**7,547**
	10,499	**8,862**	**–**	**19,361**
Net financial (liabilities)/assets	**(10,372)**	**(8,667)**	**874**	**(18,165)**
Less: Net financial liabilities denominated in the Company's functional currency	**10,372**	**–**	**–**	
Currency exposure	**–**	**(8,667)**	**874**	

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(a) Market risk (Continued)

Currency risk (Continued)

	SGD $'000	USD $'000	RMB $'000	Total $'000
Company				
2011				
Financial assets				
Cash and cash equivalents	–	160	3,063	3,223
Trade and other receivables	26,408	–	–	26,408
	26,408	160	3,063	29,631
Financial liabilities				
Borrowings	5,472	23,427	–	28,899
Trade and other payables	7,997	156	–	8,153
	13,469	23,583	–	37,052
Net financial assets/(liabilities)	12,939	(23,423)	3,063	(7,421)
Less: Net financial assets denominated in the Company's functional currency	(12,939)	–	–	
Currency exposure	–	(23,423)	3,063	

If the USD, MYR and NTD and RMB change against the SGD by 2% (2011: 2%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

	Increase/(decrease) in loss after tax			
	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
USD against SGD				
– Strengthened	**(127)**	(363)	**(144)**	(389)
– Weakened	**127**	363	**144**	389
MYR against SGD				
– Strengthened	**(1)**	16	**–**	–
– Weakened	**1**	(16)	**–**	–
NTD against SGD				
– Strengthened	**30**	47	**–**	–
– Weakened	**(30)**	(47)	**–**	–
RMB against SGD				
– Strengthened	**40**	769	**15**	51
– Weakened	**(40)**	(769)	**(15)**	(51)

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(a) Market risk (Continued)

Cash flow and fair value interest rate risks

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's policy is to maintain 80% to 90% of its borrowings in floating rate instruments. The Group's exposure to cash flow interest rate risks arises mainly from non-current variable-rate borrowings. The Company's exposure to cash flow interest rate risk arises mainly from non-current variable-rate borrowings and loans to subsidiaries at variable rates.

The Group's and Company's borrowings at variable rates on which effective hedges have not been entered into, are denominated mainly in USD. If the USD interest rates increase/decrease by 0.50% (2011: 0.50%) with all other variables including tax rate being held constant, the profit after tax will be lower/higher by $58,000 (2011: $113,000) as a result of higher/lower interest expense on these borrowings.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The major classes of financial assets of the Group and of the Company are bank deposits and trade receivables. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statements of financial position, except for guarantees as disclosed in Note 27(a)(iii).

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

The Company's receivables are mainly due from subsidiaries and associated companies.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(b) Credit risk (Continued)

Financial assets that are neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

Financial assets that are past due and/or impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Past due < 3 months	1,978	2,303	–	–
Past due over 3 months	5,127	5,934	–	–
	7,105	8,237	–	–

The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Past due over 3 months	5,127	5,934	–	–
Less: Allowance for impairment	(3,848)	(4,729)	–	–
	1,279	1,205	–	–
Beginning of financial year	4,729	4,901	–	–
Allowance made	62	117	–	–
Allowance written off	(760)	(67)	–	–
Write back of allowance	(69)	(161)	–	–
Currency translation differences	(114)	(61)	–	–
End of financial year	3,848	4,729	–	–

The impaired trade receivables arise mainly from long outstanding debts.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities (Note 23) and the ability to close out market positions at a short notice. At the end of the reporting period, assets held by the Group and the Company for managing liquidity risk included cash and short-term deposits as disclosed in Note 12.

Management monitors rolling forecasts of the Group's and the Company's liquidity reserve (comprises undrawn borrowing facility (Note 23) and cash and cash equivalents (Note 12) on the basis of expected cash flow. This is generally carried out at local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these; monitoring liquidity ratios; and maintaining debt financing plans.

The table below analyses the Group's and the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	Less than 1 year $'000	Between 2 to 5 years $'000	Over 5 years $'000
Group			
2012			
Borrowings	**19,206**	**295**	**242**
Trade and other payables	**11,769**	**–**	**–**
Financial guarantee contracts	**18,062**	**–**	**–**
	49,037	**295**	**242**
2011			
Borrowings	48,503	275	229
Trade and other payables	21,163	1,562	–
Financial guarantee contracts	9,115	–	–
	78,781	1,837	229
Company			
2012			
Borrowings	**12,137**	**–**	**–**
Trade and other payables	**7,547**	**–**	**–**
Financial guarantee contracts	**14,118**	**–**	**–**
	33,802	**–**	**–**
2011			
Borrowings	29,530	–	–
Trade and other payables	8,153	–	–
Financial guarantee contracts	20,843	–	–
	58,526	–	–

(d) Fair value measurements

The Group and the Company do not have any financial instruments at the end of the financial years ended 31 December 2012 and 31 December 2011 which are measured at fair value.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated based on quoted market prices of dealer quotes for similar instruments by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of current borrowings approximates their carrying amount.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

33. CAPITAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, obtain new borrowings or sell assets to reduce borrowings.

Management monitors capital based on gearing ratio. The Group and the Company are also required by the banks to maintain a gearing ratio of not exceeding 1.7 times (2011: 1.7 times). The Group's and the Company's strategies, which were unchanged from 2011 are to maintain gearing ratios below 1.7 times.

The gearing ratio is calculated as total debts (borrowings) divided by total tangible networth. Total tangible networth is calculated as total equity less non-controlling interests less intangible assets.

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Total debts	**19,294**	47,967	**11,814**	28,899
Total tangible networth	**15,247**	25,472	**(1,211)**	(5,877)
Gearing ratio	**1.27 times**	1.88 times	**(9.76 times)**	(4.92 times)

Except as disclosed in Note 23, the Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2012 and 31 December 2011.

34. EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) On 8 January 2013, Darco Engineering (Taiwan) Co., Ltd. ("DET"), subsidiary of the Company, has disposed of 100% shareholdings in its wholly-owned subsidiary, WLF Industrial Co., Ltd, ("WLF") and the transaction was completed in March 2013.

(b) As announced on 8 March 2013, the Company has received and accepted the letter of offer from Salcon Berhad to acquire the remaining 40% effective equity interest in DNV.

On 26 April 2013, the Company entered into a conditional sale and purchase arrangement with Salcon Berhad for the disposal of the remaining 40% effective equity interest in DNV ("Proposed Disposal") at the consideration of RMB63.00 million (approximately $12.42 million). The Proposed Disposal is subject to approval from the Company's shareholders at an extraordinary general meeting to be convened.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

35. BASIS FOR DISCLAIMER OF OPINION ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

The independent auditor's report dated 14 August 2012 expressed a disclaimer of opinion on the financial statements for the financial year ended 31 December 2011. The extract of the basis for disclaimer of opinion is as follows:

"1. Opening balances

The statutory financial statements for the financial years ended 31 December 2009 and 31 December 2010 were audited by another independent auditor whose report dated 31 May 2011 expressed a disclaimer of opinion on those financial statements. The basis for disclaimer of opinion on the statutory financial statements are disclosed in note to the financial statements. We were denied access to the predecessor auditors' working papers for the financial year ended 31 December 2010.

We had performed a re-audit on the financial statements ("Restated financial statements") for the financial years ended 31 December 2009 and 31 December 2010 and our audit report dated 30 May 2012 expressed a disclaimer of opinion on those financial statements. The basis for disclaimer of opinion on the Restated financial statements are disclosed in note to the financial statements. Since the opening balances as at 1 January 2011 enter into the determination of the financial results and cash flows for the financial year ended 31 December 2011, we were unable to determine whether any adjustments might have been found necessary in respect of the Group's financial statements for the financial year ended 31 December 2011.

Our opinion on the current financial year's financial statements of the Group and the Company is also modified because of the possible effect of these matters on the comparability of the current year's figures and the corresponding figures.

2. Comparative information

The Restated financial statements of the Group and the Company for the financial year ended 31 December 2010, are being presented as the comparative information for the financial year ended 31 December 2011. The Group has made certain retrospective restatements, and changes in the presentation and classification of the comparative amounts. However, information and disclosure for the retrospective restatements, and changes in the presentation and classification of the statutory financial statements for the financial year ended 31 December 2010 as audited by the predecessor auditor to the Restated financial statements for the financial year ended 31 December 2010 as required by FRS 1 Presentation of Financial Statements and FRS 8 Accounting Policies, Changes in Accounting Estimates and Errors were not presented in the Group's financial statements for the financial year ended 31 December 2011. The information and disclosure which were not disclosed are as follows:

i) FRS 1
   (a) statement of financial position as at 1 January 2010;
   (b) the nature of the reclassification;
   (c) the amount of each item or class of items that is reclassified; and
   (d) the reason for the reclassification.

ii) FRS 8
   (a) the nature of the prior period error;
   (b) for each prior period presented, to the extent practicable, the amount of the correction:
   – for each financial statement line item affected; and
   – for basic and diluted earnings per share; and
   (c) the amount of the correction at the beginning of the earliest prior period presented.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

35. BASIS FOR DISCLAIMER OF OPINION ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

3. P.T. Darco Indonesia

The unaudited management accounts of the Company's subsidiary, P.T. Darco Indonesia ("PT Darco") for the financial year ended 31 December 2011 were used to prepare the Group's financial statements, as the audited financial statements of PT Darco for the financial year ended 31 December 2011 are not available.

Total assets and total liabilities of PT Darco included in the consolidated statement of the financial position of the Group as at 31 December 2011 amounted to $4.89 million and $2.06 million, respectively. Revenue and net loss of PT Darco included in the consolidated statement of comprehensive income of the Group for the financial year ended 31 December 2011 amounted to $Nil and $0.45 million, respectively.

We were unable to obtain sufficient information and explanations to enable us form an opinion as to whether the unaudited management accounts of PT Darco prepared, were in accordance with Singapore Financial Reporting Standards and in form and content appropriate and proper for the purpose of preparation of the Group's financial statements.

Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of the Group's financial statements for the financial year ended 31 December 2011. We were also unable to determine whether any impairment loss is required in respect of the amount due from PT Darco amounting to $0.52 million (2010: $0.51 million) included in the Company's trade and other receivables.

4. Fraud investigation

The Company reported to the Singapore Stock Exchange in March 2010 that the Group was concerned with the manner in which Darco Engineering (Taiwan) Co., Ltd.'s ("DET") accounts had been managed. On 20 May 2010, KPMG Singapore was appointed to conduct an investigation of the affairs of DET. Based on investigation report issued by KPMG Singapore on 27 May 2011, the total amount of possibly misappropriated monies amounted approximately to $7.18 million (NTD$163.41 million).

The Group filed police reports in Taiwan against its former employees and third parties facilitators or conspirators, claiming a total misappropriated amounts of $9.80 million (NTD$223.06 million) as of the date of this report.

The misappropriated amounts were recorded either as alleged administration expenses or project costs and recognised in the consolidated statement of comprehensive income for the financial years ended 31 December 2009 and before.

Due to the ongoing legal proceeding and investigation, and misappropriated amounts reported by management in addition to that initially identified by KPMG Singapore, we were unable to obtain sufficient appropriate audit evidences to satisfy ourselves as to the accuracy, completeness and the appropriate classifications of such misappropriated amounts and related balances in the Group's financial statements for the financial year ended 31 December 2011. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of the Group's financial statements for the financial year ended 31 December 2011.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

35. BASIS FOR DISCLAIMER OF OPINION ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

5. Service concession arrangements

The Company's subsidiaries, Deqing Huanzhong Producing Water Co., Ltd. ("Deqing Huanzhong") and Deqing Darco Producing Water Co., Ltd. ("Deqing Darco") obtained service concession arrangements in The People's Republic of China to construct and operate water treatment plants. Under the service concession arrangements, Deqing Huanzhong and Deqing Darco constructed and operated the water treatment plants for the concession periods of 22 years and 25 years, respectively. Such arrangements fall within the scope of Interpretations of FRS 112 Service Concession Arrangements.

The key assumptions used for computation of the fair values of considerations received and receivable are disclosed in note to the financial statements. The Group recognised the considerations received or receivable as a financial asset to the extent that it has an unconditional right to receive cash or another financial asset during the concession period. Such financial assets are measured at their fair values upon initial recognition. Subsequent to initial recognition, the financial assets are measured at amortised costs.

Deqing Huangzhong completed the construction of the water treatment plant in 2006 and is in the operating phase of the service concession arrangement. Total assets and total liabilities of Deqing Huanzhong included in the consolidated statement of financial position of the Group as at 31 December 2011 amounted to $15.68 million and $1.14 million, respectively. Revenue and net profit of Deqing Huanzhong included in the consolidated statement of comprehensive income of the Group for the financial year ended 31 December 2011 amounted to $2.56 million and $1.56 million, respectively.

Deqing Darco completed the construction of the water treatment plant in current financial year and is in the operating phase of the service concession arrangement as at 31 December 2011. Total assets and total liabilities of Deqing Darco included in the consolidated statement of financial position of the Group as at 31 December 2011 amounted to $44.12 million and $17.32 million, respectively. Revenue and net profit of Deqing Darco included in the consolidated statement of comprehensive income of the Group for the financial year ended 31 December 2011 amounted to $5.91 million and $1.58 million, respectively. Total accumulated costs incurred for the completion of the construction of the water treatment plant amounted to $35.87 million (RMB175.35 million) which exceeded the original budget costs of $33.75 million (RMB165.00 million). The construction costs were used as the basis for the computation of construction revenue recognised in the consolidated statement of comprehensive income for the financial year ended 31 December 2011, and included intra-group companies' transactions where the related intra-group companies' profits were not eliminated.

Based on available information and documents provided, we were unable to satisfy ourselves on the reasonableness of the key assumptions, construction costs and methods used in the determination of the revenue recognition, fair values of the financial assets on initial recognition, and the amortised costs and corresponding financial incomes during the concession periods. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of the Group's financial statements for the financial year ended 31 December 2011.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

35. BASIS FOR DISCLAIMER OF OPINION ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

6. Trade and other payables

At 31 December 2011, certain of DET's trade and other payables amounting to $1.35 million were included in the Group's trade and other payables. We were unable to obtain independent confirmations of these balances from the sub-contractors. In addition, DET has pending legal suits with one of these sub-contractors, claiming for additional compensations.

Due to the lack of independent supporting documentation and uncertainty over the outcomes of the litigations, we were unable to determine whether any adjustments might have been found necessary in respect of recorded and unrecorded trade and other payables and the corresponding balances in the Group's financial statements for the financial year ended 31 December 2011.

7. Currency translation difference

The Group recorded $1.56 million of currency translation differences arising from consolidation for the financial year in the consolidated statement of comprehensive income and consolidated statement of changes in equity. Currency translation reserve as at 31 December 2011 amounted to $0.36 million.

We were unable to ascertain the validity of these amounts due to unavailability of adequate information arising from periods before 1 January 2009. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of the Group's financial statements for the financial year ended 31 December 2011.

8. Litigations

The Group have several on-going litigations as at 31 December 2011. However, management is unable to determine the probable outcomes of the litigations, given the current status of these litigations. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of the Group's financial statements for the financial year ended 31 December 2011.

9. Impairment of assets

Information on the estimates used to measure the recoverable amount of the goodwill arising on consolidation as required by FRS 36 Impairment of Assets was not presented in the Group's financial statements for the financial year ended 31 December 2011.

10. Segment information

Segment information that enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the Group engages and the economic environments in which it operates as required by FRS 108 Operating Segments was not presented in the Group's financial statements for the financial year ended 31 December 2011.

11. Financial instruments: Disclosures

Information that enable users of the financial statements to evaluate the significance of financial instruments for the Group's and the Company's financial position and performance; and the nature and extent of risks arising from financial instruments to which the Group and the Company are exposed during the period and at the reporting date, and how the Group and the Company manage those risks as required by FRS 107 Financial Instruments: Disclosures was not presented in the Group's financial statements for the financial year ended 31 December 2011.

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2012

35. BASIS FOR DISCLAIMER OF OPINION ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

12. Going concern

The Company incurred losses of $3.74 million, after deducting allowances for impairment of receivables from subsidiaries of $2.10 million for the financial year. The Group's and the Company's current liabilities exceeded the current assets by $30.76 million and $10.47 million, respectively as at 31 December 2011.

The Group have several on-going litigations as at 31 December 2011.

In addition, the Group and the Company breached certain financial covenants of certain borrowings as at 31 December 2011. However, the banks have not enforced their rights for immediate repayments.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

The ability of the Group and the Company to continue as a going concern depends on the ability of the Group and the Company to generate profit from operations and obtain additional fundings for its working capital requirements in the next twelve months. It is presently not possible to determine the eventual outcome of such strategies.

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

Due to the matters described in the above paragraphs, we were unable to conclude as to the appropriateness of the use of the going concern assumption in the preparation of these financial statements. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of the Group's financial statements for the financial year ended 31 December 2011."

36. AUTHORISATION OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group and statement of financial position of the Company were authorised for issue in accordance with a resolution of the Board of Directors of Darco Water Technologies Limited on 26 April 2013.

STATISTICS OF **SHAREHOLDINGS**

As at 30 April 2013

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 999	67	2.69	2,986	0.00
1,000 – 10,000	1,216	48.84	6,806,520	2.46
10,001 – 1,000,000	1,178	47.31	89,094,423	32.20
1,000,001 AND ABOVE	29	1.16	180,780,883	65.34
TOTAL	**2,490**	**100.00**	**276,684,812**	**100.00**

As at 30 April 2013, approximately 71.54% 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

	NAME	NO. OF SHARES	%
1.	THYE KIM MENG	63,795,711	23.06
2.	STONE ROBERT ALEXANDER	38,725,000	14.00
3.	DBS NOMINEES PTE LTD	7,463,780	2.70
4.	PHILLIP SECURITIES PTE LTD	7,147,000	2.58
5.	EST OF TEH SWEE HENG, DECEASED	6,994,820	2.53
6.	OCBC SECURITIES PRIVATE LTD	6,581,008	2.38
7.	UOB KAY HIAN PTE LTD	5,336,000	1.93
8.	LEE SUE LIN	4,678,800	1.69
9.	THYE KIM FAH	4,493,140	1.62
10.	TAN LEK LEK	4,212,000	1.52
11.	TAN CHENG HWEE	3,800,000	1.37
12.	UNITED OVERSEAS BANK NOMINEES PTE LTD	3,151,000	1.14
13.	KANG SWEE LIAT	2,604,000	0.94
14.	WONG POH HWA @ KWAI SENG	2,000,000	0.72
15.	LIOU LOO SEAH	1,690,000	0.61
16.	DAVID REGINALD KIRKWOOD	1,684,000	0.61
17.	THYE KIM LOY	1,564,840	0.57
18.	HL BANK NOMINEES (S) PTE LTD	1,353,000	0.49
19.	OCBC NOMINEES SINGAPORE PRIVATE LIMITED	1,348,010	0.49
20.	HENG TANG CHING	1,347,948	0.49
	TOTAL	**169,970,057**	**61.44**

SUBSTANTIAL SHAREHOLDERS AS AT 30 APRIL 2013

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	63,795,711	–	63,795,711	23.06%
STONE ROBERT ALEXANDER	38,725,000	–	38,725,000	14.00%

NOTICE OF **ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Darco Water Technologies Limited ("the Company") will be held at Cliftons Singapore 108 Robinson Road Level 11 The Finexis Building Singapore 068900 on Friday, 31 May 2013 at 1.00 p.m. to transact the following businesses:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 December 2012 together with the Auditors' Report thereon.

(Resolution 1)

2. To re-elect the following Directors retiring by rotation in accordance with the Articles of Association of the Company and who, being eligible, offer themselves for re-election:

Mr Joshua Siow Chee Keong (Article 106) **(Resolution 2)**

Mr Ngiam Zee Moey (Article 116) **(Resolution 3)**

Mr Joshua Siow Chee Keong, if re-elected as a director, will remain as the Chairman of the Audit Committee, a member of the Nominating Committee and Remuneration Committee will be considered independent.

Mr Ngiam Zee Moey, if re-elected as a director, will remain as a member of the Audit Committee, Chairman of the Nominating Committee and Remuneration Committee, and will be considered independent.

3. To approve the Directors' fees of S$146,279.37 payable by the Company for the year ended 31 December 2012 (2011: S$131,879.03).

(Resolution 4)

4. To re-appoint Messrs Baker Tilly TFW LLP as Auditors of the Company and to authorise the Directors to fix their remuneration.

(Resolution 5)

AS SPECIAL BUSINESS

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

5. **Authority to allot and issue shares up to 50 per centum (50%) of issued shares in the capital of the Company**

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be authorised and empowered to:

(a) (i) allot and issue shares in the Company ("shares") whether by way of rights, bonus or otherwise; and/or

NOTICE OF **ANNUAL GENERAL MEETING**

(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares.

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

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force,

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares in the capital of the Company excluding treasury shares (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the percentage of issued shares and Instruments shall be based on the total number of issued shares in the capital of the Company, excluding treasury shares at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of the Instruments or any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards outstanding and subsisting at the time of the passing of this Resolution; and

(c) any subsequent bonus issue, consolidation or subdivision of shares;

(i) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Articles of Association of the Company; and

NOTICE OF **ANNUAL GENERAL MEETING**

(ii) unless revoked or varied by the Company in a general meeting, such authority shall continue in force (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments.

[See Explanatory Note (i)] **(Resolution 6)**

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

BY ORDER OF THE BOARD

Fu Nee Fa
Company Secretary

Singapore, 16 May 2013

Explanatory Notes:

(i) The Ordinary Resolution 6 proposed in item 5 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next AGM, to allot and issue Shares and convertible securities in the Company up to an amount not exceeding fifty per centum (50%) of the total number of issued shares in the capital of the Company, excluding treasury shares of which up to twenty per centum (20%) may be issued other than on a pro rata basis.

For determining the aggregate number of shares that may be issued, the percentage of issued shares in the capital of the Company will be calculated based on the issued shares in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of the instruments or any convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent consolidation or subdivision of shares.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. If the appointor is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

3. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 123 Woodlands Industrial Park E5 Woodlands E-Terrace Singapore 757498 (48) hours before the time appointed for holding the Meeting.

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

PROXY FORM

(Please see notes overleaf before completing this Form)

IMPORTANT
1. For investors who have used their CPF monies to buy DARCO WATER TECHNOLOGIES LIMITED's shares, this Annual Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

I/We, ____

of ____

being a member/members of DARCO WATER TECHNOLOGIES LIMITED (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing him/her or either or both of the persons, referred to above, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held at Cliftons Singapore 108 Robinson Road Level 11 The Finexis Building Singapore 068900 on Friday, 31 May 2013 at 1.00 p.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

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

No.	Resolutions relating to:	For	Against
1	Directors' Report and Audited Accounts for the year ended 31 December 2012		
2	Re-election of Mr Joshua Siow Chee Keong as director (Article 106)		
3	Re-election of Mr Ngiam Zee Moey as director (Article 116)		
4	Approval of Directors' fees amounting to S$146,279.37 for FY2012		
5	Re-appointment of Messrs Baker Tilly TFW LLP as Auditors		
6	Authority to allot and issue new shares		

Dated this ________ day of ___________ 2013

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

____
Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

Notes:

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. 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 may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with its Articles of Association and Section 179 of the Companies Act, Chapter 50 of Singapore.

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 123 Woodlands Industrial Park E5, Woodlands E-Terrace, Singapore 757498 not less than 48 hours before the time set for the Annual General Meeting.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the 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 shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name 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.

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DARCO
SOLUTIONS TO WATER & WASTE

DARCO WATER TECHNOLOGIES LIMITED
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Woodlands E-Terrace, Singapore 757498