DARCO

SOLUTIONS TO WATER & WASTE

DEVELOPING SOLUTIONS FOR SUSTAINABILITY

ANNUAL REPORT **2017**

TABLE OF
CONTENTS

CORPORATE PROFILE

Established in 1999, Darco Water Technologies (the "Group") is principally a systems integrator involved in the designing, building, operating and maintaining of water management processes that employ the membrane, ion exchange and thermal technologies.

CORPORATE PROFILE

Darco Water is always determined to make a positive impact to the environment by providing comprehensive solutions to our customers. As the economy developed, the Group diligently kept pace with the changing demands of different industries and strived to enhance its engineering capability in the environmental protection industry. Today, apart from designing, manufacturing and servicing water and wastewater systems for a wide range of industries, including electronics, petrochemicals, pharmaceuticals and food and beverage, the Group has since evolved into an integrated environmental solutions provider.

During the year, the Group has secured its first landfill gas recovery and conversion project in Jati Barang Landfill, Semarang, Central Java, Indonesia, representing a significant milestone for the Group. Jati Barang Landfill is the biggest landfill in Semarang and has been in operation since 1992.

Besides its strong technology fundamentals, the Group owes its success largely to a sound business model, premium services and solutions, as well as in-depth trade knowledge of its staff. These critical elements are all strategically integrated into the business through its consistent emphasis on efficiency.

Darco Water Technologies' Chief Executive Officer, Thye Kim Meng stands by his belief that efficiency is one of the Group's core strengths. To achieve higher business efficiency, the Group aims 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 to enhance energy and pump efficiency. Moreover, the Group uses control systems that minimise the number of people needed to operate the plant.

Furthermore, the Group's business efficiency is also distinctly displayed in its quality maintenance services. It derives 10 to 15 percent of its income from long-term maintenance services through the service centres that it had 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 with 90 per cent of its customers being repeat customers.

The Group holds a strong track record for both industrial solutions and municipal applications, particularly in the industrial sector, where many of the contracts won by the Group have been secured on a 'best-offer' basis. While the Group's strength lies in its industrial water business in the electronic and semiconductor sector, its latest acquired entity, Wuhan Kaidi Water Services Co., Ltd. ("Wuhan Kaidi") is a dominant water treatment and management specialist in the power sector. Wuhan Kaidi commands 23 years of track record supplying water and waste treatment systems, and has carried out over 600 projects to-date. In view of huge business opportunities in the growing China market, the Group has proposed to acquire an additional 12% of the total equity interest in Wuhan Kaidi, bringing the Group's ownership up to 72% in Wuhan Kaidi.

China has continued to be the key market for the Group, contributing to 38.9% of total Group's earnings in 2017. The Group has inked a cooperative framework agreement with Northern Ecological Environment Municipal Engineering Technology Co., Ltd. to undertake Public-Private-Partnership ("PPP") and Build-Operate-Transfer ("BOT") projects in Xiongan New Area by forming a consortium to bid for these projects, further strengthening its presence in China.

CORPORATE **PROFILE**

Following the signing of the Memorandum of Understanding with Aquaporin Asia Pte. Ltd. for a joint collaboration in 2016, the Group has commenced the forward osmosis pilot project with Aquaporin of low-energy Zero Liquid Discharge systems for industrial wastewater treatment based on the Aquaporin Inside™ Forward Osmosis Technology during the year. The project represents the first on-site piloting of its kind in Southeast Asia for the use of a forward osmosis hybrid water treatment system for industrial wastewater in the semiconductor industry.

Going forward, the Group plans to consolidate its operations in the markets which it has already established in and developed new markets. Darco Water Technologies is currently exploring to enter into emerging markets such as Vietnam, Myanmar and Cambodia, especially where its established customers are setting up new operations in view of the abundant growing opportunities in these regions.

During the year, the Group has been actively looking for business opportunities in Vietnam which offers high returns and good yield to the investors for developing PPP based projects in the water sector. Capitalizing on the Group's established brand name and strong technology capabilities, the Group has obtained an investment certificate for a Build-Operate-Transfer drinking water project which worth US$11.7 million with a concession period of 50 years. Besides this, the Group will be collaborating with InfraCo Asia Development Pte. Ltd., a commercially-managed infrastructure development company, on a Design, Build, Own, Operate ("DBOO") model for four municipal water treatment projects in Vietnam, involving a total investment of S$50 million with 50 years of concession period. This marks a significant move as the Group adopts a DBOO model in Vietnam for the first time.

Apart from maintaining the consistent growth in its current business, the Group intends to enhance its profitability through securing more Build-Operate-Transfer ("BOT"), Transfer-Operate-Transfer ("TOT"), Build-Operate-Own ("BOO") or Engineering, Procurement and Construction ("EPC") projects. The Group has entered into private placement agreements with several parties which include Stone Robert Alexander, Sofos Infrastructure Investment Fund SPC and Wang Zhi, raising about $23 million in total. With these capital, the Group is equipped to undertake more projects moving ahead. Tapping on Mr. Wang's network and expertise in the water industry, there is also a potential asset injection from Mr. Wang which will change the earnings profile of the group where the Group can generate recurring income stream from BOT or Build-Operate-Own water treatment asset or concession.

Towards this end, the Group employs an active business model to respond to the growth of its business. For instance, when demand increases, the Group will add more office and factory space, and make sure that its team is operationally ready to ensure minimal disruption to operations. Concurrently, the Group's maintenance service guarantees consistent revenue, retains key staff and ensures the continuous development of product knowledge. It also provides a pool of talent that the Group can call upon when time is right. The result of this is a business model that is well-placed to manage the business cycle.

With the Group's strong technology capabilities, together with Wuhan Kaidi's technical expertise, the Group is well-poised for the next phase of accelerated growth. The Group aims to be the preferred partner of all potential customers within the environmental protection industry.

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of our Board of Directors, it is my pleasure to present our annual report for the financial year ended 31 December 2017 ("FY2017").

In FY2017, the Group has maintain its revenue at $60.7 million. Engineered Environmental Systems ("EE Systems"), Water Management Services ("WM Services") and the trading segment have contributed $40.6 million, $10.8 million and $9.3 million respectively to the Group's overall revenue in FY2017. China remained as our key market with a contribution of $23.6 million to the total revenue in FY2017. As a result of the challenging business environment, the Group recorded a lower net profit of $1.2 million in FY2017.

PEOPLE'S REPUBLIC OF CHINA

In view of huge business opportunities in the growing China market, the Group has proposed to acquire an additional 12% of the total equity interest in Wuhan Kaidi Water Services Co., Ltd. ("WHKD"). Upon successful acquisition subject to the approval of the shareholders, the Group will own 72% in WHKD.

CHAIRMAN'S STATEMENT

In addition, the Group has inked a cooperative framework agreement with Northern Ecological Environment Municipal Engineering Technology Co., Ltd. ("Northern Ecological") to undertake Public-Private-Partnership ("PPP") and Build-Operate-Transfer ("BOT") projects in Xiongan New Area by forming a consortium to bid for these projects. Xiongan New Area is one of the largest freshwater wetlands in North China and it is being built as a new special economic zone by the Chinese government.

The Group will provide their expertise and technological competencies in the environmental protection industry while Northern Ecological will contribute their professional knowledge in the engineering, procurement and construction, urban infrastructure and wastewater industry in China.

Significantly, the cooperative framework agreement forms part of the Group's strategy to further broaden our market presence as well as to capture greater market share in China.

MALAYSIA

Revenue from Malaysia decreased from $23.6 million in FY2016 to $20.3 million in FY2017, representing a decrease of 13.9%. Malaysia remains as one of our top markets, contributing 33.5% revenue to the Group.

SINGAPORE

Revenue from Singapore increased by 90.5% to $10.4 million in FY2017 from $5.5 million in FY2016, representing a contribution of 17.1% to the Group's revenue.

Following the signing of the Memorandum of Understanding with Aquaporin Asia Pte. Ltd. ("Aquaporin") for a joint collaboration in 2016, the Group has commenced the forward osmosis pilot project with Aquaporin of low-energy Zero Liquid Discharge systems for industrial wastewater treatment based on the Aquaporin Inside™ Forward Osmosis Technology in 2017. The project represents the first on-site piloting of its kind in Southeast Asia for the use of a forward osmosis hybrid water treatment system for industrial wastewater in the semiconductor industry.

CHAIRMAN'S STATEMENT

The Group will incorporate Aquaporin's Forward Osmosis membranes into the Group's overall system as pilot plant scale test units in application for industrial sectors. Upon completion, the Group will be the first mover in the application of this technology and will be one step closer in bringing the technology to commercialisation.

TAIWAN

The Group has entered into two separate sale and purchase agreements with purchasers to dispose a total of 60% equity interest in Darco Youli Co., Ltd. ("Darco Youli"). With its handling capacity of 180 tons of waste per month, Darco Youli is considered a relatively small player and faces stiff competition in the Taiwan market. Darco Youli is currently operating at the maximum capacity, with no additional capacity or back up facilities to cope with sudden volume spikes, emergencies, or plant breakdown. Therefore, there is a need for huge capital injection to refurbish the current plant as well as to keep Darco Youli competitive. In view of this, coupled with its low presence in Taiwan market, the Company do not foresee a long term benefit to continue in the business, the proposed disposal will allow the Group to have more available cash to fund new investments and venture into new markets.

PAVING THE WAY FOR GROWTH

The Group has place out 27,680,000 new shares, at S$0.65 per share to a strategic investor, Mr. Wang Zhi, or largely known as Robert Wang. Mr. Wang has granted the Group a loan of S$4.0 million which would be solely used for the working capital of the Group's subsidiary, WHKD. Through the placement and loan, the Group can raise at least S$19.6 million via equity and debt to finance business expansion, improve its cash flow, increase working capital, and for general corporate purposes.

Mr. Wang has more than 15 years of experience in the business of water and wastewater treatment and water supply. Tapping on Mr. Wang's network and expertise in the water industry, there is also a potential asset injection from Mr. Wang which will change the earnings profile of the group where the Group can generate recurring income stream from BOT or Build-Operate-Own water treatment asset or concession.

In order to raise funds for PPP water infrastructure projects, the Group also completed a share placement to Stone Robert Alexander and Sofos Infrastructure Investment Fund SPC where the Group issued 1.5 million and 3.5 million new ordinary shares respectively at a placement price of $0.60. Through the placement, the Group would have raised a total of approximately $3 million.

STRENGTHENING PRESENCE IN NEW MARKET

Vietnam is one of the world's fastest-growing economies, which offers high returns and good yield to the investors for developing PPP based projects in the water sector. Leveraging on the government push to develop the economy by attracting foreign investors to set up manufacturing facilities and the need for safer drinking water in Vietnam, the Group is well-poised to tap into the growing Vietnam market.

The Group is also pleased to obtain an investment certificate for a Build-Operate-Transfer drinking water project ("Darco Ba Lai Utility Water Supply Project") in Ben Tre province, Vietnam. This project involves a total investment of US$11.7 million with a concession period of 50 years. This contract win represents a vote of confidence in the Group's strong technological capabilities and reputation in the industry.

Through International Enterprise (IE) Singapore's facilitation, the Group will be collaborating with InfraCo Asia Development Pte. Ltd. (InfraCo Asia), a commercially-managed infrastructure development company, on a Design, Build, Own, Operate (DBOO) model for four municipal water treatment projects in Vietnam, involving a total investment of S$50 million with 50 years of concession period. This marks a significant move as the Group adopts a DBOO model in Vietnam for the first time, transforming to an asset ownership model for its overseas growth by capitalizing on the expertise of IE Singapore and InfraCo Asia.

By building up on DBOO projects, the strong recurring revenue will allow Darco to grow in a sustainable manner. Through these smaller-scale decentralised projects, the Group

CHAIRMAN'S STATEMENT

can amass experience to scale up for bigger municipal projects in Vietnam and Southeast Asia.

Besides Vietnam, the Group has secured its first landfill gas recovery and conversion project which is worth DKK21.5 million (approximately S$4.7 million) in Jati Barang Landfill, Semarang, Central Java, Indonesia. Jati Barang Landfill is the biggest landfill in Semarang and has been in operation since 1992[1]. Winning this contract would further expand our business operations in the solid waste management industry which is in tandem with the Group's strategy to become a comprehensive integrated environmental protection solutions provider.

WORDS OF APPRECIATION

Given the progress that we have achieved so far, we see huge potential in the company that have yet to be unlocked. This would not have been possible without the support of all stakeholders of the Company.

I would like to take this opportunity to express my sincere appreciation to our customers, employees, management, suppliers and shareholders for their unwavering support. Last but not least, I would like to express my gratitude to the Board for their guidance and counsel. As we embark on a growth journey, we aim to continue to deliver greater value to the shareholders.

THYE KIM MENG
Chairman and Managing Director

1 Jatibarang Landfill of Semarang City, https://jurnal.ugm.ac.id/jag/article/view/7233

BOARD OF DIRECTORS

THYE KIM MENG

Singapore Permanent Resident, Aged 65

Chairman, 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.

WANG ZHI

Signapore Citizen, Aged 53

Non-Executive Deputy Chairman

MR. WANG ZHI was appointed to the Board of the Company on 3 April 2018 and the assumed the position of the Deputy Non-Executive Deputy Chairman and of the Board and as Non-Executive Chairman of the Investment Committee of the Company.

Wang Zhi, aged 53, Singaporean, is an engineer by profession. He graduated with a Bachelor Degree from the Chemical Engineering Department of Nanchang Aeronautical Engineering Institute in Nanchang, China.

He is currently the Chairman of Future International Investments Limited, Future International Investment Limited and Future Holdings Group Limited, companies incorporated in Hong Kong and are involved in investment and management of water supply, renewable energy and tourism and ecological agriculture businesses mostly in China.

He has more than 20 years of experience in the business of water and wastewater treatments and water supply. Prior to venturing into his own business, he was the China Chief Representative and General Manager of a company listed on Bursa Malaysia and he was involved in the business development of water and wastewater projects and investments.

BOARD OF DIRECTORS

HEATHER TAN CHERN LING

Singapore Permanent Resident, Aged 37

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.

WANG YAOYU

Chinese, Aged 61

Executive Director

MR. WANG YAOYU was appointed as the Executive Director of our Company in 13 September 2016. He is currently the Chairman of Wuhan Kaidi Water Service Company. He is responsible for formulating strategic direction and policy and responsible for the profit and loss of a major subsidiary. Mr. Wang has more than 15 years of experience in the wastewater treatment industry. He was the Executive Director of Asia Water Technology Ltd. and Director of SIIC Environment Holdings (Wuhan) Co., Ltd.

Mr. Wang graduated from Hefei University of Technology with a Degree in power plant and electric power system in 1982.

TAY LEE CHYE LESTER

Singapore Citizen, Aged 44

Lead Independent Director

MR. TAY LEE CHYE LESTER was appointed as the Lead Independent Director of our Company on 23 April 2015. He is currently the Chairman of the Remuneration and Nominating Committee and a member of the Audit Committee. He has approximately 20 years of experience in accounting, audit, financial advisory and fund management. He is the Chief Executive Officer at Rockstead Capital Group since 2007. Prior to that, he was the Chief Financial Officer of Asia Water Technology Ltd from 2004 to 2007. He graduated from Nanyang Technological University with degree in Accountancy in 1998. He was awarded Nanyang Outstanding Young Alumni Award Recipient in 2007. He is a member of Singapore Institute of Directors and a member of the Institute of Singapore Chartered Accountants.

BOARD OF DIRECTORS

TAY VON KIAN

Singapore Permanent Resident, Aged 46

Independent Director

MR. TAY VON KIAN was appointed as an Independent Director of our Company on 14 August 2015. He is currently the Chairman of the Audit Committee, member of the Remuneration Committee and Nominating Committee. He has approximately 18 years of working experience in corporate fund raising. He is currently working in a financial institution. Prior to that, he has had working stints in the Corporate Finance units of banks and securities firm. Mr. Tay graduated from Macquarie University, Sydney with a Bachelor of Commerce (Accounting) with Bachelor of Laws degrees. He was admitted as Solicitor in the New South Wales, Australia and was called to the Malaysian Bar in 1997. He is also currently a member of CPA Australia.

OH CHEE SIEN

Singapore Citizen, Aged 42

Independent Director

MR. OH CHEE SIEN was appointed as an Independent Director of our Company on 13 September 2016. He is also currently a member of the Audit Committee, Remuneration Committee and Nominating Committee. He has approximately 10 years of working experience in the wastewater treatment industry. Prior to joining Darco, Mr. Oh was the Chief Financial Officer of Moya Holdings Asia Ltd.

Mr. Oh graduated with a Bachelor of Accountancy (Honours) from the Nanyang Technological University of Singapore.

KEY MANAGEMENT

TEH CHUN SEM
Aged 31
Financial Controller

MR. TEH CHUN SEM was appointed as the Financial Controller on 31 May 2016. He is responsible for overseeing the Group's financial, account matters and risk function. Mr. Teh has approximately 8 years of working experience in the audit industry serving various clients from diverse industries including trading, engineering, education and manufacturing. Prior to joining Darco, he was a Audit Assistant Manager at BDO LLP.

Mr. Teh holds the ACCA Professional Qualification with the Association of Chartered Certified Accountants of the United Kingdom. He is a non-practising member of the Institute of Singapore Chartered Accountants and a member of the Association of Chartered Certified Accountants.

THYE KIM FAH
Aged 67
General Manager

MR. THYE KIM FAH is the General Manager of Darco Water Systems Sdn. Bhd ("DWS"), responsible for DWS's overall management and operations of DWS 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 DWS. He has over 20 years of experience in the 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 maintained at $60.7 million in FY2017 as compared to $60.7 million in FY2016.

SEGMENTAL CONTRIBUTION

Revenue from Engineered Environmental Systems ("EE Systems") increased 2.2% yoy to $40.6 million in FY2017, mainly due to higher contribution from the Engineering, Procurement, and Construction ("EPC") projects in Singapore.

Revenue from Water Management Services ("WM Services") decreased 1.7% yoy to $10.8 million in FY2017, as a result of lower service revenue contribution following the sale of Darco Youli Medical Waste operations in Taiwan. As announced on 16 June 2017, the Group has entered into two separate sale and purchase agreements for the disposal of Darco Youli, which was completed on 30 September 2017.

Sales from the trading segment decreased by $0.7 million from $10.0 million in FY2016 to $9.3 million in FY2017, mainly attributable to lesser demand for specialised water treatment chemicals from our customers in Malaysia.

GEOGRAPHICAL CONTRIBUTION

Malaysia, China and Singapore are the main markets of the Group which contributed 89.5% of the total Group's revenue.

Gross profit increased 5.2% to $14.6 million in FY2017. The gross profit margin increased from 22.9% in FY2016 to 24.1% in FY2017. This is mainly due to the Group having successfully secured projects at higher margin through value engineering while maintaining its competitiveness in the market.

Other income decreased by $3.4 million to $1.3 million in FY2017 mainly attributable to the one-off gain on bargain purchase arising from the acquisition of WHKD in FY2016 which did not recur in FY2017, and loss in foreign exchange in FY2017 as compared to gain in foreign exchange in FY2016. The loss in foreign exchange is mainly due to the volatility in foreign exchange movement, in particular, the Malaysian Ringgit against the Group's functional currency, Singapore Dollar.

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

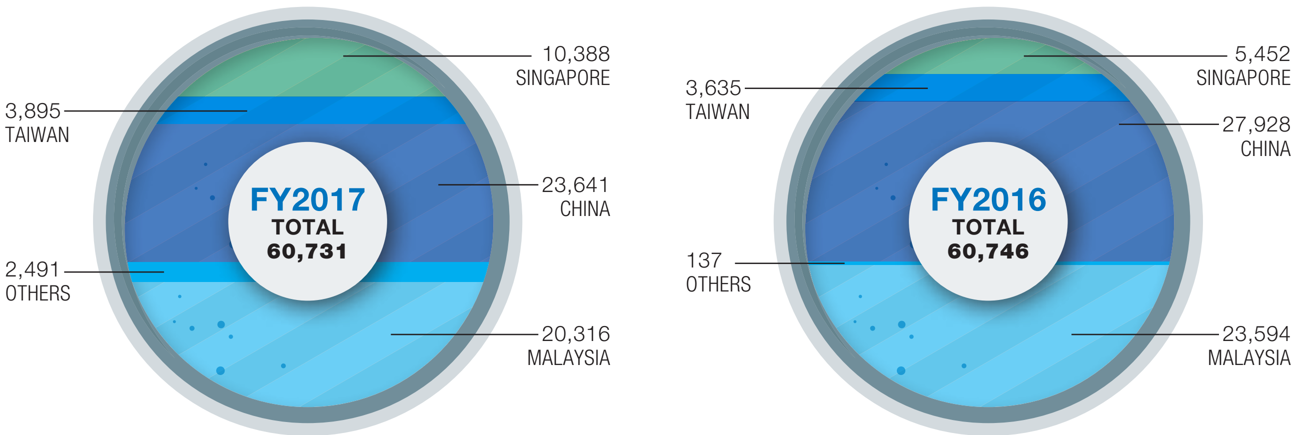
In addition, marketing and distribution expenses increased from $1.5 million in FY2016 to $1.7 million in FY2017

SEGMENTAL REVENUE CONTRIBUTION

	Engineered Environmental Systems	Water Management Services	Trading Sales	Consolidated
YEAR ENDED 31 DEC 2017 ($'000)	40,589	10,822	9,320	60,731
YEAR ENDED 31 DEC 2016 ($'000)	39,710	11,004	10,032	60,746

OPERATIONS REVIEW

GEOGRAPHICAL REVENUE CONTRIBUTION ($'000)



mainly due to higher marketing cost incurred in China. The Group has strengthened its marketing team in China by increasing its headcount of its sales division.

Administrative expenses which comprised mainly of staff salary, professional fees, rental and other operating expenses, slightly decreased from $13.2 million in FY2016 to $12.0 million in FY2017. This has mainly due to lower impairment on receivables in FY2017 of $64,000, as compared to an impairment amount of $1.3 million in FY2016, and expenses amounting to $0.6 million incurred for the acquisition of WHKD in FY2016.

As a result of the above, the Group registered a net profit of $1.2 million in FY2017, as compared to a net profit of $3.4 million in FY2016.

Current assets of $69.8 million as at 31 December 2017 mainly comprised trade and other receivables of $50.1 million and cash and bank balances of $17.5 million.

Non-current assets of $13.7 million as at 31 December 2017 largely comprised intangible assets of $7.6 million, property, plant and equipment of $5.5 million and other receivable of $0.5 million.

Current liabilities of $44.7 million as at 31 December 2017 comprised trade and other payables of $37.1 million, borrowings of $6.8 million and income tax payable of $0.8 million.

Non-current liabilities of $2.2 million as at 31 December 2017 comprised mainly deferred income tax liabilities of $0.9 million and borrowings of $1.3 million.

Shareholders' equity increased from $34.4 million in FY2016 to $36.5 million in FY2017.

Net cash used in operating activities was $2.5 million in FY2017, compared to cash outflow of $1.8 million in FY2016.

Net cash used in investing activities was $0.3 million in FY2017, compared to cash outflow of $1.0 million in FY2016.

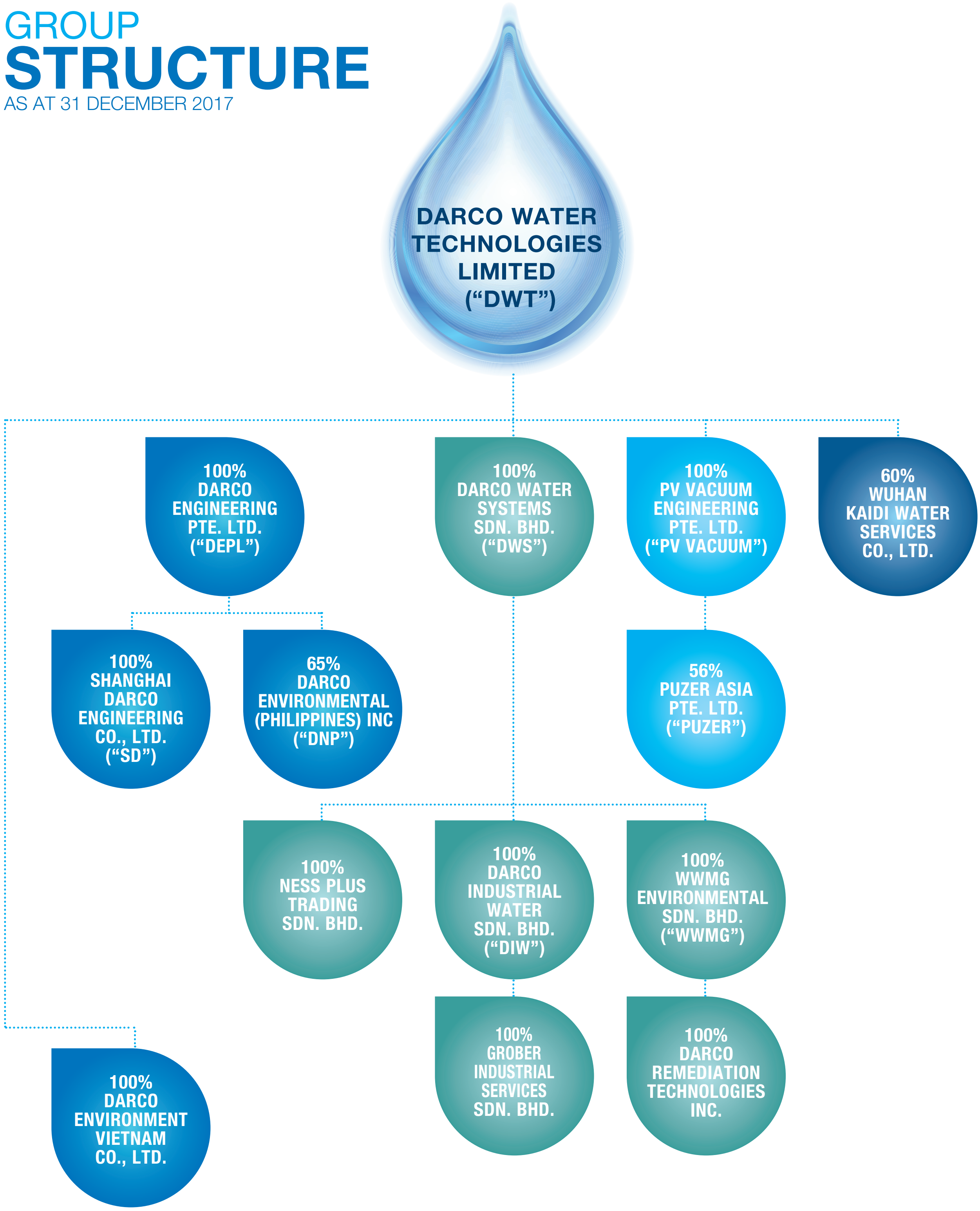
This is mainly due to the net cash proceeds from the disposal of Taiwan plant amounting to $1.4 million. Cash was used for the purchase of plant and equipment amounting to $1.2 million. Further with a loan being advanced to a third party amounting to $0.5 million.

Cash flow from financing activities increased from $0.4 million in FY2016 to $12.7 million in FY2017.

The Group's cash and cash equivalents as at 31 December 2017 stands at $15.4 million.

GROUP STRUCTURE

AS AT 31 DECEMBER 2017



CORPORATE INFORMATION

BOARD OF DIRECTORS
THYE KIM MENG (Chairman, Managing Director and Chief Executive Officer)
WANG ZHI (Non-Executive Deputy Chairman)
HEATHER TAN CHERN LING (Executive Director)
WANG YAOYU (Executive Director)
TAY LEE CHYE LESTER (Non-Executive Lead Independent Director)
TAY VON KIAN (Non-Executive Independent Director)
OH CHEE SIEN (Non-Executive Independent Director)

AUDIT COMMITTEE
TAY VON KIAN (Chairman)
TAY LEE CHYE LESTER
HEATHER TAN CHERN LING
OH CHEE SIEN

NOMINATING COMMITTEE
TAY LEE CHYE LESTER (Chairman)
TAY VON KIAN
OH CHEE SIEN

REMUNERATION COMMITTEE
TAY LEE CHYE LESTER (Chairman)
TAY VON KIAN
OH CHEE SIEN

COMPANY SECRETARY
SHIRLEY TAN SEY LIY (ACS)

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AUDITORS
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Public Accountants and
Chartered Accountants
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8 Shenton Way
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Partner-in-charge: Alfred Cheong Keng Chuan
(appointment effective from financial year
ended 31 December 2014)

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

Darco Water Technologies Limited ("**Company**" together with its subsidiaries "**Group**") are committed to maintaining a high standard of measures, practices and transparency in the disclosure of material information in line with those set out in the Code of Corporate Governance 2012 ("**Code**") and the disclosure guide developed by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") in January 2015 ("**Guide**").

The Company has established various self-regulating and monitoring mechanisms for effective corporate governance in discharging its responsibilities to protect and enhance shareholders' value and financial performance of the Group.

This report describes the Company's corporate governance processes and structures that were in place throughout the financial year ended 31 December 2017 ("**FY2017**"), with specific reference made to the principles and guidelines of the Code which forms part of the continuing obligations of the Listing Manual of the SGX-ST.

Steps have been taken, as far as practicable, towards continued compliance to the principles and guidelines with the recommendations in the Code, taking into account the size of the Group's business and organization structure, and the Board of Directors ("**Board**") is pleased to report on the Company's efforts to adhere to the principles and guidelines as set out in the Code for FY2017. Where there are areas of non-compliance, the reasons have been set out in the following sections of the corporate governance report.

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 long-term success of the Company. The Board works with Management to achieve this objective and the Management remains accountable to the Board.

The Board's key responsibilities include providing entrepreneurial leadership and supervision to the Management of the Company and the Group with a view to protect shareholders' interests, enhance long-term shareholders' value and safeguard the Company's assets.

The Board's principal responsibilities are to:

(a) guide the formulation of the Group's overall long term strategic objectives and directions through entrepreneurial leadership, including 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; and

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

All Directors objectively discharge their duties and responsibilities at all times as fiduciaries and take decisions in the best interests of the Company.

CORPORATE GOVERNANCE REPORT

To assist the Board in the execution of its responsibilities, the Board is supported by four key board committees namely Audit Committee ("**AC**"), Nominating Committee ("**NC**"), Remuneration Committee ("**RC**") and Investment Committee ("**IC**") (collectively, "**Board Committees**"), which are delegated with specific responsibilities. The Board Committees operate within clearly defined terms of reference or scope and they play an important role in ensuring good corporate governance in the Company and within the Group. The terms of reference of the Board Committees are reviewed on a regular basis to ensure their continued relevance.

The Board will meet as and when required to approve matters relating to announcements of financial results, annual report, material acquisitions and disposals of assets.

At the meetings of the Board and Board Committees, the Directors are free to discuss and openly challenge the views presented by the 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. Meetings via telephone conference are permitted by the Company's Constitution.

The attendances of the Directors at the formal Board meetings and Board Committees meetings held during FY2017, with the Company Secretary in attendance, are as follows:

	Board	Board Committees			
		AC	RC	NC	IC(2)
No. of meetings held	2	3	1	1	0
Directors					
Thye Kim Meng	2	*2	*1	*1	–
Heather Tan Chern Ling	2	3	*1	*1	–
Wang Yaoyu	1	*1	*1	*1	–
Tay Lee Chye Lester	1	2	1	1	–
Tay Von Kian	2	3	1	1	–
Oh Chee Sien	2	3	1	1	–
Wang Zhi(1)	–	–	–	–	–

* By Invitation

(1) Mr. Wang Zhi was appointed as the Non-Executive Deputy Chairman on 3 April 2018
(2) The IC was established on 3 April 2018

CORPORATE GOVERNANCE REPORT

The Board has first adopted the Group Charter in FY2003 and is undergoing continuous updates and review by the Board. The Group Charter sets out the Group's internal guidelines for material contracts and investments exceeding specified amounts. 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 levels of Management, up to the Board level.

The Board has adopted a set of internal guidelines setting forth matters that require Board approval. The Board has identified the following areas for which the Board has direct responsibility for decision making within the Group:

- Approval of the Group's major investments/divestments and funding decisions;
- Approval of the Group's half-year and full-year financial result announcements for release to the SGX-ST;
- Approval of any agreement which is not in the ordinary course of business;
- Approval of any major borrowings or corporate guarantees in relation to borrowings;
- Entering into any profit-sharing arrangement;
- Entering into any foreign exchange hedging transactions;
- Incorporation or dissolution of any subsidiary;
- Issuance of shares or declaration of dividends;
- Approval of material interested person transactions;
- Approval of the annual report and audited financial statements;
- Convening of general meetings;
- Approval of corporate strategies;
- Approval of material acquisitions and disposal of assets; and
- Approval of announcements or press releases concerning the Group for release to the SGX-ST.

In FY2017, the Company, through its Company Secretary, has updated 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 Chief Executive Officer ("**CEO**") has been advising our Directors of the changing commercial and business risks faced by our Company.

CORPORATE GOVERNANCE REPORT

The Directors are also updated regularly with changes to the SGX-ST Listing Rules, risk management, corporate governance, insider trading and the key changes in the relevant regulatory requirements and financial reporting standards and the relevant laws and regulations to facilitate effective discharge of their fiduciary duties as Board or Board Committees members.

New releases issued by the SGX-ST and Accounting and Corporate Regulatory Authority ("**ACRA**") which are relevant to the Directors are circulated to the Board by the Company Secretary.

For FY2017:–

(1) The Company Secretary informed the Directors of upcoming conferences and seminars relevant to their roles as Directors of the Company; and

(2) The external auditors update the AC and the Board on the new and revised financial reporting standards that are applicable to the Company or the Group.

Appropriate briefing and orientation will be arranged for newly appointed Directors to familiarise them with the Group's business operations, strategic directions, Directors' duties and responsibilities and the corporate governance practices. They will also be given opportunities to visit the Group's operational facilities and meet the Management so as to gain a better understanding of the Group's business. Newly appointed Directors, in particular first time directors of a public listed company in Singapore receive appropriate training, if required.

The Directors are encouraged to attend seminars and receive training to improve themselves in the discharge of Directors' duties and responsibilities. Changes to regulations and accounting standards are monitored closely by the Management. To keep pace with such regulatory changes, the Company provides opportunities for ongoing education and training on Board processes and best practices as well as updates on changes in legislation and financial reporting standards, regulations and guidelines from the SGX-ST Listing Rules that affect the Company and/or the Directors in discharging their duties. Such training costs are borne by the Company.

All new Directors shall be provided with background information about the Group's history and core values and industry-specific knowledge. The Company will provide a formal letter to newly appointed Directors upon their appointment explaining their statutory duties and responsibilities as Directors.

CORPORATE GOVERNANCE REPORT

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 and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board comprises three Executive Directors, one Non-Executive Director and three Independent Directors. Presently, there is a strong and independent element on the Board with the Independent Directors making up at least one-third of the Board. Together, the Directors bring a wide range of business and financial experience relevant to the Group.

Name of Directors	Board	AC	NC	RC	IC
Thye Kim Meng	Chairman, Managing Director and CEO	–	–	–	–
Wang Zhi	Non-Executive Deputy Chairman	–	–	–	Chairman
Heather Tan Chern Ling	Executive Director	Member	–	–	Member
Wang Yaoyu	Executive Director	–	–	–	–
Tay Lee Chye Lester	Lead Independent Director	Member	Chairman	Chairman	–
Tay Von Kian	Independent Director	Chairman	Member	Member	–
Oh Chee Sien	Independent Director	Member	Member	Member	–

Following the completion of the placement of new ordinary shares in the capital of the Company to Mr. Wang Zhi on 23 March 2018, the Company has appointed Mr. Wang Zhi as the Deputy Chairman and Non-Executive Director of the Company and establishment of the IC on 3 April 2018.

The IC comprises the following members:

Investment Committee

Mr. Wang Zhi (Chairman)
Ms. Heather Tan Chern Ling
Mr. Teh Chun Sem

CORPORATE GOVERNANCE REPORT

The IC operate within clearly defined terms of reference or scope. The key role of the IC is to assist the Board in discharging its responsibility in relation to investment-related matters as described in its terms of reference including advising and/or making recommendations to the Board on investment management related matters (or sub-delegating all or part of its authority to other competent bodies and/or management members of the Company. All material and significant matters are reported to the Board by the IC.

While the Chairman, Mr. Thye Kim Meng is part of the Management team and is not considered independent, the NC is satisfied that after taking into account the scope and nature of operations of the Group in the year under review, the current Board size is appropriate and effective. It is not necessary to have Independent Directors make up at least half of the Board at present. Nonetheless, the Company is constantly on the lookout for suitable candidates to join the Board as Independent Director as part of its review process.

The NC considers an “independent” Director as one who has no relationship with the Company, its related corporations 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 interests of the Company.

The NC has reviewed and determined that the Independent Directors, namely Mr. Tay Von Kian, Mr. Tay Lee Chye Lester and Mr. Oh Chee Sien are independent in accordance with the Code and are able to exercise independent judgement.

The Independent Directors have confirmed that they do not have any relationship with the Company, its related companies, its 10% shareholders 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 Independent Directors participate actively during Board meetings. The Company has benefited from the Management’s access to its Directors for guidance and exchange of views both within and outside of the meetings of the Board and Board Committees. The Independent Directors communicate amongst themselves and have direct access to the Company’s auditors and Senior Management.

Non-Executive Directors and Independent Directors exercise no management functions in the Group. Although all the Directors have equal responsibility for the performance of the Group, the role of the Non-Executive Directors and Independent Directors is particularly important in ensuring that the strategies proposed by the Management are fully disclosed and rigorously examined and take into account the long-term interests, not only of the shareholders, but also of the employees, customers, suppliers and the communities in which the Group conducts its business. The Non-Executive Director and Independent Directors are also involved in reviewing the performance of Management against agreed goals and objectives. The NC considers the Non-Executive Director and Independent Directors to be of sufficient calibre and their views to be of sufficient weight such that no individual or small group of individuals dominates the Board’s decision-making process.

CORPORATE GOVERNANCE REPORT

There is no Independent Director who has served on the Board beyond nine years since the date of his first appointment.

The NC has reviewed the size and composition of the Board. The NC and 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. There are no Directors who are deemed independent, notwithstanding the existence of a relationship as stated in the Code that would otherwise deem him not to be independent.

The Board's policy in identifying director nominees is primarily to have an appropriate mix of members with complementary skills, core competencies and experience for the Group, regardless of gender.

The Board members provide a range of core competencies in accounting, finance, business management experience and industry knowledge that provide effective governance and stewardship for the Group.

The current Board composition provides a diversity of skills, experience and knowledge to the Company as follows:

	Number of Directors
Core Competencies	
– Accounting and/or finance	3
– Relevant industry knowledge or experience	4
Gender	
– Male	6
– Female	1

Independent Directors exercise no management functions in the Group. The role of the Independent Directors is particularly important in ensuring that the strategies proposed by the Management are fully discussed and rigorously examined and monitoring the reporting of performance.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the Company's business. No one individual represents a considerable concentration of power.

Although the Code states that the roles of the Chairman and the CEO 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 interests of the Company to adopt a single leadership structure so as to facilitate decision making. The roles of the Chairman and the CEO 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/CEO.

The responsibilities of the Chairman include:

- Scheduling of meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Group's operations;
- Ensuring that Directors receive accurate, timely and clear information, and ensuring effective communication with shareholders;
- Ensuring the Group's compliance with the Code; and
- Acting in the best interests of the Group and shareholders.

The Chairman is guided by recommendations provided by the Company Secretary, the Chairman of the AC, NC, RC, IC and the Company's Financial Controller.

The Company is in compliance with the Guideline 3.3 of the Code where the Board had appointed Mr. Tay Lee Chye Lester as the Lead Independent Director on 23 April 2015 to co-ordinate and to lead the Independent Directors to provide a non-executive perspective and contribute to a balance of viewpoints on the Board. He is the main liaison on Board issues between the Independent Directors and the Chairman. He is available to shareholders where they have concerns which contact through the normal channels of the Chairman and CEO or Financial Controller has failed to resolve or where such communication is inappropriate.

When necessary, the Company co-ordinates informal meetings for Independent Directors and Non-Executive Director to meet without the presence of the Executive Directors and/or the Management to discuss matters such as the Group's financial performance, corporate governance initiatives, Board processes, succession planning as well as leadership development and the remuneration of the Executive Directors. Led by the Lead Independent Director, the Independent Directors and Non-Executive Director meet amongst themselves without the presence of the other Directors where necessary and the Lead Independent Director will provide feedback to the Chairman after such meetings.

CORPORATE GOVERNANCE REPORT

Board Membership

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

The NC comprises three Independent Directors.

Nominating Committee

Mr. Tay Lee Chye Lester (Chairman)
Mr. Tay Von Kian
Mr. Oh Chee Sien

Based on the NC's written terms of reference approved by the Board, the principal functions of the NC are to:

- Review on an annual basis the terms of reference of the NC, composition of the NC and the size of the Board with a view to determining the impact of the number upon effectiveness;

- Review on an annual basis the required expertise of the Directors to ensure that the Directors have the adequate relevant competencies to discharge their respective functions, and to ensure that there is balance in competencies;

- Assess the effectiveness of the Board as a whole;

- Review and make recommendations on all nominations for appointments and all re-nomination/re-election of Directors; and

- Determine the Directors' independence on an annual basis.

In selecting and appointing new Directors, the NC will seek to identify the competencies required to enable the Board to fulfil its responsibilities. The NC will, at least once every year, review and thereafter, make recommendations to the Board regarding the Board structure, size, composition and core competencies. When required, the NC will review and make recommendations to the Board on all candidates nominated for appointment to the Board, after taking into account the candidate's track record, experience, capabilities and other relevant factors. The NC may engage consultants to undertake research on or assess, candidates applying for new positions on the Board, or to engage such other independent experts, as it considers necessary to carry out its duties and responsibilities. New Directors are appointed by way of a Board resolution following which they are subject to re-election at the next Annual General Meeting ("**AGM**").

The NC, in considering the re-appointment of any Director, had considered but not limited to attendance record at meetings of the Board and Board Committees, intensity of participation at meetings, and the quality of contributions to the development of strategy, the degree of preparedness, industry and business knowledge and experience each Director possesses which are crucial to the Group's business.

CORPORATE GOVERNANCE REPORT

In accordance with the Constitution of the Company, all Directors shall retire at every AGM and all new Directors appointed by the Board will have to retire at the next AGM following their appointments (such Director shall then be eligible for re-election at that AGM).

The NC has assessed and recommended that Mr. Thye Kim Meng, Ms. Heather Tan Chern Ling, Mr. Wang Yaoyu, Mr. Wang Zhi, Mr. Tay Lee Chye Lester, Mr. Tay Von Kian and Mr. Oh Chee Sien (collectively, "**Retiring Directors**"), be nominated for re-election at the forthcoming AGM. The Board has accepted the NC's recommendation and the Retiring Directors will be offering themselves for re-election at the forthcoming AGM.

In reviewing the nomination of the Retiring Directors, the NC considered the performance and contribution of each of the Retiring Directors, having regards not only to their attendance and participation at Board and Board Committees meetings but also the time and efforts devoted to the Group's business and affairs.

Mr. Tay Lee Chye Lester, Mr. Tay Von Kian and Mr. Oh Chee Sien, being the members of the NC who are retiring at the AGM abstained from voting on the resolution in respect of their re-nomination as a Director of the Company.

The NC conducted an annual review of Directors' independence and based on the definition of independence as set out in the Code, the NC is of the view that Mr. Tay Lee Chye Lester, Mr. Tay Von Kian and Mr. Oh Chee Sien are considered independent.

Currently, the Board has not determined the maximum number of listed Board representations which any Director may hold. The NC and the Board focus on whether a Director has sufficient time to adequately discharge his/her duties as a Director of the Company. The NC and the Board will review the requirement from time to time to determine the maximum number of listed Board representations to ensure that Directors are able to meet the demands of the Group and are able to discharge their duties adequately. As of the date of this report, none of the Directors sit on the board of other listed companies.

There is no alternate director being appointed to the Board.

The key information regarding Directors such as academic and professional qualifications, Board Committees served, Directorships or Chairmanships both present and past held over the preceding three years in other listed companies, their principal commitments and whether the appointment is executive or non-executive are set out in page 44 of the Annual Report.

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and its board committees 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 and its Board Committees and for assessing the contribution by the Chairman and each individual Director to the effectiveness of the Board. Each Director was required to complete a Board evaluation form adopted by the NC, which will be collated by the NC Chairman for review and assessment before tabling to the Board for discussion.

The NC 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 in assessing the Board's performance as a whole.

CORPORATE GOVERNANCE REPORT

The NC reviews and assesses the effectiveness of the Board as a whole. 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 have discharged their duties adequately for FY2017 as a result of the active participation of each Board member during the meetings. No external facilitator was used during the evaluation process in FY2017.

An evaluation of the effectiveness of the Board and Board Committees is conducted annually to identify areas of improvement and as a form of good Board management practice. The results of the evaluation exercise were considered by the NC which then makes recommendations to the Board aimed at helping the Board to discharge its duties more effectively.

The NC, having reviewed the overall performance of the Board and Board Committees is of the view that the performance of the Board and Board Committees has been satisfactory and met its performance objectives for FY2017.

Although the Directors are not evaluated individually, the factors taken into consideration with regards to the re-nomination of Directors for FY2017 are based on their attendance and contributions made at the Board and Board Committees meetings.

Access to Information

Principle 6: In order to fulfil their responsibilities, Directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

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 meetings, financial results announcements, and reports from the Board Committees, internal auditors and external auditors, including related materials, background or explanatory information relating to matters to be brought before the Board.

The members of the Board have independent access to the Management and the Company Secretary and are provided with adequate background information prior to Board meetings. The 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.

The Company Secretary or her representative administers, attends and prepares minutes of the Board and Board Committees meetings and assists the Chairman of the Board and/or the AC, NC and RC in ensuring proper procedures at such meetings are followed and reviewed so that the Board and the Board Committees function effectively. The appointment and removal of the Company Secretary is subject to the approval of the Board as a whole.

The members of the Board may seek the advice of independent professional advisers, the cost of which will be borne by the Company.

CORPORATE GOVERNANCE REPORT

REMUNERATION MATTERS

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his own remuneration.

The RC comprises three Independent Directors.

Remuneration Committee

Mr. Tay Lee Chye Lester (Chairman)
Mr. Tay Von Kian
Mr. Oh Chee Sien

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.

The RC is regulated by its terms of reference and its key functions include:

- Reviewing and recommending to the Board a framework of remuneration and specific remuneration packages for all Directors of the Company;
- Reviewing and recommending to the Board the terms of renewal for those Executive Directors whose current employment contracts will expire or had expired;
- Considering the various disclosure requirements for Directors' remuneration, particularly those required by regulatory bodies such as SGX-ST and to ensure that there is adequate disclosure in the financial statements to ensure and enhance transparency between the Company and relevant interested parties;
- Overseeing the award of share options and the payment of fees to Non-Executive Directors and to ensure, as far as is possible, that the quantum commensurate with the Non-Executive Directors' contribution to the Board and the Company; and
- Retaining such professional consultancy firm as the RC may deem necessary to enable it to discharge its duties hereunder satisfactory.

Non-Executive Directors are paid fixed fees as Directors' fees. The Directors' fees are subject to shareholders' approval at the AGM.

Each Director shall abstain from voting on any resolution and making any recommendation and/or participating in any deliberation in respect of their own remuneration package.

CORPORATE GOVERNANCE REPORT

The RC has full authority to engage any external professional advice on matters relating to remuneration as and when the need arises. The expense of such services shall be borne by the Company. The Company did not engage any remuneration consultants during FY2017.

In reviewing the service agreements of the Executive Directors and key management personnel of the Company, the RC will review the Company's obligations arising in the event of termination of these service agreements, to ensure that such service agreements contain fair and reasonable termination clauses which are not overly generous. The RC aims to be fair and avoid rewarding poor performance.

Level and Mix of Remuneration

Principle 8: The level of remuneration should be aligned with the long-term interest and risk policies of the Company, and should be appropriate to attract, retain and motivate (a) the Directors to provide good stewardship of the Company, and (b) key management personnel to successfully manage the Company. However, companies should avoid paying more than is necessary for this purpose.

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, and the remuneration packages are also designed to align the Directors' interests with those of minority shareholders.

The Independent Directors are paid Directors' fees of an agreed amount for their effort and time spent, responsibilities and contribution to the Board, based on the remuneration rates of comparable companies listed on Mainboard of the SGX-ST and their remuneration are subject to shareholders' approval at the AGM. The Independent Directors shall not be over-compensated to the extent that their independence may be compromised.

The Company had adopted the Darco Performance Share Plan ("**Share Plan**") for executive personnels and Directors. The RC and Performance Share Plan Committee ("**PSP Committee**") are responsible for overseeing and administration of the Share Plan in accordance with the Rules of the Share Plan.

During FY2017, the Company has not granted any share options to the Executive Directors, Non-Executive Directors and employees under the Share Plan. More details of the Share Plan are set out under the Corporate Governance Report in pages 33 to 35 of this Annual Report.

The Company does not use contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. The Executive Directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties.

CORPORATE GOVERNANCE REPORT

Disclosure of Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policies, 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 for FY2017 is set out below:

Remuneration Bands & Name of Directors	Salaries, including CPF	Variable Bonus	Director's Fees	Total
Between $250,000 to $500,000				
Thye Kim Meng	67%	4%	29%	100%
Below $250,000				
Heather Tan Chern Ling	80%	5%	15%	100%
Wang Yaoyu	83%	10%	7%	100%
Tay Lee Chye Lester	–	–	100%	100%
Tay Von Kian	–	–	100%	100%
Oh Chee Sien	–	–	100%	100%
Wang Zhi*	–	–	–	–

The remuneration of the top key management personnel (who are not Directors or the CEO of the Company) whose remuneration fell within the following ranges for FY2017 are as follows:

Remuneration Bands & Name of Key Management Personnel	Salaries, including CPF	Variable Bonus	Others	Total
Between $250,000 to $500,000				
David Heng	37%	35%	28%	100%
Below $250,000				
Thye Kim Fah	93%	7%	–	100%
Teh Chun Sem	94%	6%	–	100%

* Mr. Wang Zhi was appointed as the Non-Executive Deputy Chairman on 3 April 2018.

CORPORATE GOVERNANCE REPORT

For FY2017, the Group has identified three (3) top key management personnel (who are not Directors or the CEO) and the aggregate total remuneration paid to the 3 top key management personnel (who are not Directors or the CEO) amounted to approximately $460,000.

There were no terminations, retirement or post-employment benefits granted to Directors, the CEO and key management personnel.

The following performance conditions were chosen for the Group to remain competitive and to motivate the Executive Directors and key management personnel to work in alignment with the goals of all stakeholders:

Performance Conditions	**Short-term Incentives** (such as performance bonus)	**Long-term Incentives** (such as the Darco Performance Share Plan)
Qualitative	1. Leadership 2. People development 3. Commitment 4. Teamwork 5. Current market and industry practices	1. Current market and industry practices

Immediate Family Members of Directors or CEO

Save as disclosed below, none of the Directors or Executive Officers are related by blood or marriage to one another nor are they related to any of the Substantial Shareholders of the Company.

Mr. Thye Kim Fah is the brother of Mr. Thye Kim Meng (the Chairman, Managing Director and CEO of the Company), and Mr. Thye Ze Pin is the nephew of Mr. Thye Kim Meng. Save as aforementioned, there was no employee, of the Group who was an immediate family member of a Director or the CEO earning more than $50,000 during the year under review.

Details of remuneration paid to the immediate family members of Directors or CEO of the Company for FY2017 are as follows:

Name of Immediate Family Member	**Salaries, including CPF**	**Variable Bonus**	**Total**
Between $50,000 to $100,000			
Thye Kim Fah	93%	7%	100%
Thye Ze Pin	94%	6%	100%

In view that remuneration matters are confidential and commercially sensitive and such disclosure would be prejudicial to the Company's interest given the highly competitive environment, the Board is of the opinion that it is in the best interests of the Group not to disclose the exact remuneration of each individual Director, CEO, and the top three (3) key management personnel (who are not directors nor CEO) in the Annual Report. The Board is of the opinion that the information disclosed in the Annual Report strikes an appropriate balance between detailed disclosure and confidentiality.

CORPORATE GOVERNANCE REPORT

The Company ensures that the remuneration of key management is consistent and comparable with market practice by periodically reviewing and considering such remuneration components against those of comparable companies.

On 6 November 2014, Shareholders approved the Share Plan as part of a remuneration and compensation plan for attracting as well as retaining executive personnel and Directors. The Share Plan was approved to provide an opportunity for participants who have contributed and who may continue to contribute significantly to the growth and performance of the Group to participate in the equity of the Company in accordance with the rules of the Share Plan. The employees who are confirmed full-time employees of the Company and/or its subsidiaries, Directors of the Company and its subsidiaries (including Non-Executive Directors) and Directors and employees of an associated company where the Company has control over the associated company are eligible to participate in the Share Plan. The controlling shareholders and/or associates of controlling shareholders are not eligible to participate in the Share Plan.

Share Plan

The Share Plan is administered by the RC. To date, no Shares have been granted under the Share Plan. Please refer below for a summary of the Share Plan based on the Circular to Shareholders dated 21 October 2014.

The Awards granted under this Share Plan will be determined at the sole discretion of the PSP Committee, which will oversee and administer the Share Plan. In considering the grant of an Award to a Participant, the PSP Committee shall take into account (where applicable) criteria such as the grade level, scope of responsibilities, contribution, performance, years of service and potential for future development of the Participant.

Eligibility:

Persons who are eligible to participate in the Share Plan must be:

(i) Employees who are confirmed full-time employees of the Company and/or its Subsidiaries who have attained the age of 21 years on or before the Date of Grant;

(ii) Directors of the Company and its Subsidiaries (including Non-Executive Directors); or

(iii) Directors and employees of an Associated Company where the Company has control over the Associated Company, who, in the opinion of the PSP Committee, have contributed or will contribute to the success of the Group. Persons who are Controlling Shareholders and/or Associates of Controlling Shareholders are not eligible to participate in the Share Plan.

Size of the Share Plan and Entitlement to Awards

The number of Shares to be awarded to each participant in accordance with the Share Plan shall be determined at the absolute discretion of the PSP Committee, which shall take into account criteria such as the grade level, scope of responsibilities, performance, years of service, potential for future development of the participant, contribution to the success of the Group and the extent of effort and resourcefulness with which the performance target(s) may be achieved within the performance period.

CORPORATE GOVERNANCE REPORT

Pursuant to the Listing Manual of the SGX-ST:

The total number of Shares which may be available pursuant to the Awards granted under the Share Plan, when aggregated with the aggregate number of Shares available under any other share-based schemes of the Company, shall not exceed 15% of the total issued Shares of the Company (excluding Treasury Shares and Subsidiary holdings) from time to time.

Duration

The Share Plan shall continue in force at the discretion of the PSP Committee, subject to a maximum period of 10 years commencing on the date on which the Share Plan is adopted by the Company in a general meeting, provided always that the Share Plan may continue beyond the above stipulated period with the approval of Shareholders by ordinary resolution in a general meeting and of any relevant authorities which may then be required. Notwithstanding the expiry or termination of the Share Plan, any Awards made to participants prior to such expiry or termination will continue to remain valid.

Details of Awards

The PSP Committee shall decide, inter alia, at its sole discretion, the following:

(i) the Participant;

(ii) the Date of Grant;

(iii) the performance period;

(iv) the number of Shares which are the subject of the Award;

(v) the performance target(s) which shall be set according to the specific roles of each Participant, and which may differ from participant to participant;

(vi) the prescribed vesting period(s);

(vii) the release schedule; and

(viii) any other condition which the PSP Committee may determine in relation to that award, including any restrictions against the disposal or sale of and/or other dealings in the Shares by the participant.

CORPORATE GOVERNANCE REPORT

Awards may only be vested and consequently any Shares comprised in such Awards shall only be delivered upon the PSP Committee being satisfied that the Participant has achieved the performance target(s) set forth by the PSP Committee, and the PSP Committee shall have the absolute discretion to determine the extent to which the Shares under that award shall be released on the prescribed performance target(s) being satisfied (whether fully or partially) or exceeded, as the case may be, at the end of the prescribed performance period and in making any such determination, the PSP Committee shall have the right to make reference to the audited results of the Company or the Group, as the case may be, to take into account such factors as the PSP Committee may determine to be relevant, such as changes in accounting methods, taxes and extraordinary events, and further, the right to amend the performance target(s) if the PSP Committee decides that a changed performance target(s) would be a fairer measure of performance.

ACCOUNTABILITY AND AUDIT

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

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 shareholders when necessary, and where required by the regulators.

The Board will take adequate steps to ensure compliance with legislative and regulatory requirements, including requirements under the listing rules of the securities exchange, for instance, by establishing written policies where appropriate.

The Management is accountable to the Board, and provides members of the Board with a balanced and understandable account of the Company and its subsidiaries performance, financial position and prospects on a monthly basis and as the Board may require from time to time to enable the Board to make a balanced and informed assessment of the Company's performance, position and prospects.

Risk Management and Internal Controls

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

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.

CORPORATE GOVERNANCE REPORT

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, has determined that it is not necessary for the Group to set up the Enterprise Risk Management programme and a separate internal audit function. Instead, the internal audit function is being outsourced to an external international auditing firm. Going forward, the AC will consider the assessment and monitoring of the adequacy and effectiveness of the Group's internal controls via Control Self-Assessment ("**CSA**") to be performed by the Management annually. Also, the AC shall continue to outsource the internal audit function, and have the internal auditor review the CSA, when implemented, to enhance the system of internal controls.

The Board and Management assume the responsibility of the risk management function. The Management is responsible for designing, implementing and monitoring the risk management and internal control systems within the Group. The Management regularly reviews the Group's business and operational activities to identify areas of significant risks as well as appropriate measures to control and mitigate these risks. Any significant matters are highlighted to the Board and the AC for their deliberation.

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.

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

Other than certain improvements as highlighted by the internal auditor report the Group has in place a system of internal controls that address financial, operational, compliance and information technology 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 practices, and the identification and containment of operational and business risks.

The CEO and the Financial Controller had provided written assurance to the Board that:

(a) The financial records have been properly maintained and the financial statements for FY2017 give a true and fair view of the Company's operations and finances; and

(b) The Group's risk management and internal control systems are adequate and effective given its current business environment.

Based on the internal controls established and maintained by the Group, the audits conducted by the external and internal auditors as well as ongoing Management reviews, the Board, with the concurrence of the AC are of the opinion that the Group's internal controls, addressing financial, operational, compliance and information technology risks, as well as risk management system, are adequate and effective as at 31 December 2017.

CORPORATE GOVERNANCE REPORT

Audit Committee

Principle 12: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The AC comprises three Independent Directors and one Executive Director, majority of whom, including the Chairman, are Independent Directors.

Audit Committee

Mr. Tay Von Kian (Chairman)
Mr. Tay Lee Chye Lester
Ms. Heather Tan Chern Ling
Mr. Oh Chee Sien

The AC does not comprise wholly of Non-Executive Directors as recommended by the Code, as the Board is of the opinion that the presence of an Executive Director in the AC will facilitate the flow of information between the AC and the Company.

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, set out in their terms of reference, by having the necessary accounting or related financial management expertise to discharge their responsibilities. None of the AC members were previous partners or directors of the Company's external audit firm within the last twelve months and none of the members hold any financial interest in the external audit firm.

The AC has written terms of reference, setting out their duties and responsibilities, which include the following:

- Review with the external auditors their audit plan, audit report, management letter and the Management's response;
- Review the half-year and annual financial statements before submission to the Board for approval;
- Discuss problems and concerns, if any, arising from the external and internal audits, if any, and any matters which the auditors may wish to discuss (in the absence of Management where necessary);
- Review the assistance given by the Management to the auditors;
- Review the internal audit programme and ensure co-ordination between the internal and external auditors and management, where applicable;

CORPORATE GOVERNANCE REPORT

- Review and discuss with the external auditors, any suspected fraud or irregularity, or suspected infringement of any Singapore law, rules or regulations, which has or is likely to have a material impact on the Company's operation results or financial position, and Management's response;

- Report to the Board its findings from time to time on matters arising and required the attention of the AC;

- Review interested person transactions falling within the scope of Chapter 9 of the SGX-ST Listing Manual;

- Undertake such other reviews and projects as may be requested by the Board;

- Undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual, and by such amendments made thereto from time to time; and

- Consider and recommend to the Board, the appointment/re-appointment of the external auditors, the audit fee and matters relating to the resignation or dismissal of the auditors.

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

In July 2010, SGX-ST and ACRA had launched the "Guidance to Audit Committees on Evaluation of Quality of Work performed by External Auditors" which aims to facilitate the AC in evaluating the external auditors. Accordingly, the AC had evaluated the performance of the external auditors based on the key indicators of audit quality set out in the said Guidance.

Changes to accounting standards and issues which have a direct impact on financial statements will be highlighted to the AC from time to time by the external auditors. The external auditors will work with the Management to ensure that the Group complies with the new accounting standards, if applicable.

For FY2017, the AC had met with the external auditors and internal auditors without the presence of the Management and conducted a review of all non-audit services provided by the auditors. There were no non-audit services provided by the external auditors to the Company during the financial year. The amount paid and payable to external auditors for audit services fees were $295,000 for the financial year under review.

In the review of the financial statements for FY2017, the AC had discussed with the Management and the external auditors on changes to accounting standards and significant issues and assumptions that impact the financial statements. The most significant matters had also been included in the Independent Auditor's Report to the members of the Company under "Key Audit Matters". Following the review, the AC is satisfied that those matters, including revenue recognition using percentage-of-completion method, had been properly dealt with. The Board had approved the financial statements.

The AC recommends to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors and approves the remuneration of the external auditors. The AC has recommended to the Board that Messrs Crowe Horwath First Trust LLP be nominated for re-appointment as external auditors at the forthcoming AGM of the Company.

CORPORATE GOVERNANCE REPORT

In appointing the audit firms for the Group, the Company has complied with the requirements of Rules 712 and 715 of the Listing Manual of the SGX-ST. Apart from the Company's subsidiary in Philippines, the same auditors were appointed for the Company's subsidiaries. The Board and AC are satisfied that the appointment at a separate audit firm in Philippines would not compromise the standard and effectiveness of the audit of the Company.

Whistle-blowing Policy

The Company has in place a Whistle-Blowing Policy and Procedures for reporting improprieties in matters of financial reporting and other matters, by which the staff may raise concerns about possible corporate improprieties in matters of financial reporting or other matters in confidence. Details of the Whistle-Blowing Policy and Procedures have been made available to all employees and members of the public through the Company's website.

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

As of to-date, there were no reports received through the whistle-blowing mechanism.

Internal Audit

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

The internal audit function is outsourced to BDO LLP who report primarily to the AC. BDO LLP is an international auditing firm and they perform their work based on the BDO Global Internal Audit Methodology which is consistent with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

The AC reviews and approves the internal audit plan submitted by the internal audit function. On an ongoing basis, the internal audit function reports any significant weaknesses and risks identified in the course of internal audits conducted to the AC. Recommendations to address control weaknesses are further reviewed by the internal audit function based on implementation dates agreed with the Management.

The AC also review, at least annually, the adequacy and effectiveness of the internal audit function including the qualifications and experience of the internal audit staff assigned to perform the reviews.

The AC is satisfied that the internal audit function has adequate resources to perform its function effectively and is staffed by suitably qualified and experienced professionals with relevant experience. The AC approves the hiring, removal, evaluation and compensation of the internal auditor, who has unfettered access to all the Company's documents, records, properties and personnel, including access to the AC.

CORPORATE GOVERNANCE REPORT

SHAREHOLDER RIGHTS AND RESPONSIBILITIES SHAREHOLDER RIGHTS

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights and continually review and update such governance arrangements.

The Company does not practice selective disclosure. In line with the continuous obligations of the Company under the SGX-ST Listing Manual and the Companies Act, Chapter 50 of Singapore, the Board's policy is that all shareholders should equally and on a timely basis be informed of all major developments that impact the Group via SGXNet.

The Company will despatch the Annual Report and notice of AGM to all shareholders. At general meetings of shareholders, shareholders are given the opportunity to voice their views and ask Directors or Management questions regarding the Company's affairs. Shareholders are also informed on the poll voting procedures at the general meetings. If any shareholder is unable to attend, he/she is allowed to appoint up to two proxies to vote on his/her behalf at the meeting through proxy forms sent in advance. The Company's current Constitution does not include the nominee and custodial services to appoint more than two proxies.

On 3 January 2016, the legislation was amended, among other things to allow certain members, defined as "Relevant Intermediary" to attend and participate in general meetings without being constrained by the two-proxy requirement. Relevant Intermediary includes corporations holding licenses in providing nominee and custodial services and CPF Board which purchases shares on behalf of the CPF investors.

COMMUNICATION WITH SHAREHOLDERS

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company believes in high standards of transparent corporate disclosure and is committed to disclose to its shareholders, the information in a timely and fair manner via SGXNet. Where there is inadvertent disclosure made to a selected Group, the Company will make the same disclosure publicly to all others as soon as practicable. Communication is made through:

- annual reports that are prepared and sent to all shareholders. The Board ensures that the annual report includes all relevant information about the Company and the Group, including future developments and other disclosures required by the Companies Act, Chapter 50 of Singapore and Singapore Financial Reporting Standards;

- Half yearly announcements containing a summary of the financial information and affairs of the Group for that period; and

- notices of explanatory memoranda for AGMs and Extraordinary General Meetings ("**EGMs**"). The notice of AGMs and EGMs are also advertised in a national newspaper.

Although the Company does not have a team of investor relations personnel, our shareholders can access the Company's website at http://www.darcowater.com/ for financial information, corporate announcements, press releases, annual reports and profile of the Group.

CORPORATE GOVERNANCE REPORT

Price-sensitive information is first publicly released through SGXNet, before the Company meets with any investors or analysts. All shareholders of the Company will receive the annual report with an accompanying notice of AGM by post. The notice of AGM is also published in the newspaper within the mandatory period.

The Company does not have a formal dividend policy. The form, frequency and amount of dividends will depend on the Company's earnings, general financial condition, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the Directors may deem appropriate.

Dividends were not declared or paid for FY2017 in order to conserve cash and to ensure that there are adequate resources for the Company's expansion plans.

CONDUCT OF SHAREHOLDER MEETINGS

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the Company.

The shareholders are encouraged to attend the Company's general meetings to ensure a high level of accountability and to stay informed of the Group's strategies and growth plans. Notice of the general meeting is dispatched to shareholders, together with explanatory notes or a circular on items of special businesses (if necessary), at least 14 clear calendar days before the meeting. The Board welcomes questions from shareholders who wish to raise issues, either informally or formally before or during the general meetings.

Each item of special business included in the notice of the general meetings will be accompanied by explanation of the effects of a proposed resolution. Separate resolutions are proposed for each substantially separate issue at general meetings.

The Chairman of the Board, AC, NC and RC are normally present and available to address questions relating to the work of their respective Board Committees at general meetings. Furthermore, the external auditors are present to assist our Board in addressing any relevant queries by our shareholders.

The Company will make available minutes of general meetings to shareholders upon their request.

The Company acknowledges that voting by poll in all its general meeting is integral in the enhancement of corporate governance. The Company adhere to the requirements of the Listing Manual of the SGX-ST and the Code, all resolutions at the Company's general meetings, are put to vote by poll. For cost effectiveness of the Company, the voting of the resolutions at the Company's general meetings are conducted by manual polling. The detailed results of each resolution are announced via SGXNet after the general meetings.

CORPORATE GOVERNANCE REPORT

DEALING IN COMPANY'S SECURITIES

In compliance with Rule 1207(19) of the Listing Manual of the SGX-ST, the Company has adopted its own internal compliance code to provide guidance for the Company, Directors and all its Officers in relation to their dealings in the Company's securities.

The Company, Directors and its Officers 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, and ending on the date of the announcement of the relevant results. Additionally, they are not allowed to deal in the Company's shares while in possession of price sensitive information. The Directors and Officers 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. In addition, the Company, Directors and officers are also expected to observe insider-trading laws at all times even when dealing in securities within the permitted trading period and they are not to deal in the Company's securities on short-term considerations.

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, either still subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

INTERESTED PERSON TRANSACTIONS

The Company has established a register to ensure that all Interested Person Transactions are properly recorded, reviewed and approved, and are conducted on an arm's length basis to ensure that all transactions with interested persons are reported on a timely manner to the AC, if any, and that transactions are carried out on a normal commercial terms and will not be prejudicial to the interest of the Company and its minority Shareholders.

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

CORPORATE **GOVERNANCE REPORT**

USE OF PROCEEDS FROM PLACEMENT

Pursuant to the placements completed on 7 April 2017 and 3 May 2017 respectively, the Company received net proceeds from the issuance of new shares of approximately $2,966,000 ("**Placements**"), after deducting the necessary fees and expenses associated with the placements.

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

The Placement proceeds of $20,686,000 have not been utilised as at the date of this annual report.

CORPORATE GOVERNANCE REPORT

PARTICULARS OF DIRECTORS PURSUANT TO THE CODE OF CORPORATE GOVERNANCE

Name of Director	Academic/Professional Qualifications	Board Appointment Executive/ Non-executive	Board Committees as Chairman or Member	Directorship Date First Appointed	Date of Last re-election	Directorships in other listed companies and other major appointments	Past directorships in other listed companies and other major appointments over the preceding 3 years
Thye Kim Meng	• Bachelor of Science (Honours) in Mechanical Engineering from Polytechnic of Wolverhampton, England • Bachelor of Law (Honours) from University of London, United Kingdom	Executive Chairman, Managing Director and CEO	Board Chairman	13 October 2001	28 April 2017	Nil	Nil
Wang Zhi	• Bachelor Degree, Chemical Engineering Department, Nanchang Aeronautical Engineering Institute	Non-Executive Deputy Chairman	Board Member, and Chairman of Investment Committee	3 April 2018	NA	Nil	Nil
Heather Tan Chern Ling	• Bachelor of Engineering, Chemical (1st Class Honours) from The University of Melbourne, Australia	Executive Director	Board Member, Member of AC and Member of Investment Committee	25 May 2006	28 April 2017	Nil	Nil
Wang Yaoyu	• Degree of Technology Power Plant and Power System, Hefei University of Technology	Executive Director	Board Member	13 September 2016	28 April 2017	Nil	SIIC Environment Holdings (Wuhan) Co.,Ltd
Tay Lee Chye Lester	• Bachelor of Accountancy, Nanyang Technological University	Lead Independent Director	Board Member, Chairman of NC and RC and Member of AC	23 April 2015	28 April 2017	• 1Rockstead GIP Fund Ltd • Rockstead Fixed Income Fund Ltd • Rockstead Venture Limited	Nil
Tay Von Kian	• Bachelor of Commerce (Accounting) with bachelor of laws degree from Macquarie University	Independent Director	Board Member, Chairman of AC and Member of NC and RC	14 August 2015	28 April 2017	Nil	Nil
Oh Chee Sien	• Bachelor of Accountancy, Nanyang Technological University	Independent Director	Board Member, Member of AC, NC and RC	13 September 2016	28 April 2017	Nil	Moya Holdings Asia Limited

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

The directors present their statement to the members together with the audited financial statements of Darco Water Technologies Limited (the "Company") and subsidiaries (the "Group") for the financial year ended 31 December 2017 and the statement of financial position of the Company as at 31 December 2017.

In the opinion of the directors,

(a) the statement of financial position of the Company and the consolidated financial statements of the Group as set out on pages 54 to 141 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2017 and of the financial performance, changes in equity and cash flows of the Group for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors has, on the date of this statement, authorised these financial statements for issue.

DIRECTORS

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

Thye Kim Meng
Wang Zhi (appointed on 3 April 2018)
Heather Tan Chern Ling
Wang Yaoyu
Tay Lee Chye Lester
Tay Von Kian
Oh Chee Sien

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Cap. 50, none of the directors and chief executive officers holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Direct interests		**Deemed interests**	
	At 1 January 2017	**At 31 December 2017**	**At 1 January 2017**	**At 31 December 2017**
Company				
Ordinary shares				
Thye Kim Meng	7,155,485	7,155,485	–	–
Heather Tan Chern Ling	8,160	8,160	–	–
Wang Yaoyu	–	–	13,387,118	13,387,118

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (CONTINUED)

Mr. Wang Yaoyu, who by virtue of his interests of not less than 20% of the issued capital of the Company is deemed to have an interest in the whole of the share capital of the Company's wholly owned subsidiaries and in shares held by the Company in the following subsidiaries that are not wholly owned by the Group:

	Deemed interests	
	At 1 January 2017	At 31 December 2017
Wuhan Kaidi Water Services Co., Ltd		
Ordinary shares		
Wang Yaoyu*	30,000,000	30,000,000
Darco Environmental (Philippines) Inc.		
Ordinary shares		
Wang Yaoyu	65,000	65,000
Puzer Asia Pte. Ltd.		
Ordinary shares		
Wang Yaoyu	140,000	140,000

* In addition to the above mentioned deemed interest, Mr. Wang Yaoyu is also deemed to have interest in 6,500,000 ordinary shares in Wuhan Kaidi Water Services Co., Ltd owned by Wuhan Liankai Investment Co., Ltd. in which he owns 25.07% as at 1 January 2017 and 31 December 2017 respectively.

There was no change in any of the above-mentioned interests in the Company or its related corporations between the end of the financial year and 21 January 2018.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF 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 was to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

SHARE OPTIONS

On 6 November 2014, the shareholders of the Company have approved the proposed Darco Performance Share Plan ("Share Plan") as part of a remuneration and compensation plan for attracting as well as retaining executive personnel and Directors.

Directors of the Company and its subsidiaries (including Non-Executive Directors) and Directors and employees of an associated company where the Company has control over the associated company are eligible to participate in the Share Plan.

The number of shares available under the said Share Plan will be subject to the maximum limit of 15% of the Company's total issued shares.

As at the date of this report, no shares have been granted under the Share Plan.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

SHARE OPTIONS (CONTINUED)

During the financial year, there were:

– no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries;

– no shares issued by virtue of any exercise of option to take up unissued shares of the Company or its subsidiaries; and

– no unissued shares of the Company or its subsidiaries under option.

AUDIT COMMITTEE

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

Tay Von Kian	(Chairman of the Audit Committee and Independent Director)
Tay Lee Chye Lester	(Independent Director)
Oh Chee Sien	(Independent Director)
Heather Tan Chern Ling	(Executive Director)

The Audit Committee carried out its functions in accordance with Section 201B (5) of the Singapore Companies Act, Cap. 50, the Listing Manual of the Singapore Exchange Securities Trading Limited and the Code of Corporate Governance. In performing those functions, the Audit Committee reviewed:

– the scope and the results of internal audit procedures with the internal auditor;

– the audit plan of the Company's independent auditors and any recommendations on internal accounting controls arising from the statutory audit;

– the assistance given by the Company's management to the independent auditors;

– the periodic results announcements prior to their submission to the Board for approval;

– the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2017 prior to their submission to the Board of Directors, as well as the independent auditor's report on the statement of financial position of the Company and the consolidated financial statements of the Group; and

– interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited).

The Audit Committee has recommended to the Board of Directors that the independent auditors, Crowe Horwath First Trust LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company. The Audit Committee has conducted an annual review of non-audit services provided by the auditors to satisfy itself that the nature and extent of such services will not affect the independence and objectivity of the external auditors before confirming their re-nomination.

DIRECTORS' **STATEMENT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

AUDIT COMMITTEE (CONTINUED)

In appointing the external auditors for the Company and subsidiaries, the Company has complied with Rules 712 and 715 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Further details regarding the Audit Committee are disclosed in the Corporate Governance Report.

INDEPENDENT AUDITORS

The independent auditors, Crowe Horwath First Trust LLP, have expressed their willingness to accept re-appointment as auditors of the Company.

On behalf of the Board of Directors

HEATHER TAN CHERN LING
Director

THYE KIM MENG
Director

4 April 2018

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Darco Water Technologies Limited (the Company) and its subsidiaries (the Group), set out on pages 54 to 141, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying 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 Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is the matter that, in our professional judgement, was of most significant in our audit of the financial statements of the current period. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key Audit Matter (Continued)

Revenue recognition using percentage-of-completion method

Refer to following notes to the financial statements

~ Note 2 "Significant accounting policy" and "Critical accounting estimates, assumptions and judgement"

~ Note 15 "Revenue"

The key audit matter	***How the matter was addressed in our audit***
The Group adopted the percentage-on-completion ("POC") method to recognise the revenue from construction contracts amounting to $41.4 million, or 68% of the Group's gross revenue for the current financial year. Estimating the POC involves a number of significant estimates and judgements by the management, including: – estimating the total contract costs, including the costs to complete the contract; and – appropriately provide for foreseeable losses in loss-making contracts. We focused on this area in view of significant judgements involved in estimating the total contract costs to determine the POC, which is susceptible to management bias.	We have discussed with management and project managers to obtain understanding of the nature of the projects. Our key audit procedures in relation to the accuracy of the revenue recognised under POC method are as summarised below: • Examined significant construction contracts and reviewed them to obtain an understanding of the key terms of the contracts and the contract sum; • Assessed the design and implementation of the Group's internal controls over the accuracy of allocation of actual costs to the respective projects; • Assessed the completeness of the total contract costs estimated by management, taking into account the actual costs incurred, estimation of costs to complete, historical accuracy of past estimates in respect of the probable outcome of the construction projects; • Discussed with management on potential significant costs overruns which may result in foreseeable losses; and • Recalculated management's computation of the POC, and assessed reasonableness against other measurement of progress. Based on the results of above procedures, we considered that the management judgement in estimating the POC to be reasonable. We have also considered the disclosures of the sensitivity of the estimation uncertainty in the financial statements to be appropriate.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but did not include in the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors 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 Act and FRSs, 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 financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationship and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Alfred Cheong Keng Chuan.

Crowe Horwath First Trust LLP
Public Accountants and
Chartered Accountants
Singapore

4 April 2018

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	Group		Company	
		2017 $'000	2016 $'000	2017 $'000	2016 $'000
ASSETS					
Non-current assets					
Property, plant and equipment	3	**5,482**	7,121	**–**	–
Intangible assets	4	**7,597**	9,492	**–**	–
Investment in subsidiaries	5	**–**	–	**12,210**	10,822
Deferred tax assets	6	**82**	318	**–**	–
Other receivable	8	**489**	–	**–**	–
		13,650	16,931	**12,210**	10,822
Current assets					
Inventories	7	**2,056**	1,003	**–**	–
Trade and other receivables	8	**50,089**	44,006	**8,027**	5,868
Income tax recoverable		**144**	276	**–**	–
Cash and bank balances	10	**17,463**	8,155	**7,621**	101
		69,752	53,440	**15,648**	5,969
TOTAL ASSETS		**83,402**	70,371	**27,858**	16,791
LIABILITIES					
Current liabilities					
Trade and other payables	11	**37,149**	30,692	**7,409**	2,323
Borrowings	12	**6,848**	2,836	**4,000**	–
Income tax payable		**757**	578	**–**	–
		44,754	34,106	**11,409**	2,323
Non-current liabilities					
Other payables	11	**–**	–	**–**	517
Borrowings	12	**1,284**	849	**–**	–
Deferred tax liabilities	6	**875**	1,033	**–**	–
		2,159	1,882	**–**	517
TOTAL LIABILITIES		**46,913**	35,988	**11,409**	2,840
NET ASSETS		**36,489**	34,383	**16,449**	13,951
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	13	**54,274**	51,405	**54,274**	51,405
Other reserves	14 (a)	**(3,312)**	(3,331)	**–**	–
Accumulated losses	14 (b)	**(22,662)**	(23,127)	**(37,825)**	(37,454)
		28,300	24,947	**16,449**	13,951
Non-controlling interests	5 (e)(ii)	**8,189**	9,436	**–**	–
TOTAL EQUITY		**36,489**	34,383	**16,449**	13,951

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS **AND OTHER COMPREHENSIVE INCOME**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	2017 $'000	2016 $'000
Revenue	15	**60,731**	60,746
Cost of sales		**(46,125)**	(46,861)
Gross profit		**14,606**	13,885
Other income	16	**1,335**	4,678
Distribution expenses		**(1,743)**	(1,494)
Administrative expenses		**(11,985)**	(13,188)
Finance costs	17	**(273)**	(143)
Profit before income tax	19	**1,940**	3,738
Income tax expense	20	**(712)**	(347)
Profit for the financial year		**1,228**	3,391
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences arising from consolidation		**(206)**	(253)
Currency translation differences realised through disposal of a subsidiary		**(5)**	–
Other comprehensive loss, net of tax		**(211)**	(253)
Total comprehensive income for the financial year		**1,017**	3,138
Profit attributable to:			
Equity holders of the Company		**611**	2,572
Non-controlling interests		**617**	819
		1,228	3,391
Total comprehensive income attributable to:			
Equity holders of the Company		**484**	2,256
Non-controlling interests		**533**	882
		1,017	3,138
Earnings per share attributable to equity holders of the Company (cents)	21		
Basic		**1.09**	5.49
Diluted		**1.09**	5.49

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

	Attributable to equity holders of the Company					
	Share capital $'000	Other reserves $'000	Accumulated losses $'000	Total $'000	Non-controlling interests $'000	Total $'000
Balance at 1.1.2017	**51,405**	**(3,331)**	**(23,127)**	**24,947**	**9,436**	**34,383**
Profit for the financial year	**–**	**–**	**611**	**611**	**617**	**1,228**
Other comprehensive loss for the financial year, net of tax						
– Currency translation differences arising from consolidation	**–**	**(122)**	**–**	**(122)**	**(84)**	**(206)**
– Currency translation differences arising from disposal of a subsidiary	**–**	**(5)**	**–**	**(5)**	**–**	**(5)**
Total comprehensive (loss)/income for the financial year	**–**	**(127)**	**611**	**484**	**533**	**1,017**
Contributions by and distribution to owners						
Issuance of shares, net (Note 13)	**2,869**	**–**	**–**	**2,869**	**–**	**2,869**
Transfer to statutory reserve (Note 14(a))	**–**	**146**	**(146)**	**–**	**–**	**–**
Dividend paid (Note 27)	**–**	**–**	**–**	**–**	**(38)**	**(38)**
Total contributions by and distribution to owners	**2,869**	**146**	**(146)**	**2,869**	**(38)**	**2,831**
Change in ownership interests in subsidiaries						
Disposal of a subsidiary (Note 5(d))	**–**	**–**	**–**	**–**	**(1,742)**	**(1,742)**
Balance at 31.12.2017	**54,274**	**(3,312)**	**(22,662)**	**28,300**	**8,189**	**36,489**
Balance at 1.1.2016	44,980	(3,245)	(25,469)	16,266	1,492	17,758
Profit for the financial year	–	–	2,572	2,572	819	3,391
Other comprehensive loss for the financial year, net of tax						
– Currency translation differences arising from consolidation	–	(316)	–	(316)	63	(253)
Total comprehensive (loss)/income for the financial year	–	(316)	2,572	2,256	882	3,138
Contributions by owners						
Share issued for acquisition of a subsidiary (Note 13)	6,425	–	–	6,425	–	6,425
Transfer to statutory reserve (Note 14(a))	–	230	(230)	–	–	–
Total contributions by owners	6,425	230	(230)	6,425	–	6,425
Change in ownership interests in subsidiaries						
Acquisition of a subsidiary (Note 5(f))	–	–	–	–	7,062	7,062
Balance at 31.12.2016	51,405	(3,331)	(23,127)	24,947	9,436	34,383

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Profit before income tax		**1,940**	3,738
Adjustments:			
Amortisation of intangible assets	19	**1,741**	1,349
Depreciation of property, plant and equipment	19	**932**	680
Gain on bargain purchase arising from business combination	5 (f)	**–**	(4,167)
Gain on disposal of property, plant and equipment	19	**(17)**	(14)
Loss on disposal of a subsidiary	5 (d)	**19**	–
Property, plant and equipment written off	19	**8**	–
Reversal of amount due to contract customers	16	**(1,035)**	–
Inventories written off	19	**33**	–
Impairment loss on trade and other receivables	19	**64**	1,294
Interest expenses	17	**273**	143
Interest income	16	**(24)**	(23)
Unrealised exchange differences		**35**	(75)
Operating profit before working capital changes		**3,969**	2,925
Change in working capital, net of effects from disposal of a subsidiary			
Inventories		**(1,086)**	(50)
Gross amount due from/to customers for contract work		**(78)**	(18,065)
Trade and other receivables		**(9,466)**	256
Trade and other payables		**4,295**	12,736
Refund of fixed deposits and bank balances pledged	10	**232**	1,198
Cash used in operations		**(2,134)**	(1,000)
Income taxes paid		**(318)**	(788)
Net cash used in operating activities		**(2,452)**	(1,788)
Cash flows from investing activities			
Purchase of property, plant and equipment	A	**(1,202)**	(2,168)
Proceeds from disposal of property, plant and equipment		**17**	15
Acquisition of a subsidiary, net of cash	5 (f)	**–**	1,165
Disposal of subsidiary, net of cash disposed	5 (d)	**1,355**	–
Loan to a third party		**(489)**	–
Interest received		**24**	23
Net cash used in investing activities		**(295)**	(965)
Cash flows from financing activities			
Placements monies received in advance	11	**4,844**	–
Proceeds from issuance of new shares, by way of cash	13	**3,000**	–
Share issuance cost	13	**(131)**	–
Dividend paid to non-controlling interests	5(e)	**(38)**	–
Proceeds from borrowings		**7,041**	1,064
Repayment of borrowings		**(1,676)**	(440)
Repayment of finance lease liabilities		**(48)**	(46)
Interest paid		**(273)**	(143)
Net cash from financing activities		**12,719**	435
Net increase/(decrease) in cash and cash equivalents		**9,972**	(2,318)
Cash and cash equivalents at beginning of financial year		**5,494**	7,711
Effect of exchange rate changes on cash and cash equivalents		**(87)**	101
Cash and cash equivalents at end of financial year	10	**15,379**	5,494

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

Note A

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

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 a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST"). The address of the Company's registered office and its principal place of business is located at 21 Marsiling Industrial Estate Road 9, #01-03, Singapore 739175.

The principal activities of the Company are those of investment holding and acting as a corporate manager and adviser and administrative centre to support business of the Company's subsidiaries. The principal activities of the subsidiaries are disclosed in Note 5.

The financial statements for the financial year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 4 April 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below and are drawn up in accordance with the Singapore Financial Reporting Standards ("FRS"). The financial statements are presented in Singapore dollars ("$") and all values are recorded to nearest thousand ($'000) as indicated.

The Accounting Standards Council announced on 29 May 2014 that Singapore incorporated companies listed on Singapore Exchange will apply a new financial reporting framework identical to the International Financial Reporting Standards. The Group will adopt the new financial reporting framework on 1 January 2018.

The preparation of the financial statements in conformity with FRS requires management to exercise its judgements in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements and areas involving a higher degree of judgement or complexity, are disclosed in this Note.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised standards

On 1 January 2017, the Group adopted the new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application from that date. 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 accounting policies and had no material effect on the amounts reported for the current or prior financial years, except as disclosed below:

Amendments to FRS 7: *Disclosure Initiative*

The amendments introduce additional disclosure requirement intended to enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flows and non-cash changes.

The Group's liabilities arising from financing activities and a reconciliation between the opening and closing balances of these liabilities are set out in Note 12. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 12, the application of these amendments has had no impact on the Group's consolidated financial statements.

Standards issued but not yet effective

The Accounting Standards Council announced on 29 May 2014 that Singapore incorporated companies listed on the Singapore Exchange will apply a new financial reporting framework identical to the International Financial Reporting Standards, Singapore Financial Reporting Standards (International) (SFRS(I)). The Group has adopted the new financial reporting framework on 1 January 2018. The Group's financial statements for the financial year ending 31 December 2018 will be prepared in accordance with SFRS(I). As a result, this will be the last set of financial statements prepared under the current FRS.

The Group is currently performing an analysis of the available policy choices, transitional optional exemptions and transitional mandatory exceptions under SFRS(I) 1 First-time Adoption of Financial Reporting Standards.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (Continued)

In addition to the adoption of the new framework, the Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Descriptions	**Effective for annual periods beginning on or after**
SFRS(I) 15 Revenue from Contracts with Customers	1 January 2018
SFRS(I) 9 *Financial Instruments*	1 January 2018
Amendments to SFRS(I) 2: *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Amendments to SFRS(I) 1-40: *Transfers of Investment Property*	1 January 2018
Improvements to IFRS Standards 2014-2016 cycle (December 2016)	
– SFRS(I) 1 *First-time Adoption of Financial Reporting Standards*	1 January 2018
– SFRS(I) 1-28 *Investments in Associates and Joint Ventures*	1 January 2018
SFRS(I) INT 22: *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Amendments to SFRS(I) 4: *Applying SFRS (I) 9 Financial Instruments with SFRS(I) 4 Insurance Contracts*	1 January 2018
SFRS(I) 16 *Leases*	1 January 2019
SFRS(I) INT 23: *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to SFRS(I) 9: *Prepayment Features with Negative Compensation*	1 January 2019
Amendments to SFRS(I) 1-28: *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Improvements to SFRS(I)s 2015-2017 cycle (March 2018)	
– SFRS(I) 3 *Business Combinations*	1 January 2019
– SFRS(I) 11 *Joint Arrangements*	1 January 2019
– SFRS(I) 1-12 *Income Taxes*	1 January 2019
– SFRS(I) 1-23 *Borrowing Costs*	1 January 2019

Except for SFRS(I) 9, SFRS(I) 15, SFRS(I) INT 22, SFRS(I) 16 and SFRS(I) 23, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of these new or revised FRSs are described below.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (Continued)

SFRS(I) 9 *Financial Instruments*

SFRS(I) 9 replaces FRS 39 Financial Instruments: Recognition and Measurement, and introduces new requirements for classification and measurement, impairment and hedge accounting. The adoption of SFRS(I) 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. SFRS(I) 9 also introduces a new forward-looking expected credit loss (ECL) impairment model and adds detailed guidance on impairment-related presentation and disclosures. SFRS(I) 9 also contains new requirements on hedge accounting, which adopts a more principle-based approach, and allows entities to choose between applying hedge accounting requirements of SFRS(I) 9 or continue to apply the existing hedge accounting requirements in SFRS (I) 1-39 for all hedge accounting.

SFRS(I) 9 will take effect from financial years beginning on or after 1 January 2018. On adoption of SFRS(I) 9, the Group does not expect changes in measurement basis for the financial assets and liabilities. The Group plans to apply the simplified approach and record lifetime ECL on its trade and other receivables and is in the process of calculating the impact of SFRS (I) 9 on impairment allowance.

SFRS(I) 15 *Revenue from Contracts with Customers*

SFRS(I) 15 establishes a single comprehensive model in accounting for revenue arising from contracts with customers, and will supersede the current revenue recognition guidance including FRS 18 *Revenue*, FRS 11 *Construction Contracts* and the related Interpretations when it becomes effective in 2018.

The core principle of SFRS(I) 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under SFRS(I) 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customers. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

SFRS(I) 15 will take effect from financial years beginning on or after 1 January 2018. In accordance with the requirements of SFRS(I) 1, the Group will adopt SFRS(I) 15 retrospectively but plan to apply practical expedients on completed contracts, variable considerations and contract modifications.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (Continued)

SFRS(I) 15 *Revenue from Contracts with Customers (Continued)*

Identifying performance obligations

The Group currently recognises revenue for each long-term contract based on the different types of goods and services stipulated in its contracts. Under SFRS(I) 15, the Group is required to identify distinct performance obligations (PO) in bundled arrangements and account for each PO separately, unless it can be demonstrated that the Group provides a significant integrated service; and the goods or services within the contract are highly dependent on or highly integrated with other goods or services.

Timing of recognition

The Group currently recognises revenue from construction contracts by reference to the stage of completion of the contract activity at the end of the reporting period when the outcome of a construction contract can be estimated reliably (the percentage of completion method). Following the adoption of SFRS(I) 15, the Group is assessing each contract and apply judgement to determine whether the customers control the water treatment systems as it is being created or enhanced which will qualify for recognition over time and does not expect to have significant impact to the timing and amount of revenue recognised. For the contracts that the Group determines that the above criteria cannot be met, the timing of revenue recognition will need to be deferred where the right to payment for performance completed to date cannot be enforced due to non-enforceability of right to payment for performance completed to date as it is likely that the Group does not have alternative use for assets created under those contracts. The Group is still in the process of analysing the contracts and has yet to determine and quantify the possible impact.

Amount of consideration

The Group's contracts may include variable considerations such as penalties, including liquidated damages for delays, or other similar terms. Under SFRS(I) 15, the Group is required to estimate the amount of consideration to which it expects to be entitled and variable amounts are included in contract revenue to the extent that it is highly probable that there will be no significant reversal when the uncertainty is resolved.

For contracts that contain a significant financing component, under SFRS(I) 15, the Group is required to adjust the transaction price for the effects of the time value of money. However, the Group will elect the practical expedient of not adjusting the transaction price if the period between payment and transfer of goods and/or services is less than one year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (Continued)

SFRS(I) INT 22: *Foreign Currency Transactions and Advance Consideration*

FRS 21 requires a foreign currency transaction to be recorded using spot exchange rate at the date of transaction. This interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of transaction for the purpose of determining the transaction rate on initial recognition of the related asset, expense or income (or part of it) is the date on which the entity initially recognises the non-monetary asset or liability (such as prepayment or deferred income) arising from the advance consideration. As such, no exchange gain will arise from the transfer of non-monetary asset or liability recognised for advance consideration to the related asset, expense or income at initial recognition. The interpretation applies to annual periods beginning on or after 1 January 2018, which an entity may elect to apply either retrospectively or prospectively.

SFRS(I) 16 *Leases*

SFRS(I) 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under SFRS(I) 16.

The standard also introduces expanded disclosure requirements and changes in presentation.

SFRS(I) 16 will take effect from financial years beginning on or after 1 January 2019. The standard will affect primarily the accounting for the Group's operating leases. The future minimum rental expense payable under significant non-cancellable leases is disclosed in Note 23(ii). The Group has yet to determine to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (Continued)

SFRS(I) INT 23: *Uncertainty over Income Tax Treatments*

The interpretation clarifies that, when there is uncertainty over income tax treatments, an entity considers whether it is probable that the tax authority will accept the entity's tax treatment. When it is probable, an entity determine the accounting tax position consistently with the tax treatment used or planned to be used in the entity's income tax filings. Otherwise, an entity should estimate the effect of uncertainty using either the most likely amount or the expected value method, whichever method better predicts the resolution of the uncertainty. Consistent judgements and estimates should be made for both current tax and deferred tax. The interpretation is effective for annual periods beginning on or after 1 January 2019. An entity can apply the interpretation using either full retrospective (without use of hindsight) or modified retrospective approach (without restating comparative information).

Group accounting

(i) Subsidiaries

(a) Basis of 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.

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 profit or loss and other comprehensive income, statement of changes in equity and statement 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Group accounting (Continued)

(i) Subsidiaries (Continued)

(b) Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary 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. Acquisition-related costs, other than those associated with the issue of debt or equity securities, 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.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the Group elects on an acquisition-by-acquisition basis whether to recognise them either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, at the date of acquisition.

The excess of 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 the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Group accounting (Continued)

(i) Subsidiaries (Continued)

(c) Disposals of subsidiaries or businesses

The assets and liabilities of the subsidiary, including any goodwill, are derecognised when a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary. Amounts 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 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. Subsequently, the retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(ii) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owner of the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with owners of the Group. 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 a separate reserve within equity attributable to the owners of the Company.

Investment in subsidiaries

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

Currency translation

(i) Functional and presentation currency

The individual financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Singapore dollars ("$"), which is also the functional currency of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Currency translation (Continued)

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity in the consolidated financial statements. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

(iii) Translation of the Group's financial statements

The assets and liabilities of foreign operations are translated into Singapore dollars at the rate of exchange ruling at the reporting date and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss.

Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. 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. The cost of an item of property, plant and equipment including subsequent expenditure is recognised as an asset if, and only if, 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. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance expenses are recognised in profit or loss when incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

After initial recognition, property, plant and equipment except for freehold lands are stated at cost less accumulated depreciation and any accumulated impairment losses.

Construction in progress includes all cost of construction and other direct costs. Construction in progress is reclassified to the appropriate category of property, plant and equipment when complete and ready to use.

Freehold lands and construction in progress are not depreciated. All other items of property, plant and equipment are depreciated using the straight-line method to write-off the cost over their estimated useful lives as follows:

	Useful lives (Years)
Freehold buildings	50
Leasehold lands and buildings	30 to 50
Renovations	5
Motor vehicles	5
Plant and equipment	3 to 10

The estimated useful life and depreciation method are reviewed, and adjusted as appropriate, at each reporting date to ensure that the amount, method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Fully depreciated assets are retained in the financial statements until they are no longer in use.

The carrying amount of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on retirement or disposal is determined as the difference between any sales proceeds and the carrying amounts of the asset and is recognised in the profit or loss within "Other income/(expenses)".

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

(i) Goodwill on acquisitions

Goodwill on acquisition of subsidiaries or businesses represents the excess of (i) the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previously-held equity interest in the acquiree over (ii) the fair value of the net identifiable assets acquired net of the fair values of the liabilities and any contingent liabilities assumed.

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

Gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the entity sold. Certain portion of goodwill arose from a change in parent's ownership interests in a subsidiary (after control is obtained) before July 2009. The revised FRS 27 which was issued on 1 July 2009 did not require retrospective adjustment be made on goodwill that was recognised prior to 1 July 2009 and allowed the goodwill be stated at carrying value as of 1 July 2009.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group if cash generating units) to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment loss recognised for goodwill is not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

(ii) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost, which includes the purchase price and other directly attributable cost of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is their fair values at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and are recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

(ii) Other intangible assets (Continued)

(a) Trade name and trademarks

Trade name and trademarks are measured at fair value less accumulated amortisation and accumulated impairment losses. The costs are amortised to profit or loss using the straight-line method over the estimated useful lives of 7 years.

(b) Patented technologies and license

Patented technologies are measured at fair value less accumulated amortisation and accumulated impairment losses. The costs are amortised to profit or loss using the straight-line method over the estimated useful lives of 5 years.

(c) Computer software and others

Computer software and others are measured at fair value less accumulated amortisation and accumulated impairment losses. The costs are amortised to profit or loss using the straight-line method over the estimated useful lives of 3 to 5 years.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent on those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecasts calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the profit and loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

Financial assets

(i) Initial recognition and measurement

Financial assets are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on 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 and re-evaluates this designation at every reporting date. As at the reporting date, the Group has no other financial assets in the categories of financial assets other than the category of loans and receivables.

(ii) Subsequent measurement

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 reporting date which are classified as non-current assets. Loans and receivables comprise cash and bank balances, trade and other receivables, and exclude prepayments, advances to suppliers and GST/VAT receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

(iii) Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the marketplace concerned.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials and trading goods comprise of all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. These costs are assigned on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to be incurred for selling and distribution.

Where necessary, allowance is provided for damage, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Construction contracts work-in-progress

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date (the percentage of completion method).

The outcome of a construction contract can be estimated reliably when: (i) total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of a contract cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable and contract costs are recognised as an expense in the period in which they are incurred. An expected loss on the construction contract should be recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

Contract revenue comprises the initial amount of revenue agreed in the contract and any variation in the contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they 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 contract costs incurred to date to the estimated total costs for the contract. Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. 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 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts work-in-progress (Continued)

The aggregate of costs incurred and the profit or loss recognised on each contract is compared against the progress billings up to the financial year end. Where costs incurred and recognised profit (less recognised losses) exceed progress billings, the balance is shown as gross amount due from customers for contract work. Where progress billings exceeds costs incurred and recognised profit (less recognised losses), the excess is shown as gross amount due to customers for contract work.

Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs. As at the reporting date, the Group did not have any financial liabilities in the category of financial liabilities at fair value through profit and loss.

(ii) Subsequent measurement

Subsequent to initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when liabilities are derecognised, and through the amortisation process.

(iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Provisions

A provision is recognised when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial guarantees

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiaries. These guarantees are financial guarantee contracts 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 guarantee contracts are initially recognised as a liability at their fair values, adjusted for transaction costs directly attributable to the issuance of the guarantees. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If it is probable that the liabilities will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to profit or loss.

Borrowings

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

Borrowings are initially recorded at fair value, net of transaction costs and subsequently carried for at amortised costs using the effective interest method.

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. Borrowings which are due to be settled within twelve months after the reporting date are included in the current borrowings in the statement of financial position even though the original term was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. For arrangements entered into prior to 1 January 2006, the date of inception is deemed to be 1 January 2006 in accordance with the transitional requirements of INT FRS 104.

(i) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

(ii) As lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased item are classified as operating leases. Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Share capital and issuance expenses

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue and its related costs can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(b) Revenue from construction contracts – Engineered Environmental Systems

Revenue from construction contracts is recognised in accordance with the accounting policy on accounting for "Construction contracts work-in-progress" paragraph.

(c) Revenue from rendering of services – Water Management Services

Revenue is recognised upon the rendering of services and when the outcome of the transaction can be estimated reliably. In the event the outcome of the transaction could not be estimated reliably, revenue is recognised to the extent of the expenses incurred that are recoverable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

(d) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all terms and conditions relating to the grants have been 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.

Dividends

Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

Employees' benefits

(i) Retirement benefits

The Group and the Company participate in the national schemes as defined by the laws of the countries in which it has operations.

<u>Singapore</u>

The Company and certain subsidiaries make contribution to the Central Provident Fund (CPF) Scheme in Singapore, a defined contribution pension scheme.

<u>Foreign subsidiaries</u>

The subsidiaries, incorporated and operating in Malaysia, the People's Republic of China, Philippines and Taiwan, are required to provide certain retirement plan contribution to their employees under the existing regulations. Contribution are provided at the rates stipulated by the regulations in the countries where the subsidiaries operate.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the period in which the related service is performed.

(ii) Employee leave entitlement

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

All borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income taxes for current and prior periods are recognised at the amount expected to be paid to or recovered from the tax authorities, using tax rates and tax laws that have been substantively enacted by the reporting date in the countries where the Group operates and generates taxable income. Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and the Company if that person:

(i) Has control or joint control over the Company;

(ii) Has significant influence over the Company; or

(iii) Is a member of the key management personnel of the Group or the Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits with financial institutions, and short-term, highly liquid investments readily convertible to known amounts of cash which have an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents are presented net of bank overdraft and pledged fixed deposits and bank balances.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingencies

A contingent liability is 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 a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or 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.

Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn resources and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, which in the case is the Chief Executive Officer of the Group, to make decision about resources to be allocated and to assess performance of the operating segments.

Critical accounting estimates, assumptions and judgement

Estimates, assumptions and judgement are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates, assumptions and judgement (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(a) Construction contracts

The Group uses the percentage-of-completion method in accounting for its contract revenue where it is probable that contract costs are recoverable. The stage of completion is measured by reference to the contract costs incurred to date 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 relied on past experiences and knowledge of the project engineers.

The carrying amounts of assets and liabilities arising from construction contracts as at 31 December 2017 are disclosed in Note 9.

If the estimated total contract cost had been 5% higher than management estimate for the major contracts in progress as at the reporting date, the revenue arising from construction contracts of the Group will decrease by $1,483,000 (2016: $906,000).

(b) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate included in the budget.

The carrying amount of goodwill and further details of the key assumptions applied in the impairment assessment of goodwill are disclosed in Note 4.

The carrying amount of property, plant and equipment and investment in subsidiaries are disclosed in Note 3 and 5 respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates, assumptions and judgement (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(c) Impairment of loans and receivables

Management reviews its loans and receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement 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 judgements 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 trade and other receivables of the Group and Company as at 31 December 2017 are disclosed in Note 8. The credit risk exposure including the aging profile of trade receivables are disclosed in Note 25 (iii).

If the net present values of estimated cash flows increase/decrease by 10% from management's estimates for all past due but not impaired trade receivables, the Group's allowance for impairment loss will decrease/increase by $410,000 (2016: $400,000).

(d) Income tax

Current tax:

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. In determining the income tax liabilities of a routine tax assessment year, management estimated the amount of capital allowance and the deductibility of certain expenses at each tax jurisdiction. Where the final tax outcome 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 amount of the Group's income tax recoverable and payable as at 31 December 2017 amounted to $144,000 and $757,000 (2016: $276,000 and $578,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates, assumptions and judgement (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(d) Income tax (Continued)

Deferred tax – recognised:

Changes in income tax laws and rates may affect recorded deferred tax assets and liabilities in the future. As at 31 December 2017, a subsidiary in The People's Republic of China which enjoys a concessionary tax rate of 15%, had recognised deferred tax assets and liabilities of approximately $50,000 (2016: $142,000) and $4,000 (2016: $905,000) respectively on the basis that the concessionary tax rate will still be available at the timing of reversal of the temporary differences.

Deferred tax – unrecognised:

The Group and Company have not recognised deferred tax assets relating to tax losses of approximately $9,384,000 and $3,204,000 (2016: $9,230,000 and $3,112,000) respectively that are available to be carried forward. As disclosed in Note 6, these losses relate to the Company and certain subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The Company and the respective subsidiaries have neither temporary taxable differences nor any tax planning opportunities available that could support the recognition of any of these losses as deferred tax assets. If the Group was able to recognise all unrecognised deferred tax assets, the resulting deferred tax income of approximately $1,879,000 (2016: $1,815,000) would increase the Group's profit for the financial year (2016: increase profit for the financial year).

(e) Useful lives of intangible assets arising from business combinations

Those intangible assets arising from business combinations are amortised on a straight-line basis over their useful lives. The management estimates the useful lives to be between 3 to 7 years, based on the common life expectancies applied in the water purification, water supply and wastewater treatment industry and existing contracts. As at 31 December 2017, there are no indications that the remaining economic useful lives of those intangible assets are significantly lower than the remaining useful lives. The carrying amount of the Group's intangible assets at the reporting date is disclosed in Note 4 to the financial statements.

(ii) Critical judgement in applying the entity's accounting policies

In the opinion of the management, there are no critical judgements made in applying the Group's accounting policies, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

3. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold lands $'000	Freehold buildings $'000	Leasehold lands and buildings $'000	Renovations $'000	Construction in progress $'000	Motor vehicles $'000	Plant and equipment $'000	Total $'000
Cost								
As at 1.1.2016	2,205	1,374	544	324	–	909	4,044	9,400
Additions	–	322	2,484	336	29	113	152	3,436
Acquisition of a subsidiary (Note 5(f))	–	–	–	–	–	126	10	136
Disposals	–	–	–	–	–	(37)	(2)	(39)
Written off	–	–	–	–	–	–	(3)	(3)
Currency translation differences	80	21	(2)	(5)	(1)	(10)	25	108
As at 31.12.2016	2,285	1,717	3,026	655	28	1,101	4,226	13,038
As at 1.1.2017	**2,285**	**1,717**	**3,026**	**655**	**28**	**1,101**	**4,226**	**13,038**
Additions	**–**	**106**	**83**	**40**	**161**	**226**	**586**	**1,202**
Disposal of a subsidiary (Note 5(d))	**(2,011)**	**(917)**	**–**	**–**	**–**	**(27)**	**(2,000)**	**(4,955)**
Disposals	**–**	**–**	**–**	**–**	**–**	**(112)**	**(1)**	**(113)**
Written off	**–**	**–**	**–**	**–**	**–**	**–**	**(122)**	**(122)**
Currency translation differences	**(4)**	**11**	**(1)**	**3**	**5**	**6**	**19**	**39**
As at 31.12.2017	**270**	**917**	**3,108**	**698**	**194**	**1,194**	**2,708**	**9,089**

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

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (Continued)	Freehold lands $'000	Freehold buildings $'000	Leasehold lands and buildings $'000	Renovations $'000	Construction in progress $'000	Motor vehicles $'000	Plant and equipment $'000	Total $'000
Accumulated depreciation								
As at 1.1.2016	–	213	49	194	–	507	2,934	3,897
Charge for the financial year	–	131	11	41	–	142	355	680
Disposals	–	–	–	–	–	(37)	(1)	(38)
Written off	–	–	–	–	–	–	(3)	(3)
Currency translation differences	–	1	(1)	(5)	–	(6)	5	(6)
As at 31.12.2016	–	345	59	230	–	606	3,290	4,530
As at 1.1.2017	**–**	**345**	**59**	**230**	**–**	**606**	**3,290**	**4,530**
Charge for the financial year	**–**	**231**	**128**	**40**	**–**	**165**	**368**	**932**
Disposal of a subsidiary (Note 5 (d))	**–**	**(315)**	**–**	**–**	**–**	**–**	**(1,347)**	**(1,662)**
Disposals	**–**	**–**	**–**	**–**	**–**	**(112)**	**(1)**	**(113)**
Written off	**–**	**–**	**–**	**–**	**–**	**–**	**(114)**	**(114)**
Currency translation differences	**–**	**3**	**2**	**5**	**–**	**6**	**18**	**34**
As at 31.12.2017	**–**	**264**	**189**	**275**	**–**	**665**	**2,214**	**3,607**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (Continued)	Freehold lands $'000	Freehold buildings $'000	Leasehold lands and buildings $'000	Renovations $'000	Construction in progress $'000	Motor vehicles $'000	Plant and equipment $'000	Total $'000
Accumulated impairment losses								
As at 1.1.2016	1,084	244	–	–	–	–	–	1,328
Currency translation differences	48	11	–	–	–	–	–	59
As at 31.12.2016	1,132	255	–	–	–	–	–	1,387
As at 1.1.2017	**1,132**	**255**	**–**	**–**	**–**	**–**	**–**	**1,387**
Disposal of a subsidiary (Note 5 (d))	**(1,127)**	**(253)**	**–**	**–**	**–**	**–**	**–**	**(1,380)**
Currency translation differences	**(5)**	**(2)**	**–**	**–**	**–**	**–**	**–**	**(7)**
As at 31.12.2017	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Net carrying amount								
As at 31.12.2017	**270**	**653**	**2,919**	**423**	**194**	**529**	**494**	**5,482**
As at 31.12.2016	1,153	1,117	2,967	425	28	495	936	7,121

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets held under finance leases

In the previous financial year ended 31 December 2016, the Group acquired motor vehicles with an aggregate cost of $23,000 by means of finance leases.

The carrying amount of motor vehicles held under finance leases at the reporting date is $96,000 (2016: $152,000). Leased assets are pledged as security for the related finance lease liabilities (Note 12).

Assets pledged as security

In addition to assets held under finance leases, freehold lands, freehold buildings and leasehold lands and buildings of the Group with an aggregate carrying amount of $3,842,000 (2016: $2,746,000) are mortgaged to the banks in Malaysia and The People's Republic of China (2016: Malaysia and Taiwan) to secure the Group's bank loans and facilities (Note 12).

The properties held by the Group as at 31 December 2017 and 31 December 2016 are as follows:

Location	Description	Gross land area (sqm)	Gross built-in area (sqm)	Remaining tenure	Use of property
Malaysia					
Lot 10645, Jalan Permata 1/6, Arab Malaysian Industrial Park, 71800 Nilai, Negeri Sembilan Darul Khusus, Malaysia	Freehold land and building	4,572	1,512	Freehold	Office, factory and warehouse
Lot 16140, No.117, Jalan Nilai 3/12, Kawasan Perindustrian Nilai 3, 71800 Nilai, Negeri Sembilan, Malaysia	Freehold land and building	669	223	Freehold	Factory
Lot No. 6456, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang, Malaysia	Leasehold land and building	1,009	984	Ending on 30 September 2045	Office, factory and warehouse
Lot No. 6457, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang, Malaysia	Leasehold land and building	1,009	984	Ending on 30 September 2045	Office, factory and warehouse
China					
Building 20, Guanggu Witpark, Financial Harbour 1st Road, Guanggu Road, East Lake New-Tech Development Zone, Wuhan, Hubei, PRC	Freehold land and building	63,415	1,494	Ending on 11 March 2061	4-storey office and warehouse
Taiwan*					
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	Freehold	Office, factory and warehouse
Wurih Township, Town Urban, Tong An Segment 253-1,Taiwan	Freehold land	17,199	–	Freehold	Office, factory and warehouse

* These freehold lands and building pertains to Darco Youli Co., Ltd. which has been disposed during the financial year (Note 5(d)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

4. INTANGIBLE ASSETS

Group	Goodwill on consolidation $'000	Trade name and trademarks $'000	Patented technologies and license $'000	Computer software and others $'000	Total $'000
Cost					
Balance at 1.1.2016	924	–	–	–	924
Additions:					
– Acquisition of a subsidiary (Note 5(f))	–	4,544	5,258	145	9,947
Currency translation differences	–	(10)	(11)	(1)	(22)
Balance at 31.12.2016	924	4,534	5,247	144	10,849
Balance at 1.1.2017	**924**	**4,534**	**5,247**	**144**	**10,849**
Currency translation differences	**–**	**(66)**	**(76)**	**(2)**	**(144)**
Balance at 31.12.2017	**924**	**4,468**	**5,171**	**142**	**10,705**
Accumulated amortisation and impairment losses					
Balance at 1.1.2016	(19)	–	–	–	(19)
Amortisation for the financial year	–	(484)	(833)	(32)	(1,349)
Currency translation differences	–	5	3	3	11
Balance at 31.12.2016	(19)	(479)	(830)	(29)	(1,357)
Balance at 1.1.2017	**(19)**	**(479)**	**(830)**	**(29)**	**(1,357)**
Amortisation for the financial year	**–**	**(635)**	**(1,063)**	**(43)**	**(1,741)**
Currency translation differences	**–**	**(3)**	**(4)**	**(3)**	**(10)**
Balance at 31.12.2017	**(19)**	**(1,117)**	**(1,897)**	**(75)**	**(3,108)**
Net carrying amount					
As at 31.12.2017	**905**	**3,351**	**3,274**	**67**	**7,597**
As at 31.12.2016	905	4,055	4,417	115	9,492

Amortisation expenses included in the profit or loss are analysed as follows:

	Group 2017 $'000	Group 2016 $'000
Administrative expenses	**1,741**	1,349

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

4. INTANGIBLE ASSETS (CONTINUED)

The carrying amount and the remaining amortisation period of the intangible assets are mainly as follows:

	Group			
	Carrying amount		Remaining amortisation period	
	2017 $'000	2016 $'000	2017 Months	2016 Months
Trade name and trademarks	**3,351**	4,055	**63**	75
Patented technologies	**2,280**	3,034	**39**	51
Licence to use technology	**994**	1,383	**33**	45

Impairment testing of goodwill

Goodwill acquired through business combinations are allocated to the Group's cash-generating units (CGUs) that are expected to benefit from that business combinations. The carrying amount of goodwill before impairment which had been allocated to CGUs within the Engineered Environmental ("EE") Systems segment is as follows:

	2017 $'000	2016 $'000
Singapore *	**905**	905
Malaysia [(i)]	**4**	4
PRC [(i)]	**15**	15
	924	924

* This pertains to PV Vacuum Engineering Pte. Ltd. ("PV Vacuum").
[(i)] Fully impaired in the previous financial years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars (“$’000”))

4. INTANGIBLE ASSETS (CONTINUED)

Impairment testing of goodwill (Continued)

The recoverable amounts of the CGUs are determined based on value-in-use calculations.

In determining value-in-use, the Group prepares 10-year cash flow projections based on the most recent financial budgets approved by the management covering a five-year period, which are based on the following key assumptions:

	Group	
	2017	**2016**
	%	**%**
Growth rate [1]		
– Municipal	**–**	–
– Industrial	**0 to 5**	0 to 7.5
Gross margin [2]		
– Municipal	**32**	16
– Industrial	**53**	63
Discount rate [3]	**6**	4

(1) Growth rate in revenue
(2) Budgeted gross margin
(3) Pre-tax discount rate applied to the pre-tax cash flow projections

Municipal projects

Revenue from municipal projects is budgeted based on secured and tendered contract value of projects (2016: secured contract value) as at reporting date, which will be completed over the next 1-4 years (2016: next 1- 2 years). Gross margin is budgeted based on the historical track records for the past 2 years (2016: based on the budgeted costs estimated to be required) for those projects.

Industrial

Management expects that PV Vacuum will be able to achieve annual organic growth rate of 5% (2016: 7.5%) for the next 5 years, which is consistent with the industry growth rate forecast. In extrapolating the cash flows beyond the budget periods, the Management assumed zero growth rate. Gross margin is budgeted based on the historical track records for the past 3 years (2016: 3 years).

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.

Sensitivity to changes in assumptions

The outcome of the tender of municipal projects are still pending as at the date of the report. However, management is confident that PV Vacuum will be able to continue to secure municipal projects having established track records with its existing projects and expects PV Vacuum to at least achieve revenue from municipal projects at the recorded level for the past 2 years. With such budget and expectation, management believes that no reasonably possible changes in any of the above key assumptions individually or in combination would cause the carrying amount of the CGUs to materially exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

5. INVESTMENT IN SUBSIDIARIES

	Company	
	2017 **$'000**	**2016** **$'000**
Unquoted equity shares, at cost		
At beginning of the financial year	**13,501**	7,076
Add:		
– Additional equity interest in a subsidiary (Note (b))	**1,250**	–
– Incorporation of a subsidiary (Note (c))	**138**	–
– Issuance of shares for acquisition of a subsidiary (Note (f))	**–**	6,425
At end of the financial year	**14,889**	13,501
Less: Impairment losses		
At beginning and end of the financial year	**(2,679)**	(2,679)
Net carrying amount	**12,210**	10,822

(a) Details of the subsidiaries are as follows:

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2017 %	**2016 %**
Held by the Company				
Darco Engineering Pte. Ltd. (1)	Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business	Singapore	**100**	100
Darco Water Systems Sdn. Bhd. (2)	Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business and trading in related industrial products	Malaysia	**100**	100
PV Vacuum Engineering Pte. Ltd. (1)	Design and supply of environmental related equipment, centralised vacuum systems, refuse conveying system and any other engineering systems making use of vacuum technologies	Singapore	**100**	100

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(a) Details of the subsidiaries are as follows (Continued):

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2017 %	2016 %
Held by the Company (Continued)				
Darco Environment Vietnam Co., Ltd. (2)	Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	**100 (Note(c))**	–
Wuhan Kaidi Water Services Co., Ltd. (2)	Provision of comprehensive and integrated engineering solutions for water purification, water supply and wastewater treatment	The People's Republic of China ("PRC")	**60**	60 (Note (f))
Held by subsidiaries				
Darco Environmental (Philippines) Inc. (3)	Design, 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	Philippines	**65**	65
Shanghai Darco Engineering Co., Ltd. (4)	Design and fabrication of water treatment systems and provision of consultancy services in relation to such business	PRC	**100**	100
Darco Industrial Water Sdn. Bhd. (2)	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	Malaysia	**100**	100

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(a) Details of the subsidiaries are as follows (Continued):

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2017 %	**2016 %**
Held by subsidiaries (Continued)				
WWMG Environmental Sdn. Bhd. [(2)]	Investment holding	Malaysia	**100**	100
Ness Plus Trading Sdn. Bhd. [(2)]	Designing, fabricating and constructing pure and waste water treatment plants and trading in related industrial products	Malaysia	**100**	100
Grober Industrial Services Sdn. Bhd. [(2)]	Supplying of all kinds of industrial equipment and industrial services	Malaysia	**100**	100
Darco Remediation Technologies Inc. [(2)]	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	Taiwan	**100**	100
Puzer Asia Pte. Ltd. [(1)]	Trading in vacuum cleaning systems and provision of related services	Singapore	**56**	56
Darco Youli Co., Ltd. [(2)]	Recycling of medical waste	Taiwan	**– (Note (d))**	60

(1) Audited by Crowe Horwath First Trust LLP, Singapore.
(2) Audited by member firms of Crowe Horwath International in the respective countries.
(3) Audited by Fernandez, Santos & Lopez, Philippines.
(4) Audited by a CPA firm in The People's Republic of China.

(b) During the financial year, the Company has further subscribed for an additional 1,250,000 new ordinary shares in its wholly owned subsidiary, PV Vacuum Engineering Pte. Ltd. for an amount of $1,250,000.

(c) Newly incorporated during the financial year.

(d) Disposal of a subsidiary

On 30 September 2017, the Company completed the disposal of its entire equity interests in Darco Youli Co., Ltd. ("Youli") representing 60% voting rights to third parties for a total cash consideration of approximately TWD58,120,426, which was equivalent to $2,606,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(d) Disposal of a subsidiary (Continued)

The effects of disposal of Youli on the cash flows of the Group were:

	As at date of disposal $'000
Carrying amounts of assets and liabilities disposed of:	
Cash and bank balances	1,251
Trade and other receivables	2,066
Property, plant and equipment	1,913
Total assets	5,230
Trade and other payables	(316)
Borrowings	(525)
Income tax payables	(17)
Total liabilities	(858)
Net assets derecognised	4,372
Less: Non-controlling interests	(1,742)
Net assets disposed of	2,630
Reclassification from currency translation reserve (Note 14(a))	(5)
Loss on disposal of a subsidiary (Note 19)	(19)
Total cash consideration	2,606
Less: Cash and bank balances in a subsidiary disposed of	(1,251)
Net cash inflow on disposal of a subsidiary	1,355

(e) Interest in subsidiaries with non-controlling interest ("NCI")

(i) The Group has the following subsidiaries that have NCI to the Group.

Name of subsidiary	Proportion (%) of ownership interests and voting rights held by NCI	
	2017 %	2016 %
With material NCI		
Wuhan Kaidi Water Services Co., Ltd ("WHKD")	**40**	40
Darco Youli Co., Ltd. ("Youli") (Note 5(d))	**–**	40
With immaterial NCI		
Darco Environmental (Philippines) Inc.	**35**	35
Puzer Asia Pte. Ltd.	**44**	44

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(e) Interest in subsidiaries with non-controlling interest ("NCI") (Continued)

(ii) The carrying value of NCI to the Group is as follow:

	2017 $'000	2016 $'000
WHKD	**8,219**	7,709
Youli	**–**	1,739
Other subsidiaries with immaterial NCI	**(30)**	(12)
Total	**8,189**	9,436

(iii) The following summarises the financial information (post-acquisition) of each of the Group's subsidiary with material NCI, based on its respective financial statements prepared in accordance with FRS, modified for fair value adjustment on acquisition.

	WHKD		Youli
	2017 $'000	**2016 $'000**	**2016 $'000**
Revenue	**24,653**	27,801	3,160
Profit	**1,482**	1,600	476
Other comprehensive (loss)/income	**(208)**	(17)	185
Total comprehensive income	**1,274**	1,583	661
Attributable to NCI:			
– Profit	**593**	640	190
– Other comprehensive (loss)/income	**(83)**	(7)	74
Total comprehensive income	**510**	633	264
Non-current assets	**9,927**	11,654	1,972
Current assets	**42,483**	37,338	3,411
Non-current liabilities	**(1,909)**	(909)	(515)
Current liabilities	**(29,953)**	(28,810)	(520)
Net assets	**20,548**	19,273	4,348
Accumulated NCI of the subsidiaries at end of financial year	**8,219**	7,709	1,739
Cash flows from operating activities	**1,135**	292	663
Cash flows used in investing activities	**(1,511)**	(1,607)	(341)
Cash flows from/(used in) financing activities (dividends to NCI: $38,000* (2016: $Nil))	**978**	1,820	(44)

* This pertains to dividend paid by Darco Youli Co., Ltd. (Note 27).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(e) Interest in subsidiaries with non-controlling interest ("NCI") (Continued)

(iv) Significant restrictions:

The nature and extent of significant restriction of the Group's ability to use or access assets and settle liabilities of subsidiaries with material NCI are:

Cash and cash equivalents of WHKD amounting to $2,871,000 (2016: $1,160,000) as at 31 December 2017 held in The People's Republic of China are subject to local exchange control regulations. These regulations place restriction on the amount of currency being exported other than through dividends. Of which, bank balances of WHKD of $1,125,000 (2016: $1,272,000) are pledged to banks for the purpose as disclosed in Note 10 to the financial statements.

(f) Acquisition of Wuhan Kaidi Water Services Co., Ltd. ("WHKD") during the financial year ended 31 December 2016

On 11 August 2015, the Company has entered into a conditional sale and purchase agreement ("SPA") with Wuhan Liankai Investment Co., Ltd. ("WHLK"), Hong Kong Meidi Investments Holdings Co., Ltd. ("HKMI") and Mr. Zhang Zhengda ("ZZD") (collectively "the Vendors") to acquire a 60% equity interest in WHKD. The original agreed purchase consideration was the issuance of 382,489,084 new shares in the Company at an issue price of $0.0285 per share.

Following the completion of the Company's Share Consolidation exercise in December 2015 (Note 13), the Company and the Vendors further agreed to reduce the number of shares to be issued as a consideration to 19,124,454 at a revised issue price of $0.570. The acquisition has been completed and control has been obtained on 24 March 2016 (the "Acquisition date"). Upon the Acquisition date, WHKD became a subsidiary of the Group.

The Group has acquired WHKD in order to remain competitive and strengthen its position as a water treatment and management specialist both in The People's Republic of China and the Southeast Asia region and to enlarge the range of services it can offer to its clients.

WHKD is included in both the Engineered Environmental Systems and the Trading operating segments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(f) Acquisition of Wuhan Kaidi Water Services Co., Ltd. ("WHKD") during the financial year ended 31 December 2016 (Continued)

The Group has elected to measure the non-controlling interest at the non-controlling interest's proportionate share of WHKD's identifiable net assets. The fair value of the identifiable assets and liabilities of WHKD as at the Acquisition date were:

	Fair value recognised on acquisition $'000
Property, plant and equipment	136
Intangible assets	9,947
Deferred tax assets	99
Inventories	78
Trade and other receivables	15,810
Cash and bank balances*	3,367
Borrowings	(1,045)
Trade and other payables	(9,105)
Income tax payables	(564)
Deferred tax liabilities	(1,069)
Net identifiable assets at fair value	17,654
Consideration transferred for the acquisition of WHKD	
Acquisition-date fair value of equity instruments issued (Note 13)	6,425
Goodwill recognised as a result of the acquisition was as follows:	
Consideration transferred (as above)	6,425
Non-controlling interest measured at the non-controlling interest's proportionate share of WHKD's net identifiable assets	7,062
Less: Total identifiable net assets at fair value (as above)	(17,654)
Gain on bargain purchase arising from business combination (Note 16)	(4,167)

* Included in the cash and bank balances is an amount of $2,202,000 that relates to bank balances being pledged to the banks (Note 10).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(f) Acquisition of Wuhan Kaidi Water Services Co., Ltd. ("WHKD") during the financial year ended 31 December 2016 (Continued)

Gain on bargain purchase

The purchase consideration as further agreed with the Vendors was issuance of 19,124,454 new shares in the Company, an issue price of $0.570 per share which brings the total consideration to an aggregate of $10.9 million, approximating the share of net identifiable assets at fair value. At the Acquisition date, the market price of the Company's share was lower at $0.336 per share, thereby reducing the purchase consideration to approximately $6.4 million and resulting in a gain on bargain purchase arising from business combination amounting to approximately $4.2 million. The gain is included in the "Other income" line item in profit and loss.

Trade and other receivables acquired

Trade and other receivables acquired comprise of trade receivables, including notes receivable, other receivables and gross amount due from contract customers with fair value of $7,100,000, $1,980,000 and $6,730,000 respectively. Their gross amounts are $7,411,000, $1,980,000 and $6,730,000 respectively. At the Acquisition date, $311,000 of the contractual cash flows pertaining to trade receivables are not expected to be collected. It is expected that the full amount of other receivables and gross amount due from contract customers can be collected.

Other fair value of assets acquired and liabilities assumed in the acquisition

The management has engaged external valuation specialist to assist in the purchase price allocation process. The fair value of the assets and liabilities are calculated using the following:

	Valuation methodologies
Assets:	
– Trade name and trademarks	Relief from Royalty
– Patented technologies	Relief from Royalty
– Licence to use technology	Replacement cost
– Computer software and others	Replacement cost
– Gross amount due from customers for contract work	Discounted cash flows
Liability:	
– Gross amount due to customers for contract work	Bottom-up

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(f) Acquisition of Wuhan Kaidi Water Services Co., Ltd. ("WHKD") during the financial year ended 31 December 2016 (Continued)

Other fair value of assets acquired and liabilities assumed in the acquisition (Continued)

Total net fair value adjustments and the related deferred tax liabilities amounted to $6,059,000 and $1,069,000 respectively.

The fair value of other assets and liabilities approximate their carrying amounts at the Acquisition date as the nature of other assets and liabilities does not subject to significant changes or fluctuation in value.

Transaction costs

Transaction costs related to the acquisition of $724,000 have been recognised in the "Administrative expenses" line item in the Group's profit or loss for the financial year ended 31 December 2016.

Effect of the acquisition of WHKD on cash flows

	Fair value recognised on acquisition $'000
Total consideration for 60% equity interest acquired	6,425
Less: Non-cash consideration	(6,425)
Consideration settled in cash	–
Less: Cash and cash equivalents of subsidiary acquired (after deducting pledged bank balances)	1,165
Net cash inflows on acquisition of a subsidiary	1,165

Impact of the acquisition on profit or loss

From the Acquisition date, WHKD has contributed $27,801,000 of revenue and $1,631,000 to the Group's profit for the financial year. If the business combination had taken place at the beginning of the financial year, the Group's revenue and the profit for the financial year, net of tax, would have been $63,433,000 and $3,642,000 respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

6. DEFERRED TAX ASSETS/(LIABILITIES)

	Group	
	2017 $'000	2016 $'000
At beginning of the financial year	(715)	(106)
Addition arising from acquisition of a subsidiary	–	(970)
Deferred tax resulting from reduction in tax rate (Note 20)	–	2
Recognised in the profit or loss (Note 20)	(66)	359
Currency translation differences	(12)	–
At end of the financial year	(793)	(715)
Presented after appropriate offsetting as follows:		
Deferred tax assets	82	318
Deferred tax liabilities	(875)	(1,033)
	(793)	(715)

The components and movement of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets of the Group

	Allowance of doubtful debts $'000	Others** $'000	Total $'000
2017			
At beginning of the financial year	164	154	318
Recognised in the profit or loss	(44)	(129)	(173)
Currency translation differences	(8)	(5)	(13)
At end of the financial year	112	20	132

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

6. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Deferred tax assets of the Group (Continued)

	Allowance of doubtful debts $'000	Others** $'000	Total $'000
2016			
At beginning of the financial year	73	71	144
Addition arising from acquisition of a subsidiary (Note 5(f))	93	6	99
Recognised in the profit or loss	–	77	77
Currency translation differences	(2)	*	(2)
At end of the financial year	164	154	318

* Amount less than $1,000.
** Others mainly comprised of unutilised tax losses and provision.

Deferred tax liabilities of the Group

	Fair value adjustments on acquisition of a subsidiary $'000	Tax over book depreciation $'000	Total $'000
2017			
At beginning of the financial year	**875**	**158**	**1,033**
Recognised in the profit or loss	**4**	**(111)**	**(107)**
Currency translation differences	**(1)**	*****	**(1)**
At end of the financial year	**878**	**47**	**925**
2016			
At beginning of the financial year	–	250	250
Addition arising from acquisition of a subsidiary (Note 5(f))	1,069	–	1,069
Deferred tax resulting from reduction in tax rate	–	(2)	(2)
Recognised in the profit or loss	(191)	(91)	(282)
Currency translation differences	(3)	1	(2)
At end of the financial year	875	158	1,033

* Amount less than $1,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

6. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Deferred tax assets have not been recognised in respect of the following:

Group	2017 $'000	2016 $'000	Jurisdiction	Expiring year
Unabsorbed tax losses	**7,062**	7,423	Singapore/Philippines/ Malaysia/Taiwan	Indefinite
* Unabsorbed tax losses arising from financial year of:				
– 2014	**428**	428	PRC	2019
– 2015	**600**	600	PRC	2020
– 2016	**779**	779	PRC	2021
– 2017	**515**	–	PRC	2022
	2,322	1,807		
	9,384	9,230		
Unabsorbed capital allowances	**4**	7	Singapore/Malaysia	Indefinite
Others	**4**	152	Malaysia (2016: Malaysia/ Taiwan)	Indefinite
	9,392	9,389		

* The tax losses expired by the end of 5 years from the losses recorded in the respective financial years.

Company	2017 $'000	2016 $'000	Jurisdiction	Expiring year
Unabsorbed tax losses	**3,204**	3,112	Singapore	Indefinite

The unabsorbed tax losses, capital allowances and others that can be carried forward and used to offset against future taxable income are subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries. Deferred tax assets have not been recognised in respect of these items due to the uncertainty of its recoverability in foreseeable future.

7. INVENTORIES

	Group	
	2017 $'000	2016 $'000
Raw materials	**1,981**	922
Trading goods	**75**	81
	2,056	1,003

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

7. INVENTORIES (CONTINUED)

The cost of inventories recognised as expense and included in the "cost of sales" amounted to $20,048,000 (2016: $27,269,000), of which $33,000 (2016: $Nil) pertained to write-down of inventories to net realisable value.

In the previous financial year ended 31 December 2016, the Group recognised a reversal of $1,000, being part of an inventory write-down made in the previous financial years, as the inventories were sold above the carrying amounts. The reversal had been included in "cost of sales" in the profit or loss.

8. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Current				
Trade receivables:				
– Third parties	**23,619**	18,616	**–**	–
Less: Allowance for impairment losses	**(721)**	(967)	**–**	–
Trade receivables, net	**22,898**	17,649	**–**	–
Gross amount due from customers for contract work (Note 9)	**20,367**	21,620	**–**	–
Other receivables:				
– Third parties	**2,675**	1,599	**–**	–
– Subsidiaries (non-trade)	**–**	–	**14,964**	14,155
	2,675	1,599	**14,964**	14,155
Less: Allowance for impairment losses				
– Third parties	**(1,063)**	(1,057)	**–**	–
– Subsidiaries (non-trade)	**–**	–	**(8,336)**	(8,336)
Other receivables, net	**1,612**	542	**6,628**	5,819
Refundable deposits	**2,085**	1,375	**1,347**	–
Staff loans	**137**	181	**–**	–
Prepayments	**74**	127	**39**	42
Advances to suppliers	**571**	1,373	**–**	–
GST/VAT receivables	**2,345**	1,139	**13**	7
	50,089	44,006	**8,027**	5,868
Non-current				
Other receivable:				
– A third party [(i)]	**489**	–	**–**	–

(i) Other receivable owing from a third party represents loan to a former subsidiary of the Group, with the following terms:

- bears interest at Taiwan's base lending rate 2.616% per annum, payable at maturity
- 3-years terms with a maturity date on 19 December 2020
- guaranteed by an individual who is the director of the former subsidiary

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

8. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables

Included in the trade receivables as at 31 December 2016 was $1,678,000 that related to notes receivable that were drawn for a period ranging from 59 days to 177 days, which has been fully released during the financial year.

Trade receivables are non-interest bearing with credit term of 30 to 90 days.

	Group	
	2017 $'000	2016 $'000
Retention sum receivables arising from construction contracts		
– to be recoverable within 1 year	**176**	178

Subsidiaries (non-trade)

These are unsecured, interest-free and repayable on demand.

Refundable deposits

Included in the refundable deposits is an amount of US$1,000,000 (equivalent to $1,347,000) paid as part-payment under a framework agreement entered into by the Group with a counterparty ("vendor") with the intention to acquire 90% equity interest in a company in Vietnam for a total purchase consideration of US$2,970,000 (equivalent to approximately $4,001,000). This would allow the Group to carry out due diligence and valuation work before entering into a definitive Sale and Purchase Agreement with the vendor. The amount will be fully refunded to the Group in the event that the Group was unable to proceed with the intended acquisition, the outcome of which is expected to be determined by quarter 2 of 2018.

Staff loans

These are unsecured, interest-free and repayable on demand.

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

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
At beginning of the financial year	**2,024**	416	**8,336**	8,336
Acquisition of a subsidiary	**–**	311	**–**	–
Allowance made (Note 19)	**64**	1,294	**–**	–
Allowance written off	**(237)**	–	**–**	–
Reversal of impairment loss (Note 19)	**(68)**	(15)	**–**	–
Currency translation differences	**1**	18	**–**	–
At end of the financial year	**1,784**	2,024	**8,336**	8,336

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

9. GROSS AMOUNT DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	Group	
	2017	**2016**
	$'000	**$'000**
Aggregate amount of costs incurred and recognised profits (less losses recognised) to date on uncompleted construction contracts	**107,172**	93,626
Less: Progress billings	**(87,930)**	(75,497)
	19,242	18,129
Presenting:		
Gross amount due from customers for contract work (Note 8)	**20,367**	21,620
Gross amount due to customers for contract work (Note 11)	**(1,125)**	(3,491)
	19,242	18,129

10. CASH AND BANK BALANCES

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Cash at bank and on hand	**16,983**	7,581	**7,557**	40
Short-term fixed deposits [(i)]	**480**	574	**64**	61
Cash and bank balances as per statements of financial position	**17,463**	8,155	**7,621**	101
Less: Short-term fixed deposits pledged [(ii)]	**(480)**	(574)		
Less: Bank balances pledged [(iii)]	**(1,125)**	(1,272)		
	(1,605)	(1,846)		
Less: Bank overdraft (Note 12)	**(479)**	(815)		
Cash and cash equivalents as per consolidated statement of cash flows	**15,379**	5,494		

(i) Fixed deposits of the Group and the Company bear interest rates ranging from 0% to 3.10% and at 0% (2016: 0% to 3.35% and at 0%) per annum respectively, and have a maturity period ranging from 1 to 48 months and 1 month (2016: 1 to 10 months and 1 month) respectively from the reporting date.

(ii) These amounts are pledged as security in connection with performance and tender guarantees facilities granted by the banks.

(iii) These amounts are pledged in connection with notes payables (Note 11) and credit facilities by way of performance, banker and tender guarantees granted by the banks.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

10. CASH AND BANK BALANCES (CONTINUED)

The movement in pledged fixed deposits and bank balances:

	Group	
	2017 $'000	2016 $'000
At beginning of the financial year	**1,846**	853
Acquisition of a subsidiary (Note 5(f))	**–**	2,202
Placement of pledged deposits	**104**	100
Withdrawn of pledged fixed deposits and bank balances	**(336)**	(1,298)
Currency translation differences	**(9)**	(11)
At end of the financial year	**1,605**	1,846

As at 31 December 2017, the Group has cash and bank balances placed with banks in The People's Republic of China denominated in Chinese Renminbi ("RMB") amounting to $2,971,000 or RMB14,421,000 (2016: $2,878,000 or RMB13,720,000). The RMB is not freely convertible into foreign currencies. Under The People's Republic of China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

11. TRADE AND OTHER PAYABLES

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Current				
Trade payables:				
– Third parties (i)	**18,031**	15,331	**–**	–
Gross amount due to customers for contract work (Note 9)	**1,125**	3,491	**–**	–
Other payables:				
– Third parties (ii)	**882**	2,576	**90**	151
– Subsidiaries (non-trade)	**–**	–	**2,188**	1,966
Related party (non-trade) (iii)	**420**	487	**–**	–
Accruals	**1,980**	1,786	**270**	206
Placements monies received in advance (Note 28(b))	**4,844**	–	**4,844**	–
Advances from customers	**9,721**	6,850	**–**	–
Provision for unutilised leave	**146**	171	**17**	–
	37,149	30,692	**7,409**	2,323
Non-current				
Other payable:				
– Subsidiary (non-trade)	**–**	–	**–**	517

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

11. TRADE AND OTHER PAYABLES (CONTINUED)

Group

(i) Included in the trade payables as at 31 December 2016 was an amount of $1,488,000 that was related to notes payable that were drawn for a period of 3 months.

(ii) Included in the other payables as at 31 December 2016 was an amount of $1,245,000 that was related to the remaining outstanding balance due to an independent and unrelated party for the acquisition of a leasehold land and building by one of its subsidiaries during the financial year ended 31 December 2016. The mentioned amount was settled via bank's borrowing (Note 12) in the financial year ended 31 December 2017.

(iii) Amount due to a related party, WHLK (Note 22) is unsecured, which bears interest at 4.35% (2016:4.35%) per annum and is repayable by 5 September 2018 (2016: 5 September 2017). Accordingly, it is classified within current liabilities as at reporting date.

Company

Amounts due to subsidiaries were unsecured, which borne interest at 3.00% per annum and was fully repaid during the financial year ended 31 December 2017.

12. BORROWINGS

		Current $'000	Non-current $'000	Total $'000
Group				
2017				
Secured	Maturity			
Bank overdraft	On demand	479	–	479
Obligations under finance leases	2019	34	30	64
Term loan I (i)	26 November 2032	5	102	107
Term loan III (i)	20 December 2030	54	124	178
Term loan IV (ii)	27 March 2018	1,027	–	1,027
Term loan VI (i)	16 March 2022	242	785	1,027
Term loan VII (i)	01 November 2022	53	243	296
Trust receipts (iii)	2018	954	–	954
Unsecured				
Loan from an individual (iv)	19 October 2019	4,000	–	4,000
		6,848	1,284	8,132
Company				
2017				
Unsecured				
Loan from an individual (iv)	19 October 2019	4,000	–	4,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

12. BORROWINGS (CONTINUED)

		Current $'000	Non-current $'000	Total $'000
Group				
2016				
Secured	Maturity			
Bank overdraft	On demand	815	–	815
Obligations under finance leases	2019	49	63	112
Term loan I (i)	26 November 2032	4	104	108
Term loan II (i)	1 March 2028	43	515	558
Term loan III (i)	20 December 2030	52	167	219
Term loan V (v)	6 December 2017	1,043	–	1,043
Trust receipts (iii)	2017	830	–	830
		2,836	849	3,685

(i) These term loans are secured by pledges over freehold lands, freehold buildings and leasehold lands and buildings of the Group (Note 3). In addition, the Company provided corporate guarantee for Term loan I. Including in these loans is Term loan VI which is a new 5-year term loan obtained by WHKD during the current financial year to finance the acquisition of office building, which is payable in 60 monthly instalments.

(ii) Term loan IV is a new term loan obtained by WHKD during the current financial year for working capital purpose which refinanced Term loan V. A related party, which is one of non-controlling interest of WHKD (Note 22) has provided guarantee for this loan.

(iii) Trust receipts are drawn for a period ranging from 60 days to 150 days (2016: 90 days to 150 days) and bear effective interest rates ranging from 0.02% to 3.17% (2016: 2.48% to 3.10%) per annum. The trust receipts are secured by ways of corporate guarantee from the Company and the fixed deposits of the Group.

(iv) Loan from an individual, Mr. Wang Zhi, amounting to $4,000,000 ("the Loan"), is granted as part of the conditions precedent to the placement of the Company's shares to Mr. Wang ("WZ Placement") which has been approved by the Company's shareholders in an Extraordinary General Meeting held on 12 March 2018 (Note 28(b)). The Loan Agreement entered between the Company and Mr. Wang, contains the following terms, in accordance with the conditions set out in the Placement Agreement entered with him:

(a) the Loan shall be used solely and exclusively for the working capital of the WHKD;

(b) the Loan shall be repayable within 24 months from the completion date of WZ Placement (i.e. March 2020) or upon completion of the transfer of a water treatment asset or concession by him to the Group, whichever is earlier, and shall be subject to an interest of 5% per annum, to be paid quarterly in arrears; and

(c) if completion under the WZ Placement Agreement does not take place by the long stop date (in April 2018) for whatever reason, the Company shall repay the Loan to him (together with any interest accrued) in full within 14 days on demand by him.

The Loan is classified as current liabilities, as the Company does not have unconditional right to defer settlement beyond 12 months based on the condition existing as at 31 December 2017, since the WZ Placement is completed subsequently in March 2018. As at the date of this report, Mr. Wang Zhi is a director of the Company and a substantial shareholder with 29.5% interest in the Company's shares.

(v) This loan represented the existing loan taken up by WHKD for working capital purpose before acquired by the Group in the previous financial year. A related party, which was part of the non-controlling interest of WHKD (Note 22) had provided guarantee for this loan. The loan has been refinanced to Term loan IV during the current financial year.

Bank overdraft (Floating rate)

The bank overdraft is secured by freehold land and building of a subsidiary and by corporate guarantee from Company and bears an effective interest rate of 7.95% (2016: 8.10%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

12. BORROWINGS (CONTINUED)

Term loans

The term loans bear the interest rates as follows:

	Interest rate (per annum)	Group 2017	Group 2016
Term loan I	Bank Lending Rate – 2.1%	**4.87%**	4.62%
Term loan II	Bank Lending Rate + 1.8%	**–**	2.87%
Term loan III	Bank Lending Rate – 1.9%	**4.95%**	4.70%
Term loan IV	Fixed rate	**5.44%**	–
Term loan V	Fixed rate	**–**	5.22%
Term loan VI	Loan Prime Rate x 1.25	**5.94%**	–
Term loan VII	Fixed rate	**6.25%**	–

Reconciliation of liabilities arising from financing activities

	As at 1 January 2017 $'000	Financing cash flows [(i)] $'000	Non-cash changes: Disposal of a subsidiary (Note 5(d)) $'000	Non-cash changes: Foreign exchange movement $'000	As at 31 December 2017 $'000
Borrowings – Loans and trust receipts	2,758*	5,365	(525)	(9)	**7,589***
Lease obligations	112	(48)	–	–	**64**
	2,870	5,317	(525)	(9)	**7,653**

(i) The cash flows is the net amount of proceeds from borrowings and repayments of borrowings presented in the consolidated statement of cash flows.
* Amount excludes bank overdraft as it is part of cash and cash equivalents.

Obligations under finance leases

These obligations are secured by a charge over the leased assets (Note 3). The average discount rate implicit in the leases is at 4.66% (2016: 4.85%) per annum.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Minimum lease payments $'000	Present value of payments $'000
Group		
2017		
Current portion:		
– Not later than 1 year	**37**	**34**
Non-current portion:		
– Later than 1 year and not later than 5 years	**32**	**30**
	69	**64**
Less: Amounts representing finance charges	**(5)**	**–**
	64	**64**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

12. BORROWINGS (CONTINUED)

Obligations under finance leases (Continued)

	Minimum lease payments $'000	Present value of payments $'000
Group		
2016		
Current portion:		
– Not later than 1 year	52	49
Non-current portion:		
– Later than 1 year and not later than 5 years	69	63
	121	112
Less: Amounts representing finance charges	(9)	–
	112	112

13. SHARE CAPITAL

	Group and Company			
	2017		2016	
	Number of ordinary shares	$'000	Number of ordinary shares	$'000
Issued and fully paid ordinary shares				
At beginning of the financial year	**52,326,601**	**51,405**	33,202,147	44,980
Issued for acquisition of a subsidiary (Note 5(f))	**–**	**–**	19,124,454	6,425
Placement of ordinary shares [(i)]	**5,000,000**	**3,000**	–	–
Shares issue expenses	**–**	**(131)**	–	–
At end of the financial year	**57,326,601**	**54,274**	52,326,601	51,405

(i) On 7 April 2017 and 3 May 2017, the Company issued a total of 5,000,000 placement shares at an issue price of $0.60 for each placement share.

The newly issued shares rank pari passu in all respects with previously issued shares. The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

On 6 November 2014, the shareholders of the Company have approved the proposed Darco Performance Share Plan ("Share Plan") as part of a remuneration and compensation plan for attracting as well as retaining executive personnel and Directors.

Directors of the Company and its subsidiaries (including Non-Executive Directors) and Directors and employees of an associated company where the Company has control over the associated company are eligible in the Share Plan. The number of shares available under the said Share Plan will be subject to the maximum limit of 15% of the Company's total issued shares.

As at the date of this report, no shares have been granted under the Share Plan.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

14(a). OTHER RESERVES

	Foreign currency translation reserve $'000	Statutory reserve * $'000	Total $'000
Group			
2016			
At beginning of the financial year	(3,245)	–	(3,245)
Net exchange differences on translation of financial statements of foreign subsidiaries	(379)	–	(379)
Non-controlling interests	63	–	63
Allocation to statutory reserve	–	230	230
At end of the financial year	(3,561)	230	(3,331)
2017			
At beginning of the financial year	**(3,561)**	**230**	**(3,331)**
Net exchange differences on translation of financial statements of foreign subsidiaries	**(38)**	**–**	**(38)**
Non-controlling interests	**(84)**	**–**	**(84)**
Realisation on disposal of a subsidiary (Note 5 (f))	**(5)**	**–**	**(5)**
Allocation to statutory reserve	**–**	**146**	**146**
At end of the financial year	**(3,688)**	**376**	**(3,312)**

* In accordance with the Foreign Enterprise Law of The People's Republic of China ("PRC"), the subsidiary, being part of a foreign-owned enterprise is required to make contributions to a statutory reserve fund. At least 10 per cent of the statutory after-tax profits as determined in accordance with the applicable PRC accounting standards and regulations is required to be allocated to the statutory reserve fund. If the cumulative total of the statutory reserve fund reaches 50% of the subsidiary's registered capital, the enterprise will not be required to make any additional contribution.

The statutory reserve fund may be used to offset accumulated losses or increase the registered capital of the subsidiary, subject to approval from the relevant PRC authorities and is not available for dividend distribution to the shareholders. The PRC enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

14(b). ACCUMULATED LOSSES

	Company	
	2017 $'000	**2016 $'000**
At beginning of the financial year	**(37,454)**	(36,834)
Loss for the financial year	**(371)**	(620)
At end of the financial year	**(37,825)**	(37,454)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

15. REVENUE

	Group	
	2017 $'000	2016 $'000
Revenue from construction contracts	41,442	39,710
Rendering of services	10,107	11,004
Sale of goods	9,182	10,032
	60,731	60,746

16. OTHER INCOME

	Group	
	2017 $'000	2016 $'000
Reversal of impairment loss on trade receivables	68	15
Gain on bargain purchase arising from business combination (Note 5(f))	–	4,167
Gain on disposal of property, plant and equipment	17	14
Gain on foreign exchange, net	–	142
Government grants	151	93
Interest income	24	23
Reversal of amount due to contract customers*	1,035	–
Miscellaneous income	40	224
	1,335	4,678

* During the FY2017, the Group has determined that a project by WHKD, signed in July 2015 (prior to acquisition by the Group in 2016), with no work started to-date, has no prospect of completion. The project was fair valued as unfavourable contract and included in the trade and other payables (Note 5(f)) as part of the purchase price allocation of WHKD acquisition in 2016. Accordingly, reversal of the liabilities included in amount due to contract customer has been made.

17. FINANCE COSTS

	Group	
	2017 $'000	2016 $'000
Interest expenses on:		
– amount owing to a related party (Note 22)	30	24
– borrowings	191	112
– finance leases	4	6
– trust receipts	48	1
	273	143

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

18. PERSONNEL EXPENSES

	Group	
	2017 $'000	2016 $'000
Directors of the Company:		
– Directors' fees	**134**	188
– Directors' remuneration and related costs	**329**	447
– Defined contributions plan expenses	**22**	18
Directors of the subsidiaries:		
– Directors' fees	**178**	226
– Directors' remuneration and related costs	**323**	473
– Defined contributions plan expenses	**26**	41
Other key management personnel (non-directors):		
– Salaries and related costs	**72**	72
– Defined contributions plan expenses	**13**	15
Total key management personnel remuneration	**1,097**	1,480
Other personnel:		
– Salaries and related costs	**9,086**	8,364
– Defined contributions plan expenses	**1,068**	1,050
	10,154	9,414
	11,251	10,894
Total personnel expenses comprise:		
– Salaries and related costs	**10,122**	9,770
– Defined contributions plan expenses	**1,129**	1,124
	11,251	10,894

Total key management personnel remuneration included as above include:

	Group	
	2017 $'000	2016 $'000
Short-term employee benefits	**1,036**	1,406
Defined contributions plan expenses	**61**	74
	1,097	1,480

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company and respective subsidiaries, including all directors of the Company and respective subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

19. PROFIT BEFORE INCOME TAX

This is determined after charging/(crediting) the following:

	Group	
	2017	**2016**
	$'000	**$'000**
Amortisation of intangible assets (Note 4)	**1,741**	1,349
Auditors' remuneration paid/payable to:		
– auditor of the Company	**182**	182
– other auditors	**113**	86
Depreciation of property, plant and equipment (Note 3)	**932**	680
Impairment loss on trade and other receivables (Note 8)	**64**	1,294
Reversal of impairment loss on trade receivables (Note 8)	**(68)**	(15)
Inventories written off (Note 7)	**33**	–
Legal and other professional fees	**994**	1,162
Rental expenses for operating leases	**561**	568
Personnel expenses (Note 18)	**11,251**	10,894
Property, plant and equipment written off	**8**	–
Gain on bargain purchase arising from business combination (Note 5(f))	**–**	(4,167)
Gain on disposal of property, plant and equipment	**(17)**	(14)
Loss on foreign exchange, net	**325**	–
Loss on disposal of subsidiary (Note 5(d))	**19**	–

20. INCOME TAX EXPENSE

Major components of income tax expense for the financial year ended 31 December were:

	Group	
	2017	**2016**
	$'000	**$'000**
Current tax		
– Current year	**713**	727
– Over provision in the previous financial years	**(67)**	(19)
	646	708
Deferred tax (Note 6)		
– Current year	**20**	(259)
– Reduction in tax rate	**–**	(2)
– Under/(Over) provision in the previous financial years	**46**	(100)
	66	(361)
Income tax expense	**712**	347

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

20. INCOME TAX EXPENSE (CONTINUED)

The reconciliation of income tax expense and the product of accounting profit multiplied by the applicable rate is as follows:

	Group	
	2017	**2016**
	$'000	**$'000**
Accounting profit	**1,940**	3,738
Tax at the applicable tax rate of 17% (2016: 17%)	**330**	635
Tax effects of:		
– different tax rates in other countries	**(44)**	(92)
– tax incentives	**(62)**	(45)
– expenses not deductible for tax purposes	**683**	117
– income not subject to tax	**(216)**	(855)
– deferred tax asset on losses not recognised	**150**	717
– utilisation of previously unrecognised tax losses	**(109)**	(15)
– others	**1**	6
– over provision of current tax in the previous financial years	**(67)**	(19)
– deferred tax resulting from reduction in tax rate	**–**	(2)
– under/(over) provision of deferred tax in the previous financial years	**46**	(100)
Income tax expense	**712**	347

The Company and Singapore subsidiaries

The Company and Singapore subsidiaries are subjected to an applicable tax rate of 17% (2016: 17%). The Company and certain subsidiaries are in a tax loss position for both the financial years ended 31 December 2017 and 2016 and hence they are not subjected to tax in the respective years.

Wuhan Kaidi Water Services Co., Ltd.

In accordance with the Income Tax Law of The People's Republic of China ("PRC") for New and High Technology Enterprise and various documents issued by the Tax Bureau of the PRC, the subsidiary, being awarded the "High Technology Enterprise" status, enjoys a concessionary tax rate of 15%, from year 2014 to 2017 as compared to the statutory tax rate for PRC companies of 25%. On 28 November 2017, the subsidiary has once again been awarded the "High Technology Enterprise" status as such it will be able to continue to enjoy the concessionary tax rate for another 3 years upon the expiration on year 2017.

Malaysia subsidiaries

Malaysia subsidiaries are subjected to an applicable tax rate of 24% (2016: 24%). Certain subsidiaries are in a tax loss position for both the financial years ended 31 December 2017 and 2016 and hence they are not subjected to tax in the respective years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

20. INCOME TAX EXPENSE (CONTINUED)

Taiwan subsidiaries

Taiwan subsidiaries are subjected to an applicable tax rate of 17% (2016: 17%).

Shanghai Darco Engineering Co., Ltd. (PRC)

This subsidiary is subjected to an applicable tax rate of 25% (2016: 25%). It is in a tax loss position for both the financial years ended 31 December 2017 and 2016 and hence it is not subjected to tax.

Darco Environmental (Philippines) Inc.

This subsidiary is subjected to an applicable tax rate of 30% (2016: 30%). It is in a tax loss position for the financial years ended 31 December 2017 and 2016 and hence it is not subjected to tax.

21. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year. The calculation of earnings per share is based on the following:

	Group	
	2017	**2016**
Net profit attributable to equity holders of the Company ($'000)	**611**	2,572
Weighted average number of ordinary shares outstanding for basic earnings per share – adjusted	**55,819,752**	46,840,077
Basic and diluted earnings per share (cents)	**1.09**	5.49

Diluted earnings per share is the same as the basic earnings per share as there were no share options, warrants or other compound financial instruments with dilutive effect were granted during the financial year or outstanding at the end of the financial year.

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

22. RELATED PARTY TRANSACTIONS

Some of the arrangements with related parties (as defined in Note 2) and the effects of these bases determined between the parties are reflected elsewhere in this report. Transactions between the Company and its subsidiaries, which are related companies of the Company, have been eliminated on consolidation and are disclosed in this note.

Nature of related party and the transaction:

Wuhan Liankai Investment Co., Ltd. ("WHLK") is considered a related party to the Group as it owns 22.01% (2016: 25.58%) of the Company's shares as at 31 December 2017, which has been further diluted to 14.27% as of the date of this report following the completion of placement as disclosed in Note 28. WHLK remains as the non-controlling interest of WHKD, which is a 60% owned subsidiary acquired by the Group in financial year 2016 from vendors including WHLK.

Included in other payables of the Group (Note 11) as at 31 December 2017 and 2016 was amount owing by WHKD to WHLK. In addition, WHLK also provides guarantees, at no charges, for the bank loans of WHKD, as disclosed in Note 12 (ii) and (v).

The director of WHLK is Mr Wang Yaoyu, who is also a director of the Company.

23. CONTINGENCIES AND COMMITMENTS

(i) Contingent liabilities

The Group has provided the following guarantees as at 31 December:

	Group		**Company**	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Corporate guarantees provided to banks and financial institutions for credit facilities granted to subsidiaries (Note 25 (ii))	**–**	–	**1,835**	1,157

The Company has also given undertakings to continue to provide 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 2017 and 31 December 2016.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

23. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(ii) Operating lease commitments – Where the Group is a lessee

The Group leases lands, staff hostels, factories, warehouses and offices from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debts or further leasing.

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

	Group	
	2017	**2016**
	$'000	**$'000**
Future minimum lease payments		
– Not later than 1 year	**425**	381
– Later than 1 year and not later than 5 years	**372**	101
	797	482

24. SEGMENT INFORMATION

For management purposes, the Group has three operating and reportable segments – Engineered Environmental Systems ("EE Systems"), Water Management Services ("WM Services") and Trading. The principal activities of the Group's operating segments are summarised as follows:

(i) EE Systems – Construction contract on designs, fabricates, assembles, installs and commission engineered water systems for industrial application;

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

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated by the Chief Executive Officer (the chief operating decision maker) based on gross profit or loss of the respective segment. Segment assets and liabilities reported to the CEO represent total assets and liabilities of the reportable segment excluding the corporate functions and any unallocated amount recorded in subsidiaries with multiple segment businesses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

24. SEGMENT INFORMATION (CONTINUED)

Business segments

The information for the reportable segments for the financial years ended 31 December 2017 and 2016 is as follows:

2017	EE Systems $'000	WM Services $'000	Trading $'000	Eliminations $'000	Total $'000
Revenue					
Sales to external customers	40,589	10,822	9,320	–	60,731
Inter-segment sales	160	–	139	(299)	–
Total	40,749	10,822	9,459	(299)	60,731
Segment profit	8,152	5,055	1,450	(51)	14,606
Other information:					
Additions to property, plant and equipment	459	–	91	–	550
Impairment loss on trade and other receivables	9	21	26	–	56
Reversal of impairment loss on trade receivables	(59)	(5)	(4)	–	(68)
Amortisation of intangible assets	1,741	–	–	–	1,741
Depreciation of property, plant and equipment	129	250	68	–	447
Finance costs	5	12	2	–	19
Interest income	5	5	8	–	18
Gain on disposal of property, plant and equipment	–	–	9	–	9
Legal and other professional fees	181	20	34	–	235
Assets					
Segment assets	55,084	817	2,425	–	58,326
Liabilities					
Segment liabilities	27,784	121	229	–	28,134

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

24. SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

2016	EE Systems $'000	WM Services $'000	Trading $'000	Eliminations $'000	Total $'000
Revenue					
Sales to external customers	39,710	11,004	10,032	–	60,746
Inter-segment sales	–	–	2	(2)	–
Total	39,710	11,004	10,034	(2)	60,746
Segment profit	4,825	5,063	3,967	–	13,885
Other information:					
Additions to property, plant and equipment	2,814	394	114	–	3,322
Impairment loss on trade and other receivables	–	–	(344)	–	(344)
Amortisation of intangible assets	1,349	–	–	–	1,349
Depreciation of property, plant and equipment	36	361	156	–	553
Legal and other professional fees	36	12	57	–	105
Finance costs	(1)	(16)	(6)	–	(23)
Gain on disposal of property, plant and equipment	–	–	14	–	14
Interest income	10	2	3	–	15
Assets					
Segment assets	53,348	4,771	6,924	–	65,043
Liabilities					
Segment liabilities	28,180	1,314	3,187	–	32,681

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

24. SEGMENT INFORMATION (CONTINUED)

Reconciliation

(i) Segment profits

The following items are added to/(deducted from) segment profit to arrive at "profit before income tax" as presented in the consolidated statement of profit or loss and other comprehensive income:

	2017 $'000	2016 $'000
Segment profit from the reportable segments	**14,606**	13,885
Other income	**1,335**	4,678
Distribution expenses	**(1,743)**	(1,494)
Administrative expenses	**(11,985)**	(13,188)
Finance costs	**(273)**	(143)
Profit before income tax	**1,940**	3,738

(ii) Other material information

	2017 $'000	2016 $'000
Additions to property, plant and equipment		
Segment total	**550**	3,322
Unallocated:		
– Relates to general and corporate assets	**652**	114
	1,202	3,436
Depreciation of property, plant and equipment		
Segment total	**(447)**	(553)
Unallocated:		
– Relates to general and corporate assets	**(485)**	(127)
	(932)	(680)
Impairment loss on trade and other receivables		
Segment total	**(56)**	(344)
Unallocated:		
– Relates to general and corporate assets	**(8)**	(950)
	(64)	(1,294)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

24. SEGMENT INFORMATION (CONTINUED)

Reconciliation (Continued)

(ii) Other material information (Continued)

	2017 $'000	2016 $'000
Legal and other professional fees		
Segment total	235	105
Unallocated:		
– Arising from general and corporate activities	759	1,057
	994	1,162
Interest income		
Segment total	18	15
Unallocated:		
– Arising from general and corporate used bank balances	6	8
	24	23
Finance costs		
Segment total	(19)	(23)
Unallocated:		
– Relating to borrowings for general working capital purpose	(254)	(120)
	(273)	(143)

(iii) Segment assets

Segment assets are reconciled to total assets as follows:

	2017 $'000	2016 $'000
Segment assets for reportable segments	58,326	65,043
Unallocated assets:		
– Deferred tax assets	82	318
– Property, plant and equipment	4,866	1,691
– Other receivables	12,097	431
– Income tax recoverable	144	218
– Cash and bank balances	7,887	2,670
	83,402	70,371

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

24. SEGMENT INFORMATION (CONTINUED)

Reconciliation (Continued)

(iv) Segment liabilities

Segment liabilities are reconciled to total liabilities as follows:

	2017 $'000	2016 $'000
Segment liabilities for reportable segments	**28,134**	32,681
Unallocated liabilities:		
– Deferred tax liabilities	**875**	1,033
– Income tax payable	**–**	105
– Other payables	**10,789**	1,026
– Borrowings	**7,115**	1,143
	46,913	35,988

Geographical segments

The Group's three operating segments operate in five main geographical areas:

(i) Taiwan – the operations in this area are principally the design, fabrication and installation of water and waste water pollution control engineering, air pollution control engineering ("EE Systems"), solid waste disposal treatment and incineration, noise and vibration prevention engineering, soil pollution control engineering and environmental monitoring system ("WM Services").

(ii) Malaysia – the operations in this area are principally the designing, installing, setting up and maintaining of industrial waste treatment plant ultra-pure system ("EE Systems"), testing of waste water and processed water, rendering of other related waste treatment plant services ("WM Services") and trading in industrial water treatment, spare parts and chemicals ("Trading").

(iii) PRC – 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 as well as designing, installing, setting up and maintaining of industrial waste treatment plant ultra-pure system ("EE Systems"), testing of waste water and processed water, rendering of other related waste treatment plant services ("WM Services") and trading in industrial water treatment, spare parts and chemicals ("Trading").

(iv) Singapore – the Company is headquartered and has operations in Singapore. The operations in this area are principally investment holding, design and fabrication of water treatment systems ("EE Systems") and providing consultancy services in relation to such business ("WM Services") and trading in industrial water treatment, spare parts and chemical ("Trading") .

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

24. SEGMENT INFORMATION (CONTINUED)

Geographical segments (Continued)

Revenue and non-current assets information based on the geographical location of contracting customers (regardless of projects location for construction contracts) are as follows:

2017	**Revenue**		**Non-current assets**	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
PRC	**23,641**	27,928	**9,771**	11,609
Malaysia	**20,316**	23,594	**2,090**	1,929
Singapore	**10,388**	5,452	**1,069**	1,052
Taiwan	**3,895**	3,635	**148**	2,022
Other countries	**2,491**	137	**1**	1
	60,731	60,746	**13,079**	16,613

Non-current assets presented above include property, plant and equipment and intangible assets based on the location of the assets.

Major customers

Revenue of approximately $10,978,000, or 18% of the Group's revenue in 2017, is derived from a listed power-producers company based in the PRC, which is attributable to the "EE Systems" segment.

For 2016, revenue from another major customer in the same segment contributed $7,365,000 representing 12% of the Group's revenue.

None of the customers in the "WM Services" and "Trading" segment contributed to more than 10% of the Group's total revenue.

25. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's activities expose it to market risk (including foreign exchange 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 of 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.

(i) Market risk

(a) Foreign exchange risk

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

Foreign exchange risk arises for transactions that are mainly denominated in foreign currencies such as the United States dollars ("USD"), Malaysia ringgit ("MYR"), New Taiwan dollars ("NTD"), Chinese Renminbi ("RMB") and others.

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 The People's Republic of China, Malaysia and Taiwan is managed primarily through borrowings denominated in the relevant foreign currencies.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

25. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

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

Group							
2017	**SGD**	**USD**	**MYR**	**NTD**	**RMB**	**Others ***	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets							
Trade and other receivables	5,093	278	5,512	1,033	35,227	445	47,588
Cash and bank balances	10,671	1,259	1,824	175	2,971	563	17,463
Intragroup receivables	12,864	292	5,311	1,677	1,867	2	22,013
	28,628	1,829	12,647	2,885	40,065	1,010	87,064
Financial liabilities							
Borrowings	4,826	458	793	–	2,055	–	8,132
Trade and other payables	1,711	420	2,672	216	15,974	229	21,222
Intragroup payables	12,864	292	5,311	1,677	1,867	2	22,013
	19,401	1,170	8,776	1,893	19,896	231	51,367
Net financial assets	9,227	659	3,871	992	20,169	779	35,697
Add: Forward foreign exchange contracts	–	338	–	–	–	–	338
Less: Net financial (assets)/liabilities denominated in the respective entities' functional currencies	(9,137)	–	(3,876)	40	(19,580)	(223)	(32,776)
Foreign currency exposure	90	997	(5)	1,032	589	556	3,259

* Others are denominated in Thailand baht, Euro, Australian dollars, Indonesian rupiah and Peso.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

25. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Group 2016	SGD $'000	USD $'000	MYR $'000	NTD $'000	RMB $'000	Others * $'000	Total $'000
Financial assets							
Trade and other receivables	2,765	241	6,335	983	30,966	77	41,367
Cash and bank balances	1,480	347	1,638	1,637	2,878	175	8,155
Intragroup receivables	13,541	1,889	609	1,874	1,985	–	19,898
	17,786	2,477	8,582	4,494	35,829	252	69,420
Financial liabilities							
Borrowings	255	630	1,200	558	1,042	–	3,685
Trade and other payables	1,346	493	2,761	749	14,760	71	20,180
Intragroup payables	13,541	1,889	609	1,874	1,985	–	19,898
	15,142	3,012	4,570	3,181	17,787	71	43,763
Net financial assets/ (liabilities)	2,644	(535)	4,012	1,313	18,042	181	25,657
Add: Forward foreign exchange contracts	–	97	–	–	–	–	97
Less: Net financial assets denominated in the respective entities' functional currencies	(2,855)	–	(4,636)	(493)	(18,077)	(102)	(26,163)
Foreign currency exposure	(211)	(438)	(624)	820	(35)	79	(409)

* Others are denominated in Thailand baht, Euro, Australian dollars, Indonesian rupiah and Peso.

As at 31 December 2017, the Group has forward foreign exchange contracts outstanding with notional amount of US$250,000 (2016: US$69,000), which were to mitigate the effect of foreign exchange rate fluctuation against the United States dollars. The Group does not account for the fair value gain arising from the forward foreign exchange contracts since the fair value gain is insignificant at $925 (2016: $2,000) as at 31 December 2017 and these forward foreign exchange contracts will mature in 2018 (2016: mature in 2017).

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

25. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Company

2017	**SGD $'000**	**USD $'000**	**NTD $'000**	**RMB $'000**	**Euro $'000**	**Total $'000**
Financial assets						
Trade and other receivables	**5,279**	**1,347**	**1,349**	**–**	**–**	**7,975**
Cash and bank balances	**7,352**	**197**	**–**	**8**	**64**	**7,621**
	12,631	**1,544**	**1,349**	**8**	**64**	**15,596**
Financial liabilities						
Trade and other payables	**382**	**2,167**	**–**	**–**	**–**	**2,549**
Borrowings	**4,000**	**–**	**–**	**–**	**–**	**4,000**
	4,382	**2,167**	**–**	**–**	**–**	**6,549**
Net financial assets/(liabilities)	**8,249**	**(623)**	**1,349**	**8**	**64**	**9,047**
Less: Net financial assets denominated in the Company's functional currency	**(8,249)**	**–**	**–**	**–**	**–**	**(8,249)**
Foreign currency exposure	**–**	**(623)**	**1,349**	**8**	**64**	**798**

Company

2016	SGD $'000	USD $'000	NTD $'000	RMB $'000	Euro $'000	Total $'000
Financial assets						
Trade and other receivables	4,478	–	1,341	–	–	5,819
Cash and bank balances	5	17	–	18	61	101
	4,483	17	1,341	18	61	5,920
Financial liabilities						
Trade and other payables	971	1,869	–	–	–	2,840
Net financial assets/(liabilities)	3,512	(1,852)	1,341	18	61	3,080
Less: Net financial assets denominated in the Company's functional currency	(3,512)	–	–	–	–	(3,512)
Foreign currency exposure	–	(1,852)	1,341	18	61	(432)

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

25. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Foreign exchange risk sensitivity

The following table details the sensitivity to a 5% (2016: 5%) increase and decrease in the functional currencies against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% (2016: 5%) change in foreign currency rates.

If the foreign currencies strengthen by 5% (2016: 5%) against the relevant functional currencies, with all other variables held constant, the Group's profit for the financial year will increase/(decrease) and Company's loss for the financial year will increase/(decrease) by:

	SGD	USD	MYR	NTD	RMB	Others*
	$'000	$'000	$'000	$'000	$'000	$'000
2017						
Group						
Profit for the financial year	**(4)**	**(41)**	**	**(43)**	**(24)**	**(23)**
Company						
Loss for the financial year	**–**	**(26)**	**–**	**56**	**	**3**
2016						
Group						
Profit for the financial year	9	18	26	(34)	1	(3)
Company						
Loss for the financial year	–	(77)	–	56	1	3

* Others are denominated in Thailand baht, Euro, Australian dollars, Indonesian rupiah and Peso.
** Amount less than $1,000.

A 5% (2016: 5%) weakening of foreign currencies against the respective functional currencies at the reporting date would have had the equal opposite effect on the above currencies to the amount shown above, on the basis that all other variables held constant.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

25. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(b) Interest rate risk

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 exposure to cash flow interest rate risks arises mainly from non-current variable-rate borrowings.

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments, as reported to the Management, is as follows:

	Group		Company	
	Carrying amount		Carrying amount	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Fixed rate instruments				
Financial assets				
– Other receivable (Note 8)	**489**	–	**–**	–
– Fixed deposits (Note 10)	**480**	574	**64**	61
Financial liabilities				
– Due to a related party (non-trade) (Note 11)	**(420)**	(487)	**–**	–
– Due to a subsidiary (non-trade) (Note 11)	**–**	–	**–**	(517)
– Borrowings (Note 12)	**(6,341)**	(1,985)	**–**	–
	(5,792)	(1,898)	**64**	(456)
Variable rate instruments				
Financial liabilities				
Borrowings (Note 12)	**(1,791)**	(1,700)	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

25. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(b) Interest rate risk (Continued)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, in respect of the fixed rate instruments, a change in interest rates at the reporting date would not affect profit or loss.

If the interest rates had been 50 basis point higher or lower and all other variables held constant, the Group's profit for the financial year will decrease and Company's loss for the financial year will increase by:

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Profit/(Loss) for the financial year	**(26)**	(8)	**–**	2

(ii) 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 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 bank balances as disclosed in Note 10.

Management monitors rolling forecasts of the Group's and the Company's liquidity reserve comprises borrowings (Note 12) and cash and bank balances (Note 10) 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 undiscounted cash flows of the financial liabilities based on the earliest date on which the Group and the Company can be required to pay and includes both interest and principal cash flows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

25. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(ii) Liquidity risk (Continued)

Group	On demand or within 1 year $'000	Between 2 to 5 years $'000	Over 5 years $'000	Total $'000
2017				
Trade and other payables	**21,313**	**–**	**–**	**21,313**
Borrowings	**7,196**	**1,513**	**109**	**8,818**
	28,509	**1,513**	**109**	**30,131**
2016				
Trade and other payables	20,180	–	–	20,180
Borrowings	3,005	363	646	4,014
	23,185	363	646	24,194

Company	On demand or within 1 year $'000	Between 2 to 5 years $'000	Total $'000
2017			
Trade and other payables	**2,566**	**–**	**2,566**
Borrowings	**4,200**	**–**	**4,200**
Financial guarantee contracts (Note 23 (i))	**1,490**	**345**	**1,835**
	8,256	**345**	**8,601**
2016			
Trade and other payables	2,323	553	2,876
Financial guarantee contracts (Note 23 (i))	1,157	–	1,157
	3,480	553	4,033

Trade and other payables of the Group are non-interest bearing and normally settle on a range of 30 to 120 days terms. Trade and other payables of the Company including balances owing to subsidiaries that are repayable on demand. These are included as liabilities payable on demand or within one year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

25. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(iii) 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 cash and bank balances and trade and other receivables. Cash and bank balances are placed with reputable financial institutions. Therefore, credit risk arises mainly from the inability of its customers to make payments when due. 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 in the statements of financial position, except for guarantees as disclosed in Note 23 (i).

Credit risk concentration included in the Group's trade receivables (Note 8) as at 31 December 2017 is:

(a) 3 debtors (2016: 3 debtors) in PRC in environmental engineering business that individually represented 9% – 14% (2016: 5%-12%) of the Group's trade receivables, as part of "EE Systems" segment; and

(b) 3 debtors (2016: 2 debtors) in Malaysia that individually represented 1% – 4% (2016: 4%-5%) of the Group's trade receivables, as part of "Trading System" segment.

Credit risk concentration included in the Group's gross amount due from customers for contract work (Note 8) as at 31 December 2017 is 3 debtors (2016: 2 debtors) in PRC in environmental engineering business that individually represented 10% – 34% (2016: 10%- 20%) of the Group's gross amount due from contract customers for contract work, as part of "EE Systems" segment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

25. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

The amounts presented in the statements of financial position are net of allowance for impairment losses of trade receivables, estimated by management based on prior experience and the current economic environment. The age analysis of trade receivables is as follows:

	Group	
	2017 **$'000**	**2016** **$'000**
Not past due and not impaired	**18,795**	13,649
Past due but not impaired		
– Past due 0 to 3 months	**2,259**	3,006
– Past due 3 to 6 months	**549**	268
– Over 6 months	**1,295**	726
	4,103	4,000
Past due and impaired trade receivables	**721**	967
Less: Allowance for impairment losses	**(721)**	(967)
	22,898	17,649

The movement in allowance for impairment losses is disclosed in Note 8.

Trade receivables that are individually determined to be impaired at the reporting date related to debtors that are in significant financial difficulties and have defaulted on payments as well as by reference to past default experience. Included in the Group's trade receivables balances are debtors with total carrying amount of $4,103,000 (2016: $4,000,000), which are past due but not impaired as there has not been a significant change in credit quality because they are companies with good collection track record and no recent history of default and thus the amounts are still considered recoverable.

The Group's trade receivables of $18,795,000 (2016: $13,649,000) that are neither past due and not impaired are with creditworthy debtors with good collection record with the Group. Management is in the view that these balances are fully recoverable.

As at the reporting date, the Company provided an impairment allowance of an aggregate amount of $8,336,000 (2016: $8,336,000) on advances to its subsidiaries (non-trade) as disclosed in Note 8. This relates to the portion that the subsidiaries are deemed financially unable to repay to the Company.

As at the reporting date, the Group provided an impairment allowance of an aggregate amount of $1,063,000 (2016: $1,057,000) on other receivables as disclosed in Note 8. This pertains to a former group company which is deemed financially unable to repay to the Group.

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

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(iv) Financial instruments by category

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets:				
– Loans and receivables (including cash and bank balances)	**65,051**	49,522	**15,596**	5,920
Financial liabilities at amortised cost	**29,354**	23,865	**6,549**	2,840

Capital risk management objectives and policies

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 is also required by the banks to maintain a gearing ratio of not exceeding 1.7 times (2016: 1.7 times). The Group's strategy, which remains unchanged since 2013 is to maintain a gearing ratio below 1.7 times.

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

	Group	
	2017	**2016**
	$'000	**$'000**
Total debts (Note 12)	**8,132**	3,685
Total tangible net worth	**20,703**	15,455
Gearing ratio	**0.39 times**	0.24 times

The Group is in compliance with all externally imposed capital requirements for the financial years ended 31 December 2017 and 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

26. FAIR VALUES OF ASSETS AND LIABILITIES

(i) Fair value of financial instruments that are carried at fair value

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

– Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

– Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

– Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At the reporting date, there are no financial instruments in this category.

(ii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of financial assets and financial liabilities reported on the reporting date are reasonable approximation of their fair values, either due to their short-term nature or that they are floating rate instruments that are repriced to market interest rate on or near the reporting date.

Non-current interest-bearing amount owning from a third party included in other receivables (Note 8(i)) – carrying amount approximate fair value as the contractual interest rate reflects the market rate as at the reporting date.

(iii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

	Carrying amount		Fair value	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Company				
Financial liabilities				
Due to a subsidiary (non-trade) (Note 11)	–	517	–	493

Determination of fair value

The fair value of loan payable to a subsidiary is estimated by discounting expected future cash flows at market incremental lending rate similar types of lending at the end of the reporting period. The fair value is within Level 3 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

27. DIVIDEND

As disclosed in Note 5 (d), prior to the disposal of a subsidiary, Darco Youli Co., Ltd ("Youli"), Youli has declared and paid a final one-tier tax exempt dividend of $0.01 (equivalent to TWD 0.22) per ordinary share totalling $94,000 (equivalent to TWD 294,000) in respect of the financial year ended 31 December 2016.

The Company did not recommend and pay any dividend for the financial year ended 31 December 2017 and 31 December 2016.

28. SIGNIFICANT EVENTS

(a) During the financial year ended 31 December 2017

On 16 June 2017, the Company announced that on the same date, they had entered into a conditional sale and purchase agreement ("SPA") with Hong Kong Meidi Investments Holdings Co., Ltd ("Vendor") in respect of the proposed acquisition by the Company of 12% of the total equity interest ("12% Equity Interest") in the registered capital of Wuhan Kaidi Water Services Co., Ltd. ("WHKD"). The Vendor is an investment holding company and the Vendor's issued share capital is 80% owned by Wah Lee Industrial Corp. ("Wah Lee") and 20% owned by Jilead Technology Co., Ltd ("Jilead") respectively.

Pursuant to the terms and conditions of the SPA, the Company proposes to issue up to 3,824,891 Shares (the "Consideration Shares") at an issue price of $0.50 per Consideration Share for the purchase of the 12% Equity Interest in WHKD.

On 11 December 2017, the Company entered into a supplementary agreement with the Vendor to extend the Long Stop Date to 16 March 2018, or such other date as the Company and the Vendor may mutually agree in writing.

Subsequent to the financial year ended 31 December 2017

On 1 February 2018, the Company announced that they have obtained the in-principle approval for the listing and quotation of the 3,824,891 Consideration Shares from the Singapore Exchange Securities Trading Limited and was subsequently approved by the Shareholders of the Company at an extraordinary general meeting held on 12 March 2018.

On 21 March 2018, the Company announced that 3,824,891 Consideration Shares, have been allotted and issued, and will be officially listed and quoted on SGX-ST on 23 March 2018.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

28. SIGNIFICANT EVENTS (CONTINUED)

(b) During the financial year ended 31 December 2017

On 23 October 2017, the Company announced that on 20 October 2017, they had entered into a placement agreement (the "Placement Agreement") with Mr. Wang Zhi @ Robert Wang ("WZ"), pursuant to which the Company proposes to issue between a minimum of 23,987,726 and a maximum of 30,251,151 new ordinary shares in the capital of the Company (the "Placement Shares") at a placement price of $0.65 for each Placement Share (the "Proposed Placement"). As part of the conditions precedent to the above placement to him, WZ has executed a deed of undertakings to procure the transfer to the Company a Build-Operate-Transfer or Build-Operate-Own water treatment asset or concession (the "Water Treatment Asset") within 24 months from the completion date of placement. The Deed of Undertaking contains stipulated criteria of the Water Treatment Asset including a minimum rate of return and value, failing which WZ shall pay a compensation sum of $2,000,000 to the Company.

On 13 November 2017, the Company announced that on the same date, they had entered into a placement agreement (the "Placement Agreement") with Sofos Infrastructure Investment Fund SPC ("Placee"), pursuant to which the Company proposes to issue up to 3,500,000 new ordinary shares in the capital of the Company (the "Placement Shares") at a placement price of $0.60 for each Placement Share (the "Proposed Placement").

On 15 November 2017, the Company announced that on the same date, they had entered into a placement agreement (the "Placement Agreement") with Stone Robert Alexander ("Placee"), pursuant to which the Company proposes to issue up to 1,500,000 new ordinary shares in the capital of the Company (the "Placement Shares") at a placement price of $0.60 for each Placement Share (the "Proposed Placement").

As of 31 December 2017, the Company has received a total of $4,844,000 as placements received in advance from WZ and the other Placees (Note 11).

Subsequent to the financial year ended 31 December 2017

On 1 February 2018, the Company announced that they have obtained the in-principle approval for the listing and quotation of the followings:

(i) 27,680,000 Placement Shares to Mr. Wang Zhi @ Robert Wang at a placement price of $0.65 for each Placement Share;

(ii) 3,500,000 Placement Shares to Sofos Infrastructure Investment Fund SPC at a placement price of $0.60 for each Placement Share; and

(iii) 1,500,000 Placement Shares to Stone Robert Alexander at a placement price of $0.60 for each Placement Share.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Singapore dollars ("$'000"))

28. SIGNIFICANT EVENTS (CONTINUED)

(b) During the financial year ended 31 December 2017 (Continued)

Subsequent to the financial year ended 31 December 2017 (Continued)

On 8 February 2018, the Company announced that 3,500,000 Placement Shares have been allotted and issued to Sofos Infrastructure Investment Fund SPC.

The Proposed Placements for Mr. Wang Zhi @ Robert Wang and Stone Robert Alexander have been approved by the Shareholders at the extraordinary general meeting held on 12 March 2018.

On 21 March 2018 and 23 March 2018, the Company announced that 1,500,000 Placement Shares to Stone Robert Alexander and 27,680,000 Placement Shares to Mr. Wang Zhi @ Robert Wang, have been allotted and issued, and will be officially listed and quoted on SGX-ST on the 23 March 2018 and 27 March 2018 respectively.

(c) Following the completion of the allotment and issuance of both the Consideration Shares and the Placement Shares as mentioned on (a) and (b), the total number of issued shares have increased from 57,326,601 shares to 93,831,492 shares as at the date of this report.

(d) On 2 February 2018, the Company announced that it has incorporated a wholly-owned subsidiary company, Darco InfraCo Vietnam Water Pte. Ltd. in Singapore. The principal activity of the subsidiary is of investment holding.

(e) On 3 April 2018, the Company announced that its wholly-owned subsidiary company, Darco InfraCo Vietnam Water Pte. Ltd. has incorporated a 100% owned subsidiary, Darco Viet Water Company Limited in Vietnam. The principal activities of the subsidiary is of investment holdings and environmental engineering construction services.

STATISTICS OF **SHAREHOLDINGS**
AS AT 20 MARCH 2018

Class of Shares	–	Ordinary Share
Number of Issued Shares (excluding treasury shares and subsidiary holdings)	–	60,826,601
Voting Rights	–	One vote per share
Number of treasury shares held and percentage	–	Nil
Number of Subsidiary Holdings and percentage	–	Nil

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	283	13.55	12,805	0.02
199 – 1,000	1,005	48.13	490,015	0.81
1,001 – 10,000	619	29.65	2,221,282	3.65
10,001 – 1,000,000	172	8.24	11,536,040	18.97
1,000,001 AND ABOVE	9	0.43	46,566,459	76.55
TOTAL	**2,088**	**100.00**	**60,826,601**	**100.00**

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	13,425,368	22.07
2	STONE ROBERT ALEXANDER	9,230,000	15.17
3	THYE KIM MENG	7,155,485	11.76
4	KGI SECURITIES (SINGAPORE) PTE. LTD.	5,774,836	9.49
5	UOB KAY HIAN PRIVATE LIMITED	3,967,170	6.52
6	CAPITAL BOOM LIMITED	2,500,000	4.11
7	HELEN YANG	1,608,640	2.64
8	HUANG JIAN	1,504,800	2.47
9	HUANG LINGXI	1,400,160	2.30
10	BNP PARIBAS NOMINEES SINGAPORE PTE LTD	745,210	1.23
11	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	522,156	0.86
12	FENG JUN	501,200	0.82
13	TAN TJIN GUAN @ JIO TJIN GUAN	429,770	0.71
14	ANG KAR YEN	393,400	0.65
15	DBS NOMINEES (PRIVATE) LIMITED	362,814	0.60
16	MARY NG GEOK LAN	349,741	0.57
17	PHILLIP SECURITIES PTE LTD	288,600	0.47
18	OCBC SECURITIES PRIVATE LIMITED	287,040	0.47
19	LEE SUE LIN	279,296	0.46
20	ROBERT RONALD	270,050	0.44
	TOTAL	**50,995,736**	**83.81**

STATISTICS OF SHAREHOLDINGS
AS AT 20 MARCH 2018

SUBSTANTIAL SHAREHOLDERS AS AT 20 MARCH 2018

		DIREST INTERESTS		DEEMED INTERESTS	
NO.	NAME	NO. OF SHARES HELD	%	NO. OF SHARES HELD	%
1.	Wuhan Liankai Investment Co. Ltd.	13,387,118	22.01	–	–
2.	Wang Yaoyu[1]	–	–	13,387,118	22.01
3.	Stone Robert Alexander	9,230,000	15.17	–	–
4.	Thye Kim Meng	7,155,486	11.76	–	–
5.	Wah Lee Industrial Corp.	4,589,869	7.55	–	–
6.	Sofos Infrastructure Investment Fund SPC	3,500,000	5.75	–	–

Note:

(1) Mr. Wang Yaoyu ("**Mr. Wang**") hold 25.07% equity interest of Wuhan Liankai Investment Co., Ltd. ("**Wuhai Liankai**"). Wuhai Liankai owns 13% equity interest of Wuhan Kaidi Water Service Company, a 60% owned subsidiary at the Company and 22.01% equity interest of the Company. Mr. Wang is deemed interested in the shares held by Wuhan Liankai by virtue of Section 7 of the Company Act, Chapter 50.

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

As at 20 March 2018, 37.75% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST which requires 10% of the equity securities (excluding preference shares and convertible equity securities) in a class that is listed to be in the hands of the public.

NOTICE OF
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("**AGM**") of Darco Water Technologies Limited (the "**Company**") will be held at Six Battery Road #10-01 Singapore 049909 on Thursday, 26 April 2018 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements and Directors' Statement of the Company and the Group for the financial year ended 31 December 2017 together with the Auditors' Report thereon. **(Resolution 1)**

2. To approve the payment of Directors' fees of S$96,000 for the financial year ended 31 December 2017. (2016: 87,183) **(Resolution 2)**

3. To re-elect the following Directors of the Company retiring pursuant to Regulation 106 and Regulation 115 of the Constitution of the Company:

   Regulation 106

   (i) Mr Thye Kim Meng **(Resolution 3)**

   (ii) Ms. Heather Tan Chern Ling **(Resolution 4)**

   (iii) Mr. Wang Yaoyu **(Resolution 5)**

   (iv) Mr. Tay Lee Chye Lester **(Resolution 6)**

   (v) Mr. Tay Von Kian **(Resolution 7)**

   (vi) Mr. Oh Chee Sien **(Resolution 8)**

   Regulation 115

   (vii) Mr. Wang Zhi **(Resolution 9)**

   [See Explanatory Note (i)]

4. To re-appoint Messrs Crowe Horwath First Trust LLP, Public Accountants and Chartered Accountants, as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 10)**

5. To transact any other ordinary business which may properly be transacted at an AGM.

NOTICE OF ANNUAL GENERAL MEETING

AS SPECIAL BUSINESS

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

6. **Authority to allot and issue shares in the capital of the Company pursuant to Section 161 of the Companies Act, Chapter 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited**

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 ("**SGX-ST**"), the Directors of the Company be authorised and empowered to:

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

(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 Instruments made or granted by the Directors of the Company while this Resolution was in force,

(the "**Share Issue Mandate**")

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):

(A) by way of renounceable rights issues on a pro-rata basis to Shareholders of the Company ("**Renounceable Rights Issues**") shall not exceed 100 per centum (100%) of the total number of issued shares excluding treasury shares and subsidiary holdings (as calculated in paragraph (3) below); and

(B) otherwise than by way of Renounceable Rights Issues ("**Other Share Issues**") shall not exceed 50 per centum (50%) of the total number of issued shares excluding treasury shares and subsidiary holdings (as calculated in accordance with paragraph (3) below), of which the aggregate number of shares to be issued other than on a pro-rata basis to shareholders of the Company shall not exceed 20 per centum (20%) of the total number of issued shares excluding treasury shares and subsidiary holdings (as calculated in accordance with paragraph (3) below);

NOTICE OF ANNUAL GENERAL MEETING

(2) the Renounceable Rights Issues and Other Share Issues shall not, in aggregate exceed 100 per centum (100%) of the total number of issued shares excluding treasury shares and subsidiary holdings (as calculated in paragraph (3) below);

(3) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under paragraphs (1)(A) and (1)(B) above, the percentage of issued shares shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

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

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

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

(4) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company; and

(5) unless revoked or varied by the Company in a general meeting, the authority conferred by this Resolution shall continue in force until the conclusion of AGM of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (ii)] **(Resolution 11)**

NOTICE OF ANNUAL GENERAL MEETING

7. Authority to Issue Shares Under the Darco Performance Share Plan

That pursuant to Section 161 of the Companies Act, Chapter 50, the Directors of the Company be authorised and empowered to offer and grant awards under the Darco Performance Share Plan (the "**Share Plan**") and to issue from time to time such number of shares in the capital of the Company (excluding treasury shares and subsidiary holdings) as may be required to be issued pursuant to the vesting of share awards under the Share Plan, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Share Plan shall not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (iii)] **(Resolution 12)**

By Order of the Board

Shirley Tan Sey Liy
Company Secretary

Singapore, 11 April 2018

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

(i) Ms. Heather Tan Chern Ling will, upon re-election as a Director of the Company, remain as a member of the Audit Committee and Investment Committee and will be considered non-independent pursuant to Rule 704(8) of the Listing Manual of the SGX-ST.

Mr. Tay Lee Chye Lester will, upon re-election as a Director of the Company, remains as the Lead Independent Director, Chairman of the Nominating Committee and Remuneration Committee and a member of the Audit Committee, and will be considered independent pursuant to Rule 704(8) of the Listing Manual of the SGX-ST.

Mr. Tay Von Kian will upon re-election as a Director of the Company, remains as the Chairman of the Audit Committee and a member of the Nominating Committee and Remuneration Committee, and will be considered independent pursuant to Rule 704(8) of the Listing Manual of the SGX-ST.

Mr. Oh Chee Sien will upon re-election as a Director of the Company, remains as a member of the Audit Committee, Nominating Committee and Remuneration Committee, and will be considered independent pursuant to Rule 704(8) of the Listing Manual of the SGX-ST.

(ii) Resolution 11 in item 6 above, if passed, will empower the Directors of the Company from the date of this Meeting until the date of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding (i) 100% for Renounceable Rights Issues and (ii) 50% for Other Share Issues, of which up to 20% may be issued other than on a pro rata basis to shareholders, provided that, the total number of shares which may be issued pursuant to (i) and (ii) shall not exceed 100% of the issued shares (excluding treasury shares and subsidiary holdings).

For the purpose of determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares and subsidiary holdings) will be calculated based on the total number of issued shares (excluding treasury shares and subsidiary holdings) at the time Resolution 11 is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or the vesting of share awards which are outstanding or subsisting at the time when Resolution 11 is passed, and any subsequent bonus issue, consolidation or subdivision of shares.

The authority for 100% Renounceable Rights Issues ('**Enhanced Rights Issue Limit**") is proposed pursuant to the Singapore Exchange Limited's news release of 13 March 2017 which introduced measure to help companies raise funds expediently for expansion activities or working capital ("**SGX News Release**") and unless extended further by SGX-ST, the authority will expire on 31 December 2018. Unless renewed, the mandate sought at this meeting shall expire at the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

The Board of Directors of the Company is of the view that the Enhanced Rights Issue Limit is in the interests of the Company and its shareholders.

(iii) Resolution 12, if passed, will empower the Directors of the Company, from the date of this AGM until the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares in the Company pursuant to the vesting of share awards under the Share Plan (for the entire duration of the Share Plan) provided that the aggregate additional shares to be issued pursuant to the Share Plan do not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time.

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A Member of the Company (other than a Relevant Intermediary*) entitled to attend and vote at the AGM is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. A Relevant Intermediary may appoint more than two (2) proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified.)

3. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 21 Marsiling Industrial Estate Road 9 #01-03 Singapore 739175 not less than forty-eight (48) hours before the time appointed for holding the AGM.

* A Relevant Intermediary is:

(a) a banking corporation licensed under the Banking Act (Chapter 19) of Singapore or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

(b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Chapter 289) of Singapore and who holds shares in that capacity; or

(c) the Central Provident Fund Board established by the Central Provident Fund Act (Chapter 36) of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

PERSONAL DATA PRIVACY

Where a member of the Company submits an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or services providers) for the purpose of the processing and administration by the Company (or its agents or services providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or services providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or services providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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

IMPORTANT
1. An investor who holds shares under the Central Provident Fund Investment Scheme ("**CPF Investor**") and/or the Supplementary Retirement Scheme ("**SRS Investors**") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.
2. This Proxy Form is not valid for use by CPF and SRS Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

PROXY FORM
ANNUAL GENERAL MEETING
(Please see notes overleaf before completing this Form)

I / We ______________________________ (Name), ______________________ (NRIC/Passport No.)

of ____ (Address)

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			

as *my/our proxy/proxies to vote for *me/us on *my/our behalf at the Annual General Meeting ("**Meeting**") of the Company to be held at Six Battery Road #10-01 Singapore 049909 on Thursday, 26 April 2018 at 10.00 a.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.

**If you wish to exercise all your votes "For" or "Against", please indicate with an "X" within the box provided. Alternatively, please indicate the number of votes as appropriate.

No.	**Resolutions relating to:**	**No. of Votes 'For'****	**No. of Votes 'Against'****
1.	Adoption of the Audited Financial Statements and Directors' Statement for the financial year ended 31 December 2017 together with Auditors' Report		
2.	Approval of Directors' fees amounting to S$96,000 for the financial year ended 31 December 2017		
3.	Re-election of Mr. Thye Kim Meng as a Director		
4.	Re-election of Ms. Heather Tan Chern Ling as a Director		
5.	Re-election of Mr. Wang Yaoyu as a Director		
6.	Re-election of Mr. Tay Lee Chye Lester as a Director		
7.	Re-election of Mr. Tay Von Kian as a Director		
8.	Re-election of Mr. Oh Chee Sien as a Director		
9.	Re-election of Mr. Wang Zhi as a Director		
10.	Re-appointment of Messrs Crowe Horwath First Trust LLP as Auditors and authority to Directors to fix remuneration		
	Special Business		
11.	Authority to allot and issue shares		
12.	Authority to issue shares under the Darco Performance Share Plan		

Dated this __________ day of ________________ 2018.

Total Number of Shares in	**No. of Shares**
CDP Register	
Register of Members	

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

*Delete where inapplicable

IMPORTANT: PLEASE READ NOTES ON THE REVERSE.

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 81SF of the Securities and Futures Act (Chapter 289) 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 (other than a Relevant Intermediary*), entitled to attend and vote at a meeting of the Company is entitled to appoint one (1) or two (2) proxies to attend and vote in his/her stead. A proxy need not be a shareholder of the Company.

3. Where a member (other than a Relevant Intermediary*) appoints two (2) 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. A Relevant Intermediary may appoint more than two (2) proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).

5. Subject to note 9, completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 21 Marsiling Industrial Estate Road 9 #01-03 Singapore 739175 not less than forty-eight (48) hours before the time appointed for the Meeting.

7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of 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 seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

8. 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 according with the Section 179 of the Companies Act, Chapter 50 of Singapore, and the person so authorised shall upon production of a copy of such resolution certified by a director of the corporation to be a true copy, be entitled to exercise the powers on behalf of the corporation so represented as the corporation could exercise in person if it were an individual.

9. An investor who holds shares under the Central Provident Fund Investment Scheme ("**CPF Investor**") and/or the Supplementary Retirement Scheme ("**SRS Investors**") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

* A Relevant Intermediary is:

(a) a banking corporation licensed under the Banking Act (Chapter 19) of Singapore or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

(b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Chapter 289) of Singapore and who holds shares in that capacity; or

(c) the Central Provident Fund Board established by the Central Provident Fund Act (Chapter 36) of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

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 seventy-two (72) hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

Personal Data Protection:
By attending the Meeting and/or any adjournment thereof or submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 11 April 2018.

DARCO

SOLUTIONS TO WATER & WASTE

DARCO WATER TECHNOLOGIES LIMITED
21 Marsiling Industrial Estate Road 9
#01-03, Singapore 739175