

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

Unaudited Financial Statements For the Full Year Ended 31 December 2016

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

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

	Full year ended 31 December		
	Unaudited	Audited	
	2016	2015	change
	(S\$'000)	(S\$'000)	%
Continuing operations			
Revenue	60,596	26,810	126.0%
Cost of sales	(47,006)	(19,113)	145.9%
Gross profit	<u>13,590</u>	<u>7,697</u>	76.6%
Other income	4,700	813	478.1%
Distribution expenses	(1,494)	(329)	354.1%
Administrative expenses	(11,475)	(7,608)	50.8%
Other expenses	(623)	(163)	282.2%
Finance costs	(158)	(113)	39.8%
Profit before income tax from continuing operations	4,540	297	1,428.6%
Income tax expense	(442)	(512)	-13.7%
Profit/(loss) after tax from continuing operations, net of tax	<u>4,098</u>	<u>(215)</u>	n.m
Discontinued operation			
Loss after tax from discontinuing operations	-	(582)	100.0%
Total profit/(loss) for the financial year	<u>4,098</u>	<u>(797)</u>	n.m
Profit/(loss) attributable to:			
Equity holders of the Company			
-From continuing operations	2,988	(552)	n.m
-From discontinued operation	-	711	n.m
Non-controlling interests			
-From continuing operations	1,110	337	n.m
-From discontinued operation	-	(1,293)	n.m
	<u>4,098</u>	<u>(797)</u>	n.m

Note: n.m- Not Meaningful

1(a)(ii) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR FULL YEAR ENDED 31 DECEMBER 2016.

	Full year ended 31 December		
	Unaudited 2016 (S\$'000)	Audited 2015 (S\$'000)	change %
Profit/(loss) for the financial year	4,098	(797)	n.m
Other comprehensive income/(loss):			
<u>Items that may be reclassified to profit and loss subsequently</u>			
Currency translation differences arising from consolidation	(205)	(1,155)	-82.3%
Currency translation realised through from disposal of subsidiary	-	2,308	n.m
Total comprehensive income for the financial year	3,893	356	993.5%
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company	2,703	1,265	113.7%
Non-controlling interests	1,190	(909)	n.m
Total comprehensive income for the financial year	3,893	356	993.5%
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company			
-From continuing operations	2,703	(1,754)	n.m
-From discontinued operation	-	3,019	n.m
	2,703	1,265	
Non-controlling interests			
-From continuing operations	1,190	384	209.9%
-From discontinued operation	-	(1,293)	n.m
	1,190	(909)	

Note: n.m - not meaningful

NOTES TO THE CONSOLIDATED INCOME STATEMENT

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

Included in other income are:	Group		change %
	Financial Year Ended		
	Unaudited 31/12/2016 (S\$'000)	Audited 31/12/2015 (S\$'000)	
Continuing operations			
Interest income	23	28	-17.9%
Government grant	116	7	1557.1%
Compensation from supplier	124	-	n.m
Gain on disposal of property, plant and equipment	9	10	-10.0%
Gain on foreign exchange, net	140	595	-76.5%
Bad debts recovered	14	-	n.m
Gain on bargain purchase	4,167	-	n.m
Miscellaneous income	107	173	-38.2%
	4,700	813	478.1%
Discontinued operations			
Gain on disposal of subsidiaries	-	2,095	-100%

Finance costs:	Group		change %
	Financial Year Ended		
	Unaudited 31/12/2016 (S\$'000)	Audited 31/12/2015 (S\$'000)	
Continuing operations			
Interest expense on:-			
Borrowings	(152)	(108)	40.7%
Finance lease liabilities	(6)	(5)	20.0%
	(158)	(113)	
Discontinued operations			
Interest expense on:-			
Borrowings	-	(94)	-100.0%

Note: n.m - not meaningful

NOTES TO THE CONSOLIDATED INCOME STATEMENT

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

Included in the Profit/(Loss) before income tax are:

	Group		change %
	Financial Year Ended		
	Unaudited 31/12/2016 (S\$'000)	Audited 31/12/2015 (S\$'000)	
<u>Continuing operations</u>			
Allowance for impairment of receivables	685	80	756.3%
Gain on disposal of Property, plant and equipment	(9)	(10)	-10.0%
Amortisation of intangible assets	1,355	-	n.m
Depreciation of property, plant and equipment	681	507	34.3%
Impairment loss of property, plant equipment	-	53	-100.0%
Property, plant and equipment written off	-	2	-100.0%
Inventories written down	-	61	-100.0%
Rental expense for operating leases	715	480	49.0%
Personnel expenses	10,489	9,167	14.4%
Writeback of allowance for receivables	-	(16)	-100.0%
Legal and professional fees	803	480	67.3%
Gain on disposal of subsidiaries	-	(2,095)	-100.0%
Gain on bargain purchase	(4,167)	-	n.m
<u>Discontinued operation</u>			
Rental expenses for operating leases	-	3	-100.0%
Legal and other professional fees	-	3	-100.0%
Personnel expenses	-	254	-100.0%
Allowance for impairment of receivables	-	2,817	-100.0%

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

	Group		Company	
	Unaudited	Audited	Unaudited	Audited
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	S\$'000	S\$'000	S\$'000	S\$'000
ASSETS				
Non-current assets				
Property, plant equipment	5,876	4,175	-	-
Intangible assets	9,492	905	-	-
Investment in subsidiaries	-	-	10,823	4,397
Deferred tax assets	369	144	-	-
	15,737	5,224	10,823	4,397
Current assets				
Inventories	1,003	883	-	-
Trade and other				
Receivables	47,488	9,399	5,867	5,361
Income tax recoverable	209	189	-	-
Cash and cash equivalents	8,155	9,308	101	1,138
	56,855	19,779	5,968	6,499
Total assets	72,592	25,003	16,791	10,896
LIABILITIES				
Current liabilities				
Trade and other payables	31,939	4,899	2,338	2,249
Borrowings	2,872	931	-	-
Income tax payable	599	201	-	-
Total current liabilities	35,410	6,031	2,338	2,249
Non-current liabilities				
Trade and other payables	77	-	501	501
Borrowings	813	964	-	-
Deferred tax liabilities	1,154	250	-	-
Total non-current liabilities	2,044	1,214	501	501
Total liabilities	37,454	7,245	2,839	2,750
Net assets	35,138	17,758	13,952	8,146

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

	Group		Company	
	Unaudited	Audited	Unaudited	Audited
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	S\$'000	S\$'000	S\$'000	S\$'000
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	51,405	44,980	51,405	44,980
Other reserves	(3,530)	(3,245)	-	-
Accumulated losses	(22,481)	(25,469)	(37,453)	(36,834)
	25,394	16,266	13,952	8,146
Non-controlling interests	9,744	1,492	-	-
Total equity	35,138	17,758	13,952	8,146

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

Amount repayable in one year or less, or on demand

As at 31 Dec 2016		As at 31 Dec 2015	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
2,872	-	892	39

Amount repayable after one year

As at 31 Dec 2016		As at 31 Dec 2015	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
813	-	964	-

Details of any collateral

As at 31 December 2016 and 31 December 2015, the secured borrowings are secured by corporate guarantees by the Company and freehold land and properties of subsidiaries.

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

	Note	Full year ended 31 Dec	
		Unaudited 2016 (S\$'000)	Audited 2015 (S\$'000)
Cashflow from operating activities			
Profit/(Loss) before income tax:			
- Continuing operations		4,540	297
- Discontinued operation		-	(582)
		<u>4,540</u>	<u>(285)</u>
Adjustments for:			
Depreciation of property, plant and equipment		681	507
Amortisation of intangible assets		1,355	-
Gain on disposal of property, plant and equipment		(9)	(10)
Gain on bargain purchase		(4,167)	-
Gain on disposal of subsidiaries		-	(2,095)
Property, plant and equipment written off		-	2
Impairment loss of property, plant and equipment		-	53
Impairment loss on receivables		685	2,897
Reversal of payables and accruals following settlement of legal case		-	(1,402)
Interest expenses		158	207
Interest income		(23)	(28)
Unrealised exchange differences		(134)	199
Operating cashflow before working capital changes		<u>3,086</u>	<u>45</u>
Changes in working capital, net of effects from disposal of subsidiaries			
Inventories		(42)	41
Amount due from/ to customers for contract work		(15,430)	(580)
Trade and other receivables		(9,216)	(3,436)
Trade and other payables		19,831	99
Cash used in operations		<u>(1,771)</u>	<u>(3,831)</u>
Income tax refund		142	-
Income tax paid		(1,059)	(296)
Net cash used in operating activities		<u>(2,688)</u>	<u>(4,127)</u>
Cashflows from investing activities			
Purchase of property, plant and equipment		(2,171)	(493)
Proceeds from disposal of property, plant and equipment		10	2
Acquisition of subsidiary, net of cash acquired	A	3,367	-
Disposal of subsidiaries, net of cash disposed		-	826
Interest received		23	28
Net cash from investing activities		<u>1,229</u>	<u>363</u>

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

	Full year ended 31 Dec	
	Unaudited 2016 (S\$'000)	Audited 2015 (S\$'000)
Cashflows from financing activities		
Proceeds from issuance of new shares, by way of cash	-	5,766
Share issuance cost	-	(140)
Proceeds from borrowings	917	-
Withdrawal/(placement) of short term fixed deposits	351	(280)
Repayment of borrowings	(151)	(1,151)
Repayment of finance lease liabilities	(48)	(55)
Interest paid	(158)	(207)
Net cash from financing activities	911	3,933
Net (decrease)/increase in cash and cash equivalents	(548)	169
Cash and cash equivalents at beginning of the financial year	7,711	7,943
Effect of exchange rate changes on cash and cash equivalents	(251)	(401)
Cash and cash equivalents at end of financial year	6,908	7,711

Note A: Acquisition of subsidiary, net of cash acquired

The fair value of the identifiable assets and liabilities of the business acquired as at the date of acquisition were as follows:

	2016 (S\$'000)	2015 (S\$'000)
Acquisition of subsidiary:		
Property, plant and equipment	136	-
Intangible assets	9,947	-
Deferred tax assets	99	-
Trade and other receivables	17,814	-
Inventories	78	-
Cash and bank balances	3,367	-
Trade and other payables	(11,109)	-
Borrowings	(1,045)	-
Income tax payables	(564)	-
Deferred tax liabilities	(1,069)	-
Net identifiable assets	17,654	-
Less: Non-controlling interest	(7,062)	-
Add: Gain on bargain purchase	(4,167)	-
Purchase consideration	6,425	-
Add: Cash and cash equivalents in subsidiary acquired	3,367	-
Less: Consideration settled through issuance of shares	(6,425)	-
Acquisition of subsidiary, net of cash acquired	3,367	-

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

	Full year ended 31 Dec	
	Unaudited 2016 (S\$'000)	Audited 2015 (S\$'000)
Cash and cash equivalents comprise the following:-		
Bank and cash balances	8,155	9,308
Short-term bank deposits pledged	(432)	(853)
Bank overdraft	(815)	(744)
Cash and cash equivalent as per consolidated cash flows	6,908	7,711

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

	Share Capital (S\$'000)	Other reserves (S\$'000)	Accumulated losses (S\$'000)	Sub- Total (S\$'000)	NCI (S\$'000)	Total (S\$'000)
Balance as at 1.1.2016	44,980	(3,245)	(25,469)	16,266	1,492	17,758
Profit for the financial year	-	-	2,988	2,988	1,110	4,098
Other comprehensive income						
- Currency translation differences arising from consolidation	-	(285)	-	(285)	80	(205)
Total comprehensive income for the financial year	-	(285)	2,988	2,703	1,190	3,893
<u>Contribution by owners</u>						
Issuance of shares	6,425	-	-	6,425	-	6,425
<u>Change in ownership interests in subsidiaries</u>						
Acquisition of subsidiaries	-	-	-	-	7,062	7,062
Balance as at 31.12.2016	51,405	(3,530)	(22,481)	25,394	9,744	35,138

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

	Share Capital (S\$'000)	Other reserves (S\$'000)	Accumulated losses (S\$'000)	Sub- Total (S\$'000)	NCI (S\$'000)	Total (S\$'000)
Balance as at 1.1.2015	36,985	(4,351)	(25,628)	7,006	2,488	9,494
Profit/(Loss) for the financial year	-	-	159	159	(956)	(797)
Other comprehensive income						
- Currency translation differences arising from consolidation	-	(1,202)	-	(1,202)	47	(1,155)
- Realisation of foreign currency reserve on disposal of subsidiaries	-	2,308	-	2,308	-	2,308
Total comprehensive income for the financial year	-	1,106	159	1,265	(909)	356
<u>Contribution by owners</u>						
Issuance of shares						
- By way of cash	5,766	-	-	5,766	-	5,766
- By way of capitalising of amount payables	2,369	-	-	2,369	-	2,369
Share issuance expenses	(140)	-	-	(140)	-	(140)
Total contributions by owners	7,995	-	-	7,995	-	7,995
<u>Change in ownership interests in subsidiaries</u>						
Disposal of subsidiaries	-	-	-	-	(87)	(87)
Balance as at 31.12.2015	44,980	(3,245)	(25,469)	16,266	1,492	17,758

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

Company	Share Capital (S\$'000)	Accumulated Losses (S\$'000)	Total (S\$'000)
Balance at 1 Jan 2016	44,980	(36,834)	8,146
Total comprehensive income for the financial year	-	(619)	(619)
Contribution by owners			
- Issuance of shares	6,425	-	6,425
Balance at 31 Dec 2016	51,405	(37,453)	13,952
Company	Share Capital (S\$'000)	Accumulated Losses (S\$'000)	Total (S\$'000)
Balance at 1 Jan 2015	36,985	(37,815)	(830)
Total comprehensive income for the financial year	-	981	981
Contribution by owners			
Issuance of shares			
-By way of cash	5,766	-	5,766
-By way of issuance of shares	2,369	-	2,369
Share issuance expenses	(140)	-	(140)
Balance at 31 Dec 2015	44,980	(36,834)	8,146

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

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

- acquired 60% equity interest in the registered capital of Wuhan Kaidi Water Services Co. Ltd ("WHKD"); and
- allotted and issued the total amount of 19,124,454 consideration shares in satisfaction of the consideration for the acquisition of WHKD.

Following the allotment and issuance of the shares, the total number of shares has increased from 33,202,147 shares to 52,326,601 shares.

	As at 31/12/2016	Company As at 30/6/2016	As at 31/12/2015
Number of ordinary shares	52,326,601	52,326,601	33,202,147
Issued and paid up capital	\$'000 51,405	\$'000 51,405	\$'000 44,980

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

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

As at 31 December 2016 and 31 December 2015, the issued ordinary shares of the Company was 52,326,601 and 33,202,147 respectively. There were no treasury shares as at 31 December 2016 and 31 December 2015.

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

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

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

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

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

Not applicable.

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

Save as disclosed in paragraph 5 below, the Group has adopted the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting year as per the most recent audited financial statements for the financial year ended 31 December 2015.

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

The Group has adopted the new and revised Singapore Financial Reporting Standards ("FRSs") that are mandatory for financial years beginning on and after 1 Jan 2016, where applicable. The adoption of these standards did not result in substantial changes to the Group's accounting policies, and there is no material impact on the financial statements of the Group as at 1 Jan 2016.

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

	Financial Year ended	
	Unaudited 31/12/2016 \$'000	Audited 31/12/2015 \$'000
Earnings/(loss) per ordinary shares of the group for the current year reported on and the corresponding period of the immediate preceding financial year:-		
Net profit/(loss) attributable to equity holders of the Company (\$'000)		
- Continuing operations	2,988	(552)
- Discontinued operations	-	711
Weighted average number of ordinary shares outstanding for basic earnings/(loss) per share - adjusted	46,840,077	30,947,305
Basic and diluted earnings/(loss) per share (Cents)		
- Continuing operations	6.38	(1.78)
- Discontinued operations	-	2.30

The Company has completed the following in FY2015:

- (i) Issuance of 387,358,736 ordinary shares at an issue price of \$0.021 each pursuant to a right issue on 5 March 2015; and
- (ii) A share consolidation of twenty (20) existing issued shares into one (1) ordinary share on 1 December 2015.

Hence for the purpose of calculating basic and diluted earnings per share, the weighted average number of shares has reflected these changes as if the bonus element in the rights issue and the share consolidation were effected at the beginning of the prior financial year.

The basic and diluted earnings/loss per share were the same as there were no potentially dilutive ordinary securities in issue as at 31 December 2015 and 31 December 2016.

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

	Group		Company	
	Unaudited 31/12/2016 Cents	Audited 31/12/2015 Cents	Unaudited 31/12/2016 Cents	Audited 31/12/2015 Cents
Net asset value (for issuer and group) per ordinary share based on issued share capital of the issuer at the end of the financial year.	67.14	53.48	26.66	24.53
Number of ordinary shares	52,326,601	33,202,147	52,326,601	33,202,147

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

Revenue from continuing operations and Gross Profit

	Group Full Year Ended		Change %
	Unaudited 31/12/2016 (\$'000)	Audited 31/12/2015 (\$'000)	
Revenue	60,596	26,810	126.02
- Existing group's business	32,999	26,810	23.08
- WHKD (newly acquired subsidiary)	27,597	-	n.m
Cost of sales	(47,006)	(19,113)	145.94
- Existing group's business	(25,420)	(19,113)	33.00
- WHKD (newly acquired subsidiary)	(21,586)	-	n.m
Gross profit	13,590	7,697	76.56
- Existing group's business	7,579	7,697	-1.53
- WHKD (newly acquired subsidiary)	6,011	-	n.m

Revenue from continuing operations and Gross Profit (Continued)

The acquisition of a 60% stake in Wuhan Kaidi Water Services Co. Ltd ("WHKD") was completed in March 2016 and the financials of WHKD was consolidated into the Group in FY2016.

Based on the above, WHKD contributed a total revenue of \$27.6 million to the Group in FY2016. Revenue from the Group's existing businesses increased by \$6.2 million mainly due to higher contributions from subsidiaries in Singapore and Malaysia.

Revenue from Engineered Environmental Systems ("EE Systems") increased from \$6.5 million in FY2015 to \$39.5 million in FY2016 mainly due to contributions of \$26.5 million from WHKD as well as more projects secured and performed by the subsidiaries in Singapore and Malaysia.

Revenue from Water Management Service ("WM Services") segment decreased from \$11.7 million in FY2015 to \$10.8 million in FY2016 as a result of lower after-sales services performed during the financial year.

Sales from the trading of chemical, spare parts and others increased from \$8.5 million in FY2015 to \$10.3 million in FY2016 mainly due to contribution of \$1.1 million from WHKD.

The Group's overall gross profit ("GP") increased by \$5.9 million to \$13.6 million. The increase in the GP is mainly due to WHKD's contribution of \$6.0 million. As the Group had to secure more projects at lower margin in order to maintain competitiveness in China and Malaysia, the GP margin of the Group's existing business decreased from 28.7% in FY2015 to 22.4% in FY2016.

Other income

The increase in other income is mainly due to the gain on bargain purchase of \$4.2million arising from the acquisition of Wuhan Kaidi Water Service Co., Ltd. In addition, there is an increase in income in the form of government grants received by the China subsidiary for the defraying of research and development costs. The Group has also received compensation income from its supplier in China for the failure in fulfilling the supplier contract.

The increase was partially offset by the decrease in gain in foreign exchange, due to less volatility in foreign exchange movement against the Group's functional currency. The Group is exposed to foreign exchange risks due to its overseas purchase of project materials denominated in foreign currency.

Operating expenses

The group's marketing and distribution expenses increased from \$0.3 million in FY2015 to \$1.5 million in FY2016 mainly due to inclusion of expenses relating to WHKD amounted to \$1.1 million.

Administrative expenses which comprised mainly of staff salary, professional fees, rental and other operating expenses, increased from \$7.6 million in FY2015 to \$11.5 million in FY2016. This was mainly due to the \$3.7 million of administrative expenses from WHKD, which comprised mainly of payroll expenses, depreciation and amortisation cost, rental and other miscellaneous expenses.

Operating expenses (continued)

Included in other expenses amounting to \$0.6 million (31 December 2015: \$0.2 million) are the acquisition costs in relation to WHKD, which includes the professional fees and other expenses with respect to the acquisition of WHKD.

Finance expenses

Finance costs increased by \$45,000 mainly due to the finance cost incurred by WHKD for its short term borrowing.

Income tax expense

There is no significant variance for the income tax expenses.

Balance sheet

Current assets

The Group's current assets comprised of the following items:-

	As at 31 December 2016 (Unaudited)	As at 31 December 2015 (Audited)
	\$'000	\$'000
Trade receivables	15,885	6,321
Construction work in progress	22,530	1,044
Other receivables, deposits and prepayments	9,073	2,034
Trade and other receivables	47,488	9,399
Inventories	1,003	883
Income tax recoverable	209	189
Cash and cash equivalents	8,155	9,308
Total	56,855	19,779

The increase in trade and other receivables is mainly due to the contribution from the newly acquired entity, WHKD, amounting to \$34.5 million.

The current assets included in WHKD are mainly:-

1. outstanding trade receivables amounting to \$8.5 million,
2. other receivables and prepayment amounting to \$6.8 million which mainly comprises of payment made to suppliers for the procurement of materials to be used in projects,
3. construction work in progress amounting to \$19.2 million, and
4. Inventories amounting to \$0.1 million.

In addition, there is a slight increase in the trade receivables by \$1.0 million, as well as the construction work in progress for existing business by \$2.3 million, both of which are in line with higher sales.

Non-current assets

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

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

1. acquisition of office building in Wuhan amounting to \$1.5 million
2. renovation of leasehold building in Taiwan amounting to \$0.3 million
3. purchase of motor vehicles and plant and equipment amounting to \$0.3 million
4. acquisition of WHKD existing property, plant and equipment amounting to \$0.1 million, and

The increase in the intangible assets is mainly due to the recognition of tradename and patented technologies amounting to \$9.9 million upon acquisition of WHKD. The amortisation of intangible assets for the year is \$1.3 million.

Current liabilities

Trade and other payables

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

	As at 31 December 2016 (Unaudited)	As at 31 December 2015 (Audited)
	\$'000	\$'000
Trade payables	13,652	2,050
Other payables and accruals	14,924	980
Construction work in progress	3,363	1,869
Total	31,939	4,899

The increase in trade and other payables are mainly due to the contribution from WHKD.

The trade and other payables contributed by WHKD are mainly:-

1. outstanding trade payables amounting to \$10.1 million; and
2. other payables and accruals amounting to \$12.7 million which mainly includes advance payments received from project customers, VAT tax payables and accruals of expenses.

Save for the above explanation, the increase in trade and other payables for existing business is in line with the higher business volume.

Borrowings

Current borrowings increased from \$0.9 million in FY2015 to \$2.9 million in FY2016. The increase was mainly due to:-

1. short term borrowing in WHKD amounting to \$1.0 million; and
2. trade bill financing with outstanding balance of \$0.9 million

Income tax payable

The increase in the income tax payables is mainly due to the higher taxable income generated from the Group operations.

Non-current liabilities

Non-current liabilities comprised of deferred tax liabilities and bank borrowings. The decrease in bank borrowings is mainly due to repayments made to the bank during the year.

The increase in deferred tax liabilities has increased from \$0.2 million to \$1.2 million, and is mainly due to the deferred tax liabilities recognised during the acquisition of WHKD.

Equity

Share capital increased to \$51.4 million as of 31 December 2016 from \$45.0 million as of 31 December 2015. The increase in share capital was due to the issuance of shares amounting to \$6.4 million for the acquisition of the subsidiary, WHKD.

Cash flow statement for the year ended

	Unaudited 31 Dec 2016 S\$'000	Audited 31 Dec 2015 S\$'000
Net cash used in operating activities	(2,688)	(4,127)
Cash flows from investing activities	1,229	363
Cash flows from financing activities	911	3,933
Net (decrease)/increase in cash and cash equivalents	<u>(548)</u>	<u>169</u>

The group cash position was \$6.9 million as at 31 December 2016 compared to \$7.7 million as at 31 December 2015.

Net cash used in operating activities amounted to \$2.7 million is used for payment in construction and project-related costs.

Net cash inflows from investing activities mainly arose from the acquisition of the new subsidiary, WHKD, amounting to \$3.4 million. This is partially offset by the purchase of property, plant and equipment amounting to \$2.2 million.

Net cash inflows from financing activities mainly arose from the trade bill financing used amounted to \$0.9 million by the Group to repay trade supplier invoices.

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

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

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

The Group intends to intensify its efforts in pursuing Public-Private-Partnership ("PPP") water projects in ASEAN region and it is expected that investment activities shall be the key focus in generating recurring revenue and profits. The growth path will be subject to the Group's ability to raise funds from financial activities. In light of the recent share placement exercise announced on 21 February 2017 that is expected to raise \$3 million and the successful incorporation of Darco Environmental Vietnam Co., Ltd, the Group is expected to have initial capital to venture into the Vietnam market.

Going forward, the Group will continue to develop its core Engineered Environmental Systems business, water management and trading services in the industrial sector, albeit the Group expects no significant changes to current economic conditions, challenging or otherwise, affecting our Engineered Environmental Systems business segment for the Group. This applies both to the electronic and semiconductor sectors, as well as the power and petrochemical sectors in which our recently acquired subsidiary, Wuhan Kaidi, operates in.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

Not applicable.

(b) Corresponding Period of the Immediately Preceding Financial Year

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

No

(c) Date payable

Not applicable

(d) Books closure date

Not applicable

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

No dividend has been declared or recommended for FY2016.

13. Use of Rights issue proceeds

Pursuant to the Rights issue on 5 March 2015, the Company received net proceeds from the issuance of new rights shares of approximately \$5.8 million, after deducting issue expenses and offsetting of accrued bonus, shareholders loans and advanced payment.

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

S/N	Purpose from right issues proceeds	Amount allocated	Amount utilised	Balance
		\$'000	\$'000	\$'000
1	Funding new projects or investments when opportunities arose	2,000	(2,000)	-
2	General working capital	3,764	(3,764)	-
	- Payment of company's indebtedness	-	(432)	
	- Repayment of overdraft and loan taken for the working capital of the Group's working capital	-	(862)	
	- Other general working capital			
	- Staff salary	-	(1,002)	
	- Professional fees	-	(785)	
	- Rental	-	(116)	
	- Others	-	(567)	
	Total	5,764	(5,764)	-

The above utilisation of is in accordance with the intended use of proceeds of Rights issue as stated in the Circular dated 9 February 2015. As of the date of this announcement, the proceeds of Rights issue has been fully utilised.

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

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

	EE Systems \$'000	WM Services \$'000	Trading \$'000	Unallocated \$'000	Consolidated \$'000
Revenue	39,510	10,750	10,336	-	60,596
Inter-segment sales	-	-	-	-	-
Total revenue	39,510	10,750	10,336	-	60,596
Segment profit	9,346	1,183	3,061	-	13,590
Other information:					
Addition of property, plant and equipment	6	395	201	1,455	2,057
Depreciation of property, plant and equipment	10	378	248	45	681
Gain on disposal of property, plant and equipment	-	-	(9)	-	(9)
Allowance for impairment of receivables	-	-	685	-	685
Interest income	1	5	-	17	23
Finance costs	16	-	-	199	215
Segment assets	45,748	8,799	6,550	11,126	72,223
Segment liabilities	25,157	1,341	1,664	8,138	36,300

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

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

The segment information for the reportable segments of continuing operations for the financial year ended 31 December 2015 is as follows:

	Continuing operations					Discontinued operation
	EE Systems \$'000	WM Services \$'000	Trading \$'000	Unallocated \$'000	Total \$'000	WM Services \$'000
Revenue	6,555	11,707	8,548	-	26,810	89
Inter-segment sales	-	-	20	(20)	-	-
Total revenue	6,555	11,707	8,568	(20)	26,810	89
Segment profit	2,769	2,474	2,454	-	7,697	(561)
Other information:						
Addition of property, plant and equipment	2	49	313	-	364	-
Depreciation of property, plant and equipment	(19)	(228)	(198)	-	(445)	-
Impairment loss of property, plant and equipment	-	(53)	-	-	(53)	-
Gain on disposal of property, plant and equipment	-	-	10	-	10	-
Allowance for impairment of receivables	-	-	80	-	(80)	(2,817)
Interest income	1	4	1	-	6	*
Finance costs	-	(19)	(5)	-	(24)	(94)
Segment assets	5,768	10,161	5,987	-	21,916	-
Segment liabilities	1,991	1,858	1,014	-	4,863	-

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

* Amount less than \$1,000

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

Geographical information

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

	Revenue				Non-current assets			
	Continuing operations		Discontinued operation		Continuing operations		Discontinued operation	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<u>Geographical</u>								
Malaysia	23,754	18,806	-	-	1,965	1,721	-	-
The People's Republic of China	27,725	799	-	-	10,327	117	-	-
Taiwan	3,635	3,678	-	89	2,022	2,188	-	-
Singapore	5,345	3,173	-	-	1,052	1,051	-	-
Other countries	137	354	-	-	2	3	-	-
	<u>60,596</u>	<u>26,810</u>	<u>-</u>	<u>89</u>	<u>15,368</u>	<u>5,080</u>	<u>-</u>	<u>-</u>

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

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

Please refer to Paragraph 8 above for further details.

16. A breakdown of sales

	2016 S\$'000	2015 S\$'000
Sales reported for the first half of the year	26,677	11,919
Profit after tax before non-controlling interest reported for the first half year	<u>(511)</u>	<u>(1,264)</u>
Sales reported for the second half of the year	33,919	14,891
Profit after tax before non-controlling interest reported for the second half year	<u>3,499</u>	<u>1,423</u>

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

No dividend has been recommended or declared for the year ended 31 December 2016 and 2015.

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

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

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

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

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

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

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

BY ORDER OF THE BOARD

Thye Kim Meng
Chairman, Managing Director and Chief Executive Officer
27 February 2017